

FILE COPY

JOINT COMMITTEE ON  
GOVERNMENT AND FINANCE

Materials Distributed

November 28, 2007

October 9, 2007

3:00 - 4:00 p.m.

Joint Committee on Government and Finance

Senate

Tomblin, Chair  
Chafin  
Helmick  
Kessler  
Sharpe (absent)  
Caruth  
Deem

House

Thompson, Chair  
Caputo  
DeLong (absent)  
Webster  
White  
Armstead  
Border

Speaker Thompson, Cochair, presided.

1. Approval of Minutes

Upon motion by President Tomblin, properly adopted, the minutes of the September 11, 2007, meeting were approved.

2. Committee Reports/Requests

**Legislative Intern Committee - Sara Jones**

Upon motion by President Tomblin, properly adopted, reimbursement of expenses for members of the Legislative Intern Committee, to attend the legislative intern interviews in November 2007, was authorized.

3. Lottery, General Revenue Reports and Unemployment Compensation Trust Fund

Distributed to members of the Committee were the following: Lottery Operations report for the month ended August 31, 2007; General Revenue Fund status report as of September 30, 2007 and the Unemployment Compensation Trust Fund status report as of July 31, 2007. Distributed with each of the reports were an analysis and a summary of the reports.

4. PEIA, BRIM and CHIP Reports

The following monthly PEIA reports were distributed: Monthly Management Report and the Prescription Drug Report for August 2007. Donna Lipscomb, Department of Administration, said PEIA had no significant items to report.

The following BRIM reports were distributed: An unaudited balance sheet and unaudited income statement for the period ending August 31, 2007. The collections and claims expenses are down and SB 3 has \$5.7 million deficit.

The following reports from CHIP were distributed: A report of enrollment for October 2007 and financial statements for period ending August 31, 2007. Enrollment is down 2 percent and claims cost are down 7 percent. Administrative costs are up 52 percent due to invoices being paid all at once. President Tomblin requested that CHIP get a plan together in case Congress does not give CHIP any more money.

5. **Leasing Report, Department of Administration**

A leasing report for the period of September 1, 2007 through September 30, 2007 was distributed. Donna Lipscomb said there has been 17 changes for the month with 4 new contracts, 6 straight renewals and 7 renewals with rent increases.

6. **Department of Health and Human Resources (DHHR) Monthly Reports**

A Medicaid report dated October 2007 was distributed.

7. **Monthly Report on the Pharmaceutical Cost Management Council**

Shana Phares, Governor's Pharmaceutical Advocate and Chair of the Pharmaceutical Cost Management Council, said there is a limited update due to the Council's meeting being moved to a later date. Senator Deem requests for Ms. Phares to look into reimbursements at mail order prices.

8. **Board of Treasury Report Distribution**

9. **Changing Interim Dates from November 16-18 to November 26-28**

Upon motion by President Tomblin, properly adopted, that the November interim dates be changed to November 26-28 which is the Monday, Tuesday and Wednesday after Thanksgiving, was authorized.

10. **Scheduled Interim Dates**

November 26 - 28 (Monday, Tuesday and Wednesday)

December 9 - 11

January 6 - 8, 2008

The meeting was adjourned.

**WEST VIRGINIA LEGISLATURE**  
*Office of the Legislative Auditor*

*Budget Division*  
*Building 1, Room 332-West Wing*  
*1900 Kanawha Blvd. East*  
*Charleston, WV 25305-0590*  
November 26, 2007



304-347-4870

**Executive Summary of Lottery, Unemployment, General Revenue and State Road Fund Reports to Joint Committee**

**Lottery Commission as of September 30, 2007 :**

Appears to be in good condition. Gross profit for the months of July - September of fiscal year 2007-2008, was \$ 163.2 million which was 0.39% below the same months of fiscal year 2006-2007.

**General Revenue Fund as of October 31, 2007:**

Collections were at 106.54% of the yearly estimate as of October 31, 2007.

**State Road Fund as of October 31, 2007:**

Fund collections were at 102.34% of the yearly estimate.

**Unemployment Compensation Trust as of August 31, 2007:**

Overall ending trust fund balance was \$ 7.9 million greater on August 31, 2007 than on August 31, 2006.

*Joint Committee on Government and Finance*

**WEST VIRGINIA LEGISLATURE**  
*Office of the Legislative Auditor*

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*Charleston, WV 25305-0590*



304-347-4870

MEMORANDUM

To: Honorable Senate President Tomblin  
Honorable House of Delegates Speaker Thompson  
Honorable Members of the Joint Committee on Government and  
Finance

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

Date: November 15, 2007

Re: Review of West Virginia Lottery Financial Information  
As of September 30, 2007 (FY 2008)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the first quarter ended September 30, 2007, for fiscal year ended June 30, 2008, from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. This report covers three months of FY 2008. The results are as follows:

**Lottery Revenues:**

Gross lottery revenues are receipts from on-line games, instant games and video lottery. These gross receipts totaled \$388,257,000.00 for the months of July - September 2007. These gross receipts were \$401,857,000.00 for July - September of the preceding fiscal year, 2006-2007. This number does not include commission and prize deductions. Gross profit (Gross revenues minus commissions and prize costs) for July - September 2007 was \$ 163,295,000.00; for the previous July - September it was \$163,931,000.00. Expressed as a percentage, gross profit is -0.39% lower for the first quarter of fiscal year 2008 than for

*Joint Committee on Government and Finance*

Lottery continued

fiscal year 2007. (Lottery income is expected to decrease this fiscal year and the FY 2008 budget appropriations in the excess lottery revenue surplus section were decreased approximately \$ 60 million dollars from the FY 2007 appropriations in anticipation of this decrease. The decreases will be caused by competition from neighboring states that have just legalized their lotteries or are expanding their lottery business.)

**Operating Income:**

Operating income was \$ 159,317,000.00 for July - September 2007. For July - September 2006 it was \$ 159,811,000.00. This was a decrease of -0.31%. After additions and subtractions of non-operating income and expenses, distributions to the state were \$160,035,000.00.

**Operating Transfers to the State of West Virginia:**

A total of \$ 160,035,000.00 has been accrued to the state of West Virginia for fiscal year 2007-2008. 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	\$ 35,296,000.00
Department of Education	\$ 20,951,000.00
Library Commission	\$ 6,325,000.00
Higher Education-Central Office	\$ 11,614,000.00
Tourism	\$ 4,767,000.00
Department of Natural Resources	\$ 2,062,000.00
Division of Culture and History	\$ 3,316,000.00

Lottery continued

Department of Education and Arts	\$ 856,000.00
State Building Commission	\$ 3,000,000.00
School Building Authority	\$ 5,400,000.00
<b><u>SUBTOTAL BUDGETARY TRANSFERS</u></b>	<b>\$ 93,587,000.00</b>

**Excess Lottery Fund**

General Purpose Fund	501,000.00
Economic Development Fund	5,700,000.00
Traffic Fund	0
Excess Lottery Surplus	0
Education Improvement Fund	3,000,000.00
WV Infrastructure Council Fund	0
Higher Education Improvement Fund	27,000,000.00
State Park Improvement Fund	0
Refundable Credit	157,000.00
School Building Authority	0.00
<b>TOTAL EXCESS LOTTERY FUND</b>	<b>36,358,000.00</b>

House Bill 2007 2,000,000.00

Veterans Instant Ticket Fund 133,000.00

<b>RACETRACK VIDEO LOTTERY TRANSFERS:</b>	
Tourism Promotion Fund 1.375%	\$3,115,000.00
Development Office Promo Fund	\$850,000.00
Research Challenge Fund .5%	\$1,133,000.00

Lottery continued

Capitol Renovation and Improvement Fund .6875%	\$1,557,000.00
Parking Garage Fund .0625%	\$142,000.00
Parking Garage Fund 1%	\$500,000.00
Cultural Facilities and Cap. Resources Fund .5%	\$802,000.00
Capitol Dome & Cap. Improvements Fund .5%	\$963,000.00
Workers Compensation Debt Reduction Fund 7%	\$11,000,000.00
<b>SUBTOTAL VIDEO LOTTERY TRANSFERS:</b>	<b>\$20,062,000.00</b>
<b>TOTAL TRANSFERS</b>	<b>*\$152,140,000.00</b>

\* CASH BASIS

Total Accrued last FY 2007:	180,178,000.00
Total Cash Distributions July-Sept. :	152,140,000.00
Applied to FY 2007:	152,140,000.00
Accrued for FY 2007 as of Sept. 2007:	28,038,000.00
Total Accrued for FY 2008:	160,035,000.00
Total Applied to FY 2008:	-0-



P.O. BOX 2067  
CHARLESTON, WV 25327

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Joe Manchin III  
Governor

John C. Musgrave  
Director

**MEMORANDUM**

TO: Joint Committee on Government and Finance

FROM: John C. Musgrave, Director

RE: Monthly Report on Lottery Operations  
Month Ending September 30, 2007

DATE: October 19, 2007



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

Financial statements of the Lottery for the month ending September 30, 2007 are attached. Lottery revenue, which includes on-line, instant and video lottery sales, was \$124,619,263 for the month of September.

Transfers of lottery revenue totaling \$48,093,476 made for the month of September to the designated state agencies per House Bill 2007, Veterans Instant Ticket Fund and the Racetrack Video Lottery Act (§29-22A-10). The amount transferred to each agency is shown in Note 8 on pages 14 and 15 of the attached financial statements.

The number of traditional and limited retailers active as of September 30, 2007 was 1,635 and 1,616 respectively.

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/rd  
Attachment

pc: Honorable Joe Manchin III  
James Robert Alsop, Cabinet Secretary – Dept. of Revenue  
John Perdue, Treasurer  
Glen B. Gainer III, Auditor  
Members of the West Virginia Lottery Commission  
[www.wvlottery.com](http://www.wvlottery.com)



**WEST VIRGINIA LOTTERY**

**STATE OF WEST VIRGINIA**

**FINANCIAL STATEMENTS  
-UNAUDITED-**

**September 30, 2007**

**WEST VIRGINIA LOTTERY**

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**WEST VIRGINIA LOTTERY**  
**BALANCE SHEETS**  
(In Thousands)  
-Unaudited-

ASSETS	September 30, 2007	June 30, 2007
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 215,197	\$ 204,122
Accounts receivable	34,905	33,095
Inventory	712	433
Current portion of investments held in trust	14	23
Other assets	1,163	1,163
<b>Total Current Assets</b>	<u>251,991</u>	<u>238,836</u>
<b>Noncurrent Assets:</b>		
Restricted cash and cash equivalents	30,682	30,367
Investments held in trust, less current portion	138	281
Capital assets	13,066	13,066
Less accumulated depreciation and amortization	<u>(11,749)</u>	<u>(11,615)</u>
Net Capital Assets	<u>1,317</u>	<u>1,451</u>
<b>Total Noncurrent Assets</b>	<u>32,137</u>	<u>32,099</u>
<b>Total Assets</b>	<u>\$ 284,128</u>	<u>\$ 270,935</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accrued nonoperating distributions to the State of West Virginia	\$ 188,073	\$ 180,178
Estimated prize claims	14,705	13,592
Accounts payable	2,215	1,452
Other accrued liabilities	35,158	31,926
Current portion of deferred jackpot prize obligations	173	159
<b>Total Current Liabilities</b>	<u>240,324</u>	<u>227,307</u>
Deferred jackpot prize obligations, less current portion	<u>-</u>	<u>139</u>
<b>Total Liabilities</b>	<u>240,324</u>	<u>227,446</u>
<b>Net Assets:</b>		
Invested in capital assets	1,317	1,451
Unrestricted assets (deficit)	(817)	(951)
Unrestricted assets- Committed ( see note 14)	12,622	12,622
Restricted assets ( see note 9)	30,682	30,367
<b>Total Net Assets</b>	<u>43,804</u>	<u>43,489</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 284,128</u>	<u>\$ 270,935</u>

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

**WEST VIRGINIA LOTTERY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2007**

(In Thousands)

-Unaudited-

	CURRENT MONTH		YEAR TO DATE	
	2007	2006	2007	2006
Lottery revenues				
On-line games	\$ 5,965	\$ 8,417	\$ 23,762	\$ 23,553
Instant games	9,387	8,583	27,978	27,554
Racetrack video lottery	77,142	83,251	238,247	256,251
Limited video lottery	32,125	31,957	98,270	94,499
	<u>124,619</u>	<u>132,208</u>	<u>388,257</u>	<u>401,857</u>
Less commissions				
On-line games	418	589	1,664	1,649
Instant games	658	601	1,959	1,928
Racetrack video lottery	48,703	52,748	139,954	151,361
Limited video lottery	15,741	16,912	48,152	50,009
	<u>65,520</u>	<u>70,850</u>	<u>191,729</u>	<u>204,947</u>
Less on-line prizes	3,227	4,270	11,984	12,025
Less instant prizes	6,445	5,880	19,235	18,907
Less ticket costs	130	126	397	394
Less vendor fees and costs	581	604	1,617	1,653
	<u>10,383</u>	<u>10,880</u>	<u>33,233</u>	<u>32,979</u>
Gross profit	<u>48,716</u>	<u>50,478</u>	<u>163,295</u>	<u>163,931</u>
Administrative expenses				
Advertising and promotions	512	403	2,146	2,140
Wages and related benefits	536	493	1,567	1,492
Telecommunications	292	263	530	646
Contractual and professional	462	373	931	641
Rental	56	61	165	163
Depreciation and amortization	38	23	134	159
Other administrative expenses	165	99	403	289
	<u>2,061</u>	<u>1,715</u>	<u>5,876</u>	<u>5,530</u>
Other Operating Income	<u>445</u>	<u>595</u>	<u>1,898</u>	<u>1,410</u>
Operating Income	<u>47,100</u>	<u>49,358</u>	<u>159,317</u>	<u>159,811</u>
Nonoperating income (expense)				
Investment income	1,026	744	2,964	2,208
Interest expense	(1)	(4)	(5)	(31)
Distributions to municipalities and counties	(630)	(626)	(1,926)	(1,852)
Distributions to racetracks-capital reinvestment	-	-	-	-
Distributions to the State of West Virginia	(47,364)	(49,441)	(160,035)	(160,105)
	<u>(46,969)</u>	<u>(49,327)</u>	<u>(159,002)</u>	<u>(159,780)</u>
Net income	<u>131</u>	<u>31</u>	<u>315</u>	<u>31</u>
Net assets, beginning of period	43,673	20,250	43,489	20,250
Net assets, end of period	<u>\$ 43,804</u>	<u>\$ 20,281</u>	<u>\$ 43,804</u>	<u>\$ 20,281</u>

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

**WEST VIRGINIA LOTTERY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2007**

(In Thousands)  
- Unaudited -

	2007	2006
Cash flows from operating activities:		
Cash received from customers and other sources	\$ 388,346	\$ 397,758
Cash payments for:		
Personnel costs	(1,567)	(1,491)
Suppliers	(3,379)	(8,218)
Other operating costs	(221,046)	(229,632)
Cash provided by operating activities	<u>162,354</u>	<u>158,417</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(152,140)	(191,842)
Distributions to municipalities and counties	(1,936)	(1,838)
Distributions to racetrack from racetrack cap. reinv. fund	-	(3,440)
Deferred jackpot prize obligations and related interest paid	(5)	(31)
Cash used in noncapital financing activities	<u>(154,081)</u>	<u>(197,151)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Maturities of investments held in trust	157	157
Investment earnings received	2,960	2,199
Cash provided by investing activities	<u>3,117</u>	<u>2,356</u>
Increase (decrease) in cash and cash equivalents	11,390	(36,378)
Cash and cash equivalents - beginning of period	234,489	197,719
Cash and cash equivalents - end of period	<u>\$ 245,879</u>	<u>\$ 161,341</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 159,317	\$ 159,811
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	134	159
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,809)	(5,509)
(Increase) decrease in inventory	(279)	6
(Increase) decrease in other assets	-	20
Increase (decrease) in estimated prize claims	1,113	564
Increase (decrease) in accounts payable	763	(1,024)
Increase (decrease) in other accrued liabilities	3,115	4,390
Cash provided by operating activities	<u>\$ 162,354</u>	<u>\$ 158,417</u>

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

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**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." 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% of the gross amount received from each lottery shall be allocated for prizes and also provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be distributed to the State of West Virginia. As the State is able to impose its will over the Lottery, the Lottery is considered an enterprise fund 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.

**BASIS OF PRESENTATION** – The West Virginia Lottery is an enterprise fund of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and with accounting principles generally accepted in the United States of America, 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.

The Lottery is included in the State's basic financial statements as a proprietary fund and business type activity using the accrual basic of accounting. Because of the Lottery's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences in presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

**USE OF ESTIMATES** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. All bonded retailers and 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.

The Lottery has contracted with a private vendor 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.

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 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 board-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, currency, 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 racetrack 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 racetrack 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 racetrack video lottery and imposed certain restrictions limiting the licensing for operation of racetrack video lottery games to horse and dog

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from racetrack 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, located in limited licensed retailer areas restricted for adult amusement. 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 wagers, net of related prizes. Amounts required by statute to be paid to 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.

**CASH AND CASH EQUIVALENTS** – Cash and cash equivalents primarily consist of interest-earning deposits with the West Virginia Board of Treasury Investments (BTI) 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.

**CAPITAL ASSETS** – The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. Portions of these facilities were subleased to the Lottery's game vendor until January 31, 2007 at which time the Lottery took occupancy of the total facility. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the three months ended September 30, 2007 and September 30, 2006 approximated \$165,287 and \$163,317, respectively. Sublease rental income for the three months ended September 30, 2007 and September 30, 2006 approximated \$0 and \$25,932, respectively.

The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000. These assets include leasehold improvements, contributed and purchased equipment, comprised principally of technology property, 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 \$298,548 and \$281,146 of vacation and \$467,954 and \$468,058 of sick leave at June 30, 2007 and 2006, 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 hired prior to July 1, 2001, vest in unused sick leave only upon

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 4 – CAPITAL ASSETS (continued)**

Capital Assets:

	Historical Cost At June 30, 2007	Additions	Deletions	Historical Cost At September 30, 2007
Construction in Progress	\$ 443	\$ -	\$ -	\$ 443
Improvements	1,119	-	-	1,119
Equipment	11,504	-	-	11,504
	<u>\$ 13,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,066</u>
Accumulated Depreciation:				
	Historical Cost At June 30, 2007	Additions	Deletions	Historical Cost At September 30, 2007
Improvements	\$ 925	\$ 19	\$ -	\$ 944
Equipment	10,690	115	-	10,805
	<u>\$ 11,615</u>	<u>\$ 134</u>	<u>\$ -</u>	<u>\$ 11,749</u>

**NOTE 5 - 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 September 30, 2007 were \$3,326,137 and \$15,614,985 while related prize costs for the same periods were \$1,735,837 and \$7,793,312.

Revenues derived from the Lottery's participation in the HOT LOTTO game for the month and year-to-date periods ended September 30, 2007 were \$306,851 and \$948,544 while related prize costs for the same periods were \$158,499 and \$473,201.

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 \$75,000,000 limit on the POWERBALL Prize Reserve Fund and a \$25,000,000 limit on the Set 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 September 30, 2007 the POWERBALL prize reserve funds had a

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)**

balance of \$95,721,139 of which the Lottery's share was \$2,279,750. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

**NOTE 6 - RACETRACK VIDEO LOTTERY**

The Racetrack Video Lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Sixty-six percent (66%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county and municipal governments (2%). The remaining revenues (34%) of net terminal revenue is allocated for distribution to State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 8 titled "Nonoperating Distributions to the State of West Virginia."

The first benchmark occurs when the current year net terminal revenue meets the fiscal year 1999 net terminal revenue. The counties and incorporated municipalities split 50/50 the two percent (2%) net terminal revenue.

The second benchmark occurs when the current year gross terminal revenue meets the fiscal year 2001 gross terminal revenue. The four percent (4%) is no longer allocated for lottery administrative costs; instead the State receives this for distribution as specified by legislation or the State budget.

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 58% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 42% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 55% of net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (11%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (45%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 8.

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.

The WV Lottery, along with the Rhode Island and Delaware lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee of 4% of the amount wagered. A summary of racetrack video lottery revenues for the month ended September 30, 2007 and year-to-date follows (in thousands):

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 11 - 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 defined benefit 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.

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 with age and credited service equal to eighty or greater 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 average annual salary from the highest 36 consecutive months within the last 10 years of employment, 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 10.5% 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 not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The Lottery and employee contributions, for the period ending September 30, 2007 are as follows (in thousands):

	<u>September 30, 2007</u>	<u>Year-to Date</u>
Lottery contributions	\$41	\$119
Employee contributions	18	54
Total contributions	\$59	\$173

**NOTE 12 - 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 their 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.

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 12 - RISK MANAGEMENT (continued)**

**WEST VIRGINIA WORKERS' COMPENSATION COMMISSION (WCC)**

The State of West Virginia operated an exclusive state-managed workers' compensation insurance program (WCC) prior to December 31, 2005. A framework for the privatization of workers' compensation insurance in West Virginia was established with the passage of Senate Bill 1004 and the WCC trust fund was terminated effective December 31, 2005. A privatized business entity, BrickStreet Administrative Services (BAS), was established and became the administrator of the WCC Old Fund, beginning January 1, 2006, and thereafter for seven years, and will have all administrative and adjudicatory authority previously vested in the WCC trust fund in administering old law liabilities and otherwise processing and deciding old law claims. BAS will be paid a monthly administrative fee and rated premium to provide a prompt and equitable system for compensation for injury sustained in the course of and growing out of employment. The monthly administrative fee for the West Virginia Lottery has been set at a level consistent with prior year payments and the new rate or premium will be established on an experience rated basis. The West Virginia Lottery is required to participate in the new BrickStreet Administrative Services (BAS) experience rated pool, which is expected to be rate adjusted on a quarterly basis.

**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 and level of compensation. 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

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 12 - RISK MANAGEMENT (continued)**

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.

**NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). The State nor the Lottery has previously reported in its financial statements costs associated with future participation of retirees in health benefit plans. The GASB statements are based on the premise that the "costs" of employee services should be reported during the periods when the services are rendered. Beginning with the fiscal year ending June 30, 2007, the State will implement financial reporting requirements for OPEB "substantive plans" under GASB Statement No. 43; beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements will report OPEB funded status and funding progress and any "premium subsidy" resulting from the pooling of retiree participants with active employees in the health benefit plans. For "employer" OPEB reporting the State will report "expense" on an accrual basis in the amount of the "annual required contribution" and a "liability" for the amount of the "annual required contribution" that was not actually paid.

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB No. 43, the ARC (Annual Required Contribution) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Lottery who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residue funds held in trust for future OPEB costs. Because the necessary actuarial study has not yet been completed, the annual required contribution rates are not yet available. The Lottery expects to remit the annual required contribution to the State. The impact of this statement on these financial statements has not yet been determined by management.

The Governmental Accounting Standards Board (GASB) issued statement No. 47, Accounting for Termination Benefits, in June 2005. This Statement establishes accounting standards for termination benefits and requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial

**WEST VIRGINIA LOTTERY**  
**NOTES TO FINANCIAL STATEMENTS**  
**-Unaudited-**

**NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

statements, and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. No other termination benefits are offered or provided that required implementation in the years ended June 30, 2007 and 2006. The impact of this statement on these financial statements is not expected to have a material effect.

The Governmental Accounting Standards Board (GASB) issued Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27, in 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement is effective for periods beginning after June 15, 2007, and management has not yet determined what impact, if any, it will have on the financial statements.

**NOTE 14 - COMMITMENTS**

The Lottery has set aside funds as Unrestricted net assets for the acquisition of future assets. During FY2007 the lottery set aside \$12.622M for this purpose.

**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: Honorable Senate President Tomblin  
Honorable House of Delegates Speaker Thompson  
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: November 15, 2007

Re: Status of General Revenue Fund October 31, 2007

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month of October of fiscal year 2007-2008. The status of the fund collections are as follows:

The net collections were **106.54%** of the estimate for the fiscal year. **The amount ABOVE estimate was \$ 78 million for the year.**

Personal income tax was \$31.3 million over the estimate for the year to date as of October 31, 2007.

Severance tax was \$ 13 million above the estimate as of October 31, 2007.

Consumer sales tax was \$ 6.6 million below the estimate as of October 31, 2007.

*Joint Committee on Government and Finance*

**State Road Fund**

The state road fund was collected at 102.34% of the estimate for the year as of October 31, 2007. The entire fund was \$ 5.4 million above the estimate for the year.

**Rainy Day and Personal Income Tax Reserve**

Revenue Shortfall Reserve Fund A(Rainy Day Fund) had a cash balance of \$ \$290,832,450.57 as of October 31, 2007.

Balance July 1, 2007	235,075,887.42
Cash flow loan to General Revenue on July 3, 2007 To be repaid 90 days. This is a normal occurrence in July due to cash flow demands; will be repaid in September.	- 56,000,000.00
Revenues July 1, 2006-June 30,2007 (Surplus from FY 2007)	53,363,287.82
Earnings	2,393,275.33
Balance October 31, 2007	290,832,450.57

Revenue Shortfall Reserve Fund B (Tobacco Settlement Monies) had a cash balance of \$ 286,823,013.27 as of October 31, 2007.

Balance July 1, 2007	279,869,087.79
Earnings	6,953,925.48
Balance October 31, 2007	286,823,013.27

The Special Income Tax Reserve Fund had a cash balance of \$45,019,318.96 as of October 31, 2007.

Balance July 1, 2007	45,019,318.96
Revenues July 2007-June 2008	-0-
Balance October 31, 2007	45,019,318.96

**GENERAL REVENUE FUND FY 2007-2008**

Monthly Revenue Estimates July 2007  
as of October 31, 2007 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			
Personal Income Tax	99,300,000	98,977,111	-322,889	436,400,000	467,748,966	31,348,966
Consumer Sales Tax	88,500,000	75,013,804	-13,486,196	354,300,000	347,671,469	-6,628,531
Corp Income /Business Franchise	3,500,000	497,495	-3,002,505	96,000,000	125,581,017	29,581,017
Severance Tax	28,400,000	28,805,588	405,588	88,700,000	101,776,381	13,076,381
Insurance Tax	28,800,000	24,386,319	-4,413,681	52,800,000	48,717,616	-4,082,384
Use Tax	15,600,000	12,606,722	-2,993,278	47,500,000	45,277,189	-2,222,811
Business and Occupation	14,800,000	17,112,772	2,312,772	46,600,000	49,813,775	3,213,775
Cigarette Tax	9,200,000	9,315,370	115,370	37,100,000	36,505,431	-594,569
Interest Income	4,000,000	5,009,456	1,009,456	15,000,000	19,882,774	4,882,774
Property Transfer Tax	1,040,000	1,142,963	102,963	4,790,000	4,622,098	-167,902
Departmental Collections	900,000	984,074	84,074	3,300,000	3,982,796	682,796
Liquor Profit Transfers	20,000	45,000	25,000	2,940,000	3,220,798	280,798
Beer Tax and Licenses	910,000	785,902	-124,098	2,890,000	2,930,439	40,439
Charter Tax	320,000	610,658	290,658	2,870,000	2,787,368	-82,632
Property Tax	680,000	603,361	-76,639	2,440,000	2,659,856	219,856
Smokeless Tobacco Tax	460,000	421,034	-38,966	1,710,000	1,791,570	81,570
HB 102 - Lottery Transfers	5,000,000	12,100,934	7,100,934	5,000,000	12,601,661	7,601,661
Miscellaneous Receipts	120,000	94,291	-25,709	520,000	353,884	-166,116
Business Franchise Fees	50,000	36,140	-13,860	500,000	991,348	491,348
Miscellaneous Transfers	100,000	0	-100,000	300,000	991,093	691,093
Senior Citizen Tax Credit Reimb.	140,000	0	-140,000	230,000	0	-230,000
Racing Fees	0	0	0	0	140,000	140,000
Telecommunications Tax	0	37,441	0	0	115,173	115,173
Estate and Inheritance Tax	0	-14,331	-14,331	0	29,869	29,869
Refundable Credit Reim LTY	0	0	0	0	157,365	157,365
Video Lottery Transfers	0	0	0	0	155,875	155,875
Special Revenue Transfer	0	0	0	0	0	0
Cash Flow Transfer	0	0	0	0	0	0
<b>TOTALS</b>	<b>301,840,000</b>	<b>288,572,102</b>	<b>-13,267,898</b>	<b>1,201,890,000</b>	<b>1,280,505,812</b>	<b>78,615,812</b>
Minus Cash Flow Transfer	0	0	0	0	0	0
Percent of Estimates		<b>95.60%</b>			<b>106.54%</b>	
<b>TOTALS</b>	<b>301,840,000</b>	<b>288,572,102</b>	<b>-13,267,898</b>	<b>1,201,890,000</b>	<b>1,280,505,812</b>	<b>78,615,812</b>
Collections this day		<b>55,369,525</b>				

Prepared by Legislative Auditor's Office, Budget Division

**STATE ROAD FUND**  
**STATE ROAD FUND FY 2007-2008**  
**Monthly Estimates July 2007**  
**as of OCTOBER 31, 2007 WVFIMS**

FINAL

<b>SOURCE OF REVENUE</b>	<b>MONTH ESTIMATES</b>	<b>NET MONTH COLLECTIONS</b>	<b>MONTHLY OVER/ UNDER ESTIMATES VS ACTUAL COLLECTIONS</b>	<b>YTD ESTIMATES</b>	<b>NET YTD COLLECTIONS</b>	<b>YEARLY OVER/UNDER ESTIMATES VS ACTUAL YTD COLLECTIONS</b>
Gasoline & Motor Carrier Rd Tax	41,400,000	45,520,788	4,120,788	141,000,000	145,003,583	4,003,583
Privilege Tax	13,819,000	15,542,311	1,723,311	62,983,000	63,892,972	909,972
Licenses & Registration	5,826,000	5,597,331	-228,669	27,730,000	28,236,443	506,443
Highway Litter Control	110,000	70,166	-39,834	525,000	531,240	6,240
<b>TOTALS</b>	<b>61,155,000</b>	<b>66,730,597</b>	<b>5,575,597</b>	<b>232,238,000</b>	<b>237,664,237</b>	<b>5,426,237</b>
<b>Percent of Estimates</b>		<b>109.12%</b>			<b>102.34%</b>	
<b>Collections this day</b>		<b>17,621,870</b>				

**REVENUE SHORTFALL RESERVE FUND A as of October 31, 2007: \$ 290,832,450.57**

**REVENUE SHORTFALL RESERVE FUND B as of October 31, 2007: \$ 286,823,013.27**

**SPECIAL INCOME TAX REFUND RESERVE FUND as of October 31, 2007: \$45,019,318.96**

**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 Senate President Tomblin  
Honorable House of Delegates Speaker Thompson  
Honorable Members of the Joint Committee on Government  
and Finance

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

Date: November 15, 2007

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the August 2007 monthly report of the Unemployment Compensation Trust Fund we received from WorkForce West Virginia. August is the second month of fiscal year 2007-2008.

For the fiscal year 2007-2008, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2007	\$257,112,738.68
Receipts July 1, 2007 thru June 30, 2008	\$30,798,588.45
Disbursements July 1, 2007 thru June 30, 2008	\$25,079,787.79
Balance August 31, 2007	\$262,831,539.34

ITEMS OF NOTE:

Regular benefits paid for July - August 2007 were \$2 million more than in July - August 2006. Total disbursements were \$ 1.9 million more than in July - August 2006.

*Joint Committee on Government and Finance*

Receipts were \$ 2.2 million less than in July - August 2006. Overall ending trust fund balance was \$ 7.9 million more as of August 31 2007 than on August 31, 2006.

West Virginia's unemployment rate for the month of August 2007 was 4.7 percent. National unadjusted employment rate was 4.6 %.

Seasonally adjusted unemployment rates were 4.9 percent for West Virginia and 4.6 percent nationally.

Since August 2006 employment has risen 2,900 with gains in the following areas: 1,900 in trade, transportation and utilities, 900 in leisure and hospitality, 1,500 in professional and business services, 500 in other services, 600 in natural resources and mining, 600 in construction, 400 in educational and health services. Declines included 1,500 in manufacturing, and 1,900 government and 100 in financial services.

**FINANCIAL CONDITION OF THE UNEMPLOYMENT COMPENSATION TRUST FUND  
MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE  
FOR THREE MONTHS STARTING JUNE 2006 AND JUNE 2007**

	JUNE 06	JULY 06	AUGUST 06	JUNE 07	JULY 07	AUGUST 07	THREE MONTH TOTAL VARIANCE *
<b>Balance Forward</b>	<b><u>252,627,692.33</u></b>	<b><u>244,918,539.17</u></b>	<b><u>244,792,010.38</u></b>	<b><u>261,712,331.75</u></b>	<b><u>257,112,739.89</u></b>	<b><u>256,952,759.62</u></b>	<b><u>33,439,698.16</u></b>
Add Receipts:							
1. Bond Assessment	\$1,872.01	\$578.30	\$718.40	12.11	0.00	0.00	(3,156.60)
2. Regular Contributions:	\$1,180,056.80	\$11,586,993.47	\$20,647,745.20	824,106.30	12,672,078.88	18,126,509.57	(1,772,100.72)
3. Extended Benefit Funds	\$0.00	\$0.00	\$0.00	0.00	0.00	0.00	0.00
4. Emergency Unemployment Fur	\$0.00	\$0.00	\$0.00	0.00	0.00	0.00	0.00
5. TEUC Unemployment Funds	\$0.00	\$0.00	\$0.00	0.00	0.00	0.00	0.00
6. UCFE (Federal Agencies)	\$100,000.00	\$50,000.00	\$100,000.00	100,000.00	0.00	0.00	(150,000.00)
7. Reduced Tax Credits	\$0.00	\$0.00	\$29,787.01	0.00	0.00	0.00	(29,787.01)
8. Reed Act Funds	\$0.00	\$0.00	\$0.00	305,395.46	0.00	0.00	305,395.46
9. Treasury Interest Credits	\$2,658,014.91	\$0.00	\$0.00	2,611,781.87	0.00	0.00	(46,233.04)
10. UCX (Military Agencies)	<u>\$300,000.00</u>	<u>\$150,000.00</u>	<u>\$500,000.00</u>	<u>600,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(350,000.00)</u>
	\$0.00	\$0.00		0.00	0.00	0.00	
<b>Total Monthly Receipts</b>	<b><u>\$4,219,943.72</u></b>	<b><u>\$11,787,571.77</u></b>	<b><u>\$21,278,250.61</u></b>	<b><u>4,441,295.74</u></b>	<b><u>12,672,078.88</u></b>	<b><u>18,126,509.57</u></b>	<b><u>(2,045,881.91)</u></b>
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	NA
Regular Benefits:	\$9,640,533.77	\$11,459,232.68	\$10,879,428.76	8,752,274.61	12,515,694.89	11,963,705.41	1,052,479.50
Extended Benefits	(\$1,848.00)	\$0.00	\$0.00	0.00	0.00	0.00	1,848.00
Emergency Benefits	\$0.00	\$0.00	(\$1,690.00)	(477.00)	(5,704.00)	(560.00)	(5,051.00)
UCFE (Federal Workers)Benefits	\$82,914.96	\$58,675.70	\$68,084.66	58,471.14	88,445.47	64,659.04	(48,099.67)
UCX (Military Workers)Benefits	\$312,296.15	\$386,192.16	\$259,964.65	230,620.08	253,621.78	219,925.40	(234,285.74)
Reed Act Funds	\$1,695,000.00	0.00	0.00	0.00	0.00	0.00	(1,695,000.00)
Other Adjustments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Monthly Disbursemen</b>	<b><u>11,929,096.88</u></b>	<b><u>11,914,100.56</u></b>	<b><u>11,205,788.07</u></b>	<b><u>9,040,888.81</u></b>	<b><u>12,832,057.94</u></b>	<b><u>12,247,729.85</u></b>	<b><u>(928,308.91)</u></b>
	\$0.00	\$0.00		0.00	0.00	0.00	
<b>Trust Fund Balance</b>	<b><u>244,918,539.17</u></b>	<b><u>244,792,010.38</u></b>	<b><u>254,864,472.92</u></b>	<b><u>257,112,739.89</u></b>	<b><u>256,952,759.62</u></b>	<b><u>252,831,539.34</u></b>	<b><u>32,322,015.16</u></b>

\* 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.



# *Financials*

**JULY 2007**

State of West Virginia  
Public Employees Insurance Agency  
Balance Sheets

July 31, 2007 and 2006  
Accrual Basis  
(Unaudited-For Internal Use Only)

DRAFT

Assets	July 2007	July 2006	Increase <Decrease>
Cash and cash equivalents	\$ 164,455,824	\$ 104,358,174	\$ 60,097,650
Deposits with third-party administrators	1,275,430	820,472	454,958
Premium accounts receivable-net of allowance for doubtful accounts	21,517,417	33,467,018	(11,949,601)
Other accounts receivable	4,261,433	11,804,396	(7,542,963)
Total current assets	191,510,104	150,450,060	41,060,044
Investments	169,373,727	156,555,694	12,818,033
Furniture and equipment, net of accumulated depreciation	563,064	165,912	397,152
Restricted cash-premium stabilization life insurance	3,942,954	3,942,741	213
Restricted cash-new computer system	3,265,043	3,833,000	(567,957)
Total assets	\$ 368,654,892	\$ 314,947,407	\$ 53,707,485
<b>Liabilities and Retained Earnings</b>			
Claims payable	\$ 39,250,000	\$ 53,630,000	\$ (14,380,000)
Current claims payable	10,108,955	8,928,717	1,180,238
Unearned revenue	7,088,194	10,451,080	(3,362,886)
Accounts payable	13,687,042	10,282,915	3,404,127
Other accrued liabilities	1,184,467	1,191,307	(6,840)
Due to over-reserve fund	119,865,539	24,162,249	95,703,290
Total liabilities	191,184,197	108,646,268	82,537,929
Retained earnings	177,470,695	206,301,139	(28,830,444)
Total liabilities and retained earnings	\$ 368,654,892	\$ 314,947,407	\$ 53,707,485

NOTE: July 2006 Includes PEIA and RHBT balances.  
For internal use only. See financial comments.  
Prepared October 26, 2007

NOTE

State of West Virginia  
Public Employees Insurance Agency

Statements of Revenues, Expenses and  
Changes in Retained Earnings (continued)  
July 31, 2007 and 2006

**DRAFT**

Accrual Basis  
(Unaudited-For Internal Use Only)

	Budgeted Month Ended 31-Jul-07	Actual Month Ended 30-Jul-07	Budget Variance Percent	Actual Month Ended 30-Jul-06	This Year vs Last Year Increase <Decrease>	This Year vs Last Year Variance Percent
<b>Operating Revenue</b>						
Premiums						
Employer Premiums-State	\$ 23,793,342	\$ 23,821,164	0.12%	\$ 34,143,963	(10,322,799)	-30.23%
Employee Premiums-State	6,296,369	6,267,847	-0.45%	8,057,550	(1,789,703)	-22.21%
Local Premiums	4,170,140	4,280,800	2.65%	5,981,125	(1,700,325)	-28.43%
Retiree Premiums	535,914	517,508	N/A	5,273,627	(5,273,627)	-100.00%
Basic Life Insurance	122,571	86,940	-3.43%	509,736	7,772	1.52%
Other Premiums and Adjustments Medicare Part D			-29.07%	103,304	(16,364)	-15.84%
			N/A	1,300,000		0.00%
<b>Total Premiums</b>	<b>34,918,335</b>	<b>34,974,259</b>	<b>0.16%</b>	<b>55,369,305</b>	<b>(20,395,046)</b>	<b>-36.83%</b>
Less:						
Payments to managed care organizations	(4,687,764)	(4,535,383)	-3.25%	(4,657,110)	121,727	-2.61%
Life insurance premiums-basic	(535,914)	(517,496)	-3.44%	(509,733)	(7,763)	1.52%
<b>Net premium revenue</b>	<b>29,694,658</b>	<b>29,921,380</b>	<b>0.76%</b>	<b>50,202,462</b>	<b>(20,281,082)</b>	<b>-40.40%</b>
Administrative fees, net of refunds	360,057	353,570	-1.80%	478,466	(124,896)	-26.10%
<b>Net operating revenue</b>	<b>30,054,715</b>	<b>30,274,950</b>	<b>0.73%</b>	<b>50,680,928</b>	<b>(20,405,978)</b>	<b>-40.26%</b>
<b>Operating Expenses</b>						
Claims expense-medical	21,724,361	20,954,955	-3.54%	28,619,785	(7,664,830)	-26.78%
Claims expense-drugs	5,365,987	4,392,416	-18.14%	10,299,098	(5,906,682)	-57.35%
Administrative service fees	1,060,333	1,130,583	6.63%	1,403,214	(272,631)	-19.43%
Wellness and disease management	158,333	187,177	18.22%	145,961	41,216	28.24%
Other operating expenses	508,375	262,668	-48.33%	584,151	(321,483)	-55.03%
<b>Total operating expense</b>	<b>28,817,390</b>	<b>26,927,799</b>	<b>-6.56%</b>	<b>41,052,209</b>	<b>(14,124,410)</b>	<b>-34.41%</b>
<b>Operating surplus</b>	<b>1,237,326</b>	<b>3,347,151</b>	<b>170.51%</b>	<b>9,628,719</b>	<b>(6,281,568)</b>	<b>-65.24%</b>

State of West Virginia  
Public Employees Insurance Agency  
Statements of Revenues, Expenses and  
Changes in Retained Earnings (continued)  
July 31, 2007 and 2006

**DRAFT**

Accrual Basis  
(Unaudited-For Internal Use Only)

	Budgeted Month Ended 31-Jul-07	Actual Month Ended 30-Jul-07	Budget Variance Percent	Actual Month Ended 30-Jul-06	This Year vs Last Year Increase <Decrease>	This Year vs Last Year Variance Percent
Nonoperating Revenues and Transfers						
Interest and investment income	1,339,363	48,975	-96.34%	2,378,235	(2,329,260)	-97.94%
Transfer in			N/A	558,000	(558,000)	-100.00%
Transfer out			N/A			N/A
Total nonoperating revenues and transfers	1,339,363	48,975	-96.34%	2,936,235	(2,887,260)	-98.33%
Net Surplus	\$ 2,576,689	3,396,126	31.80%	12,564,954	(9,168,828)	-72.97%
Retained Earnings, beginning of period		174,074,569		193,736,185	(19,661,616)	
Retained Earnings, end of period		\$ 177,470,695		\$ 206,301,139	\$ (28,830,444)	

NOTE

NOTE: July 2006 Includes PEIA and RHBT balances.  
For internal use only. See financial comments.  
Prepared October 26, 2007

**State of West Virginia  
Public Employees Insurance Agency  
Financial Comments  
Year to Date July 31, 2007 and 2006  
Accrual Basis  
(Unaudited-For Internal Use Only)**

Amounts indicated in the attached financial statements for July 2006 include the accounts of the West Virginia Public Insurance Agency (PEIA) and the West Virginia Retiree Health Benefit Trust Fund (RHBT). Amounts for July 2007 are PEIA only.

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 based on the same month from the prior year.

PEIA's consulting actuaries have prepared an updated Actuarial Baseline Forecast dated June 28, 2007 which indicates a surplus of \$13,531,779 for Plan Year 2008. The Budget Column indicated in these reports has been adjusted to reflect this update.

State of West Virginia  
 WV Retiree Health Benefit Trust Fund  
 Statement of Plan Net Assets  
 July 31, 2007  
 Accrual Basis  
 (Unaudited-For Internal Use Only)

Assets	July <u>2007</u>
Cash and cash equivalents	\$ 6,172,737
Due from WV PEIA	119,865,539
Premium accounts receivable-net of \$1,300,000 allowance for doubtful accounts:	
Employers	6,159,963
Plan members	2,331,255
Accounts receivable	
Annual required contributions	5,606,442
Transfer due from State	3,306,167
Prescription rebates	767,805
Retiree drug subsidy	1,622,383
Other receivables	<u>8,772</u>
Total assets	145,841,063
<b>Liabilities</b>	
Claims payable	11,300,000
MAPD payable	4,399,549
Accounts payable	30,820
Total liabilities	<u>15,730,369</u>
<b>Net assets held in trust for postemployment benefits</b>	<u>\$ 130,110,694</u>

For internal use only. See financial comments.  
 Prepared November 5, 2007

State of West Virginia  
 WV Retiree Health Benefit Trust Fund  
 Statement of Changes in Plan Net Assets  
 Year-to-Date July 31, 2007  
 Accrual Basis  
 (Unaudited-For Internal Use Only)

	Budget	Actual	Budget Variance Dollars	Budget Variance Percent
<b>Additions</b>				
Employer Contributions:				
Health premiums	\$ 1,942,772	\$ 1,905,330	\$ (37,442)	-1.93%
Pay as you go premiums	9,107,129	8,715,792	(391,336)	-4.30%
Accrued actuarial liability funding	3,230,144	3,238,488	8,344	0.26%
Annual required contributions	5,610,000	5,609,049	(951)	-0.02%
PBA overreserve transfer	110,442,850	108,167,017	(2,275,833)	-2.06%
State of WV transfer	3,306,167	3,306,167	0	0.00%
Total Employer Contributions	133,639,061	130,941,842	(2,697,218)	-2.02%
Member Contributions:				
Health premiums	3,109,950	3,050,367	(59,583)	-1.92%
Pay as you go premiums	1,760,202	2,178,948	418,746	23.79%
Total Employee Contributions	4,870,152	5,229,315	359,163	7.37%
Total contributions	138,509,213	136,171,158	(2,338,055)	-1.69%
Other additions:				
Investment Interest	89,690	26,397	(63,293)	-70.57%
Total additions	138,598,902	136,197,554	(2,401,348)	-1.73%
<b>Deductions</b>				
Payments to managed care organizations	5,101,214	4,802,641	(298,574)	-5.85%
Claims expense-medical	4,059,282	3,146,721	(912,561)	-22.48%
Claims expense-drugs	1,648,114	920,820	(727,294)	-44.13%
Administrative service fees	387,629	134,183	(253,446)	-65.38%
Other operating expenses	238,589	249,446	10,857	4.55%
Total deductions	11,434,828	9,253,811	(2,181,017)	-19.07%
Net Increase	127,164,074	126,943,744	(220,331)	-0.17%
Net assets held in trust for post employment benefits	3,166,950	3,166,950	-	0.00%
Beginning of period				
End of period	\$ 130,331,024	\$ 130,110,694	\$ (220,331)	-0.17%

For internal use only. See financial comments.  
 Prepared November 5, 2007

**State of West Virginia  
WV Retiree Health Benefit Trust Fund  
Financial Comments**

**Year-to-Date July 31, 2007  
Accrual Basis**

**(Unaudited-For Internal Use Only)**

Amounts reported in the Budgeted Column of the attached Statement of Changes in Plan Net Assets represent a one twelfth per month recognition, except for the PEIA over reserve transfer of the annual budget for Plan Year End June 30, 2008. A seasonal claims budget is not yet available. The consulting actuaries have prepared an updated Actuarial Baseline Forecast dated June 25, 2007 which has been used as a basis for the budget amounts.

Employer health premiums represent amounts paid for retirees primarily due to the months' credit programs provided by the various Plan Employers.

Employer pay as you go premiums represent the retiree subsidy which is included in the active policyholder premium to the extent that it is paid by the Employer.

Employer accrued actuarial liability fund are funds that are included in the active policyholder premium to the extent that it has been committed to fund the liability.

Employer Annual Required Contribution (ARC) represent amounts that must be contributed in a given year to fully fund the trust as determined by the actuarial valuation. This amount has been billed to the respective Employers year-to-date and is computed as a monthly rate per active employee of \$91.54 for State Employers and \$144.48 for Local Employers.

Employer PEIA over reserve transfer is a transfer of excessive reserves of PEIA which have accumulated through June 30, 2007, as directed by State Code. The full amount due for Plan Year 2008 is reflected in the July 2007 financial statements. These funds were designated to reduce current year ARC.

State of West Virginia transfer are funds that have been set aside in the Fiscal Year 2008 State Budget to help fund the ARC for State Employers.

Member health premiums represent health premiums that have been billed to members who participate in the PEIA PPB, MCO and MAPD Plans. These amounts are net of Employer contributions for those retirees who participate in the months' credit program.

Member pay as you go premiums represent the retiree subsidy which is included in the active policyholder premium to the extent that it is paid by the policyholder.



# *Monthly Management Report*

**TOTAL CLAIMS**

**SEPTEMBER 2007**

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS  
SEPTEMBER 2007

Page: 1

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr		Previous Fiscal Yr	
		Current PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
INPATIENT HOSPITAL FACILITY									
	BEHAVIORAL	137,418.25	160,869.52	152,077.27	139,396.52	408,688.28	438,683.50		
	MATERNITY	139,906.34	154,916.75	208,617.14	146,898.44	443,930.68	531,154.79		
	MEDICAL AND SURGICAL	4,734,499.34	5,182,985.18	5,154,255.07	5,014,076.21	15,902,814.90	13,149,064.81		
	NEONATAL COMPLICATIONS	18,443.87	85,072.33	135,617.21	64,938.45	154,454.53	396,578.29		
*****									
sum		5,030,267.80	5,583,843.78	5,650,566.69	5,365,309.61	16,909,888.39	14,515,481.39		
OUTPATIENT HOSPITAL FACILITY									
	BEHAVIORAL	28,473.15	35,188.96	46,533.14	39,688.81	82,052.87	106,069.93		
	DIALYSIS	121,740.83	152,441.54	153,539.05	165,297.08	385,060.20	468,445.60		
	EMERGENCY ROOM	376,471.47	394,227.58	371,527.70	383,605.81	1,168,764.93	970,784.77		
	MATERNITY	27,417.53	42,132.54	45,770.14	39,887.71	90,690.38	104,966.62		
	MEDICAL AND SURGICAL	6,136,335.96	6,528,151.57	6,792,315.32	6,420,144.20	19,486,944.04	17,512,947.50		
*****									
sum		6,690,438.94	7,152,142.20	7,409,685.35	7,048,623.59	21,213,512.42	19,163,214.42		
PHARMACY									
		8,557,087.36	10,187,340.11	9,021,047.88	9,544,755.89	24,603,326.53	25,713,435.95		
sum		8,557,087.36	10,187,340.11	9,021,047.88	9,544,755.89	24,603,326.53	25,713,435.95		
PROFESSIONAL SERVICES									
	ADVANCED IMAGING	414,028.99	484,071.05	482,718.70	457,611.19	1,413,438.08	1,242,681.84		
	AMBULANCE	185,617.96	166,871.65	122,184.58	161,994.62	567,434.11	383,214.76		
	ANESTHESIA	604,133.62	625,982.75	601,299.29	603,172.22	2,024,656.29	1,730,288.33		
	BEHAVIORAL	262,040.72	321,950.80	279,948.27	320,987.10	778,961.50	707,715.32		
	CARDIOVASCULAR MEDICINE	288,198.46	366,669.02	388,153.85	372,506.59	980,173.71	956,005.00		
	CERVICAL CANCER SCREENING	24,693.13	23,390.09	31,218.26	30,241.93	72,508.48	85,790.18		
	DIALYSIS	2,092.78	8,698.08	17,827.74	15,510.18	18,406.53	31,762.49		
	DME	230,512.75	325,823.33	320,716.51	322,225.68	1,009,863.48	868,849.10		

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS  
SEPTEMBER 2007

Page: 2

Reporting Category	Type of Service	Current Period		Current		12 Months Prior		Current Fiscal Yr		Previous Fiscal Yr	
		PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments
PROFESSIONAL SERVICES											
	EVALUATION AND MANAGEMENT	3,885,651.47	4,163,248.27	4,521,295.17	3,854,578.58	12,074,134.55	11,156,813.39				
	IMMUNIZATION	283,941.32	279,671.17	182,790.54	154,275.89	930,008.77	404,154.77				
	INJECTION	581,094.48	693,501.28	770,973.82	656,550.73	2,026,124.35	1,837,861.15				
	LAB AND PATHOLOGY	498,926.66	614,751.43	500,229.72	587,540.06	1,629,295.50	1,392,204.36				
	MAMMOGRAPHY	909.58	38,782.88	114,062.01	88,928.38	2,584.58	278,074.06				
	OTHER	398,036.45	350,095.69	391,715.82	380,516.42	1,155,423.92	999,010.52				
	OTHER IMAGING	783,963.27	851,362.97	924,427.73	756,175.21	2,566,167.83	2,176,141.45				
	OTHER MEDICINE	431,159.74	645,992.07	495,623.22	587,146.09	2,147,381.12	1,646,544.67				
	PHYSICAL MEDICINE	475,318.57	546,000.59	618,483.72	509,685.85	1,457,749.25	1,383,762.53				
	PROSTATE CANCER SCREENING	9,152.19	15,514.47	13,839.45	16,485.59	40,580.86	42,401.02				
	SURGICAL	2,069,381.44	2,379,297.16	2,575,177.95	2,307,257.39	6,915,841.25	6,712,165.69				
*****											
sum		11,428,853.58	12,901,674.73	13,352,686.35	12,183,389.70	37,810,734.16	34,035,440.63				
sum		31,706,647.68	35,825,000.82	35,433,986.27	34,142,078.79	100,537,461.50	93,427,572.39				

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES



# *Monthly Management Report*

**PER CAPITA CLAIMS**

**SEPTEMBER 2007**

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS  
 SEPTEMBER 2007

Page: 1

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr		Previous Fiscal Yr		
		PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.8986	1.1089	1.0190	.9699	2.6840	2.6840	2.9485	2.9485	
	MATERNITY	.9159	1.0675	1.3979	1.0221	2.9154	2.9154	3.5701	3.5701	
	MEDICAL AND SURGICAL	30.9955	35.7097	34.5378	34.8897	104.4376	104.4376	88.3792	88.3792	
	NEONATAL COMPLICATIONS	.1207	.5870	.9087	.4516	1.0143	1.0143	2.6655	2.6655	
*****										
sum		32.9318	38.4731	37.8635	37.3333	111.0513	111.0513	97.5634	97.5634	
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.1864	.2427	.3118	.2761	.5389	.5389	.7129	.7129	
	DIALYSIS	.7970	1.0510	1.0288	1.1501	2.5288	2.5288	3.1486	3.1486	
	EMERGENCY ROOM	2.4647	2.7164	2.4895	2.6684	7.6756	7.6756	6.5250	6.5250	
	MATERNITY	.1795	.2906	.3067	.2774	.5956	.5956	.7055	.7055	
*****										
sum		43.8005	49.2863	49.6511	49.0352	139.3142	139.3142	128.8024	128.8024	
PHARMACY		56.0209	70.2390	60.4486	66.3955	161.5759	161.5759	172.8286	172.8286	
	sum	56.0209	70.2390	60.4486	66.3955	161.5759	161.5759	172.8286	172.8286	
PROFESSIONAL SERVICES	ADVANCED IMAGING	2.7105	3.3356	3.2346	3.1830	9.2824	9.2824	8.3525	8.3525	
	AMBULANCE	1.2152	1.1497	.8187	1.1269	3.7265	3.7265	2.5757	2.5757	
	ANESTHESIA	3.9551	4.3132	4.0292	4.1967	13.2964	13.2964	11.6298	11.6298	
	BEHAVIORAL	1.7155	2.2195	1.8759	2.2323	5.1156	5.1156	4.7568	4.7568	
	CARDIOVASCULAR MEDICINE	1.8868	2.5267	2.6010	2.5909	6.4370	6.4370	6.4256	6.4256	
	CERVICAL CANCER SCREENING	.1617	.1612	.2092	.2105	.4762	.4762	.5766	.5766	
	DIALYSIS	.0137	.0600	.1195	.1080	.1209	.1209	.2135	.2135	
	DME	1.5091	2.2441	2.1491	2.2418	6.5320	6.5320	5.8398	5.8398	
	*****									
	sum		27.7105	33.3356	32.346	31.830	92.824	92.824	83.525	83.525

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS

SEPTEMBER 2007

Page: 2

Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr		Previous Fiscal Yr	
		PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	Rolling Avg PEIA Payments
PROFESSIONAL SERVICES	EVALUATION AND MANAGEMENT	25.4383	28.6900	30.2965	26.8160	79.2937	74.9887	79.2937	74.9887
	IMMUNIZATION	1.8589	1.9267	1.2249	1.0735	6.1076	2.7165	6.1076	2.7165
	INJECTION	3.8043	4.7788	5.1662	4.5683	13.3060	12.3529	13.3060	12.3529
	LAB AND PATHOLOGY	3.2663	4.2358	3.3520	4.0851	10.7000	9.3575	10.7000	9.3575
	MAMMOGRAPHY	.0060	.2685	.7643	.6189	.0170	1.8690	.0170	1.8690
	OTHER	2.6058	2.4125	2.6248	2.6486	7.5879	6.7147	7.5879	6.7147
	OTHER IMAGING	5.1324	5.8650	6.1944	5.2588	16.8526	14.6266	16.8526	14.6266
	OTHER MEDICINE	2.8227	4.4491	3.3211	4.0843	14.1024	11.0670	14.1024	11.0670
	PHYSICAL MEDICINE	3.1118	3.7636	4.1444	3.5456	9.5734	9.3007	9.5734	9.3007
	PROSTATE CANCER SCREENING	.0599	.1069	.0927	.1146	.2665	.2850	.2665	.2850
	SURGICAL	13.5477	16.3954	17.2559	16.0518	45.4180	45.1147	45.4180	45.1147
*****									
sum		74.8216	88.9013	89.4742	84.7553	248.3121	228.7635	248.3121	228.7635
sum		207.5749	246.8997	237.4375	237.5193	660.2535	627.9579	660.2535	627.9579

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES

NOTE: CLAIMS LISTED ARE ON A PAID BASIS

NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES



# *Monthly Management Report*

**PER CAPITA UTILIZATION**

**SEPTEMBER 2007**

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
 MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION  
 SEPTEMBER 2007  
 Page: 1

Reporting Category	Type of Service	Current Period 12 Months Encounters	Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0005	.0005	.0015	.0013
	MATERNITY	.0008	.0009	.0025	.0024
	MEDICAL AND SURGICAL	.0073	.0081	.0249	.0229
	NEONATAL COMPLICATIONS	.0003	.0003	.0009	.0008
sum	.0089	.0098	.0298	.0274	
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0025	.0032	.0073	.0078
	DIALYSIS	.0025	.0040	.0088	.0107
	EMERGENCY ROOM	.0215	.0261	.0667	.0656
	MATERNITY	.0018	.0024	.0052	.0060
sum	.1868	.2302	.6059	.5583	
PHARMACY		.2151	.2559	.6939	.6483
	sum	.8061	.7977	2.5259	2.4945
PROFESSIONAL SERVICES	ADVANCED IMAGING	.0212	.0232	.0672	.0595
	AMBULANCE	.0042	.0032	.0126	.0094
	ANESTHESIA	.0180	.0187	.0592	.0533
	BEHAVIORAL	.0378	.0379	.1169	.1005
	CARDIOVASCULAR MEDICINE	.0291	.0350	.0959	.0916
	CERVICAL CANCER SCREENING	.0072	.0094	.0216	.0259
	DIALYSIS	.0002	.0011	.0014	.0021
	DME	.0194	.0243	.0665	.0615
	EVALUATION AND MANAGEMENT	.4420	.5319	1.3804	1.3456
	IMMUNIZATION	.0195	.0157	.0624	.0364
	sum	.8061	.7977	2.5259	2.4945

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES  
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY  
 MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION  
 SEPTEMBER 2007

Page: 2

Reporting Category	Type of Service	Current Period 12 Months Encounters	Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
PROFESSIONAL SERVICES	INJECTION	.0232	.0265	.0727	.0672
	LAB AND PATHOLOGY	.1590	.1716	.4954	.4385
	MAMMOGRAPHY	.0002	.0182	.0007	.0442
	OTHER	.0336	.0273	.0954	.0705
	OTHER IMAGING	.1045	.1187	.3360	.2903
	OTHER MEDICINE	.0724	.0860	.2300	.2220
	PHYSICAL MEDICINE	.0987	.1276	.3203	.3027
	PROSTATE CANCER SCREENING	.0055	.0064	.0185	.0177
	SURGICAL	.0751	.0876	.2416	.2243
*****					
sum		1.1708	1.3703	3.6947	3.4633
sum		2.2009	2.4338	6.9443	6.6334

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES  
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

29 rows selected.



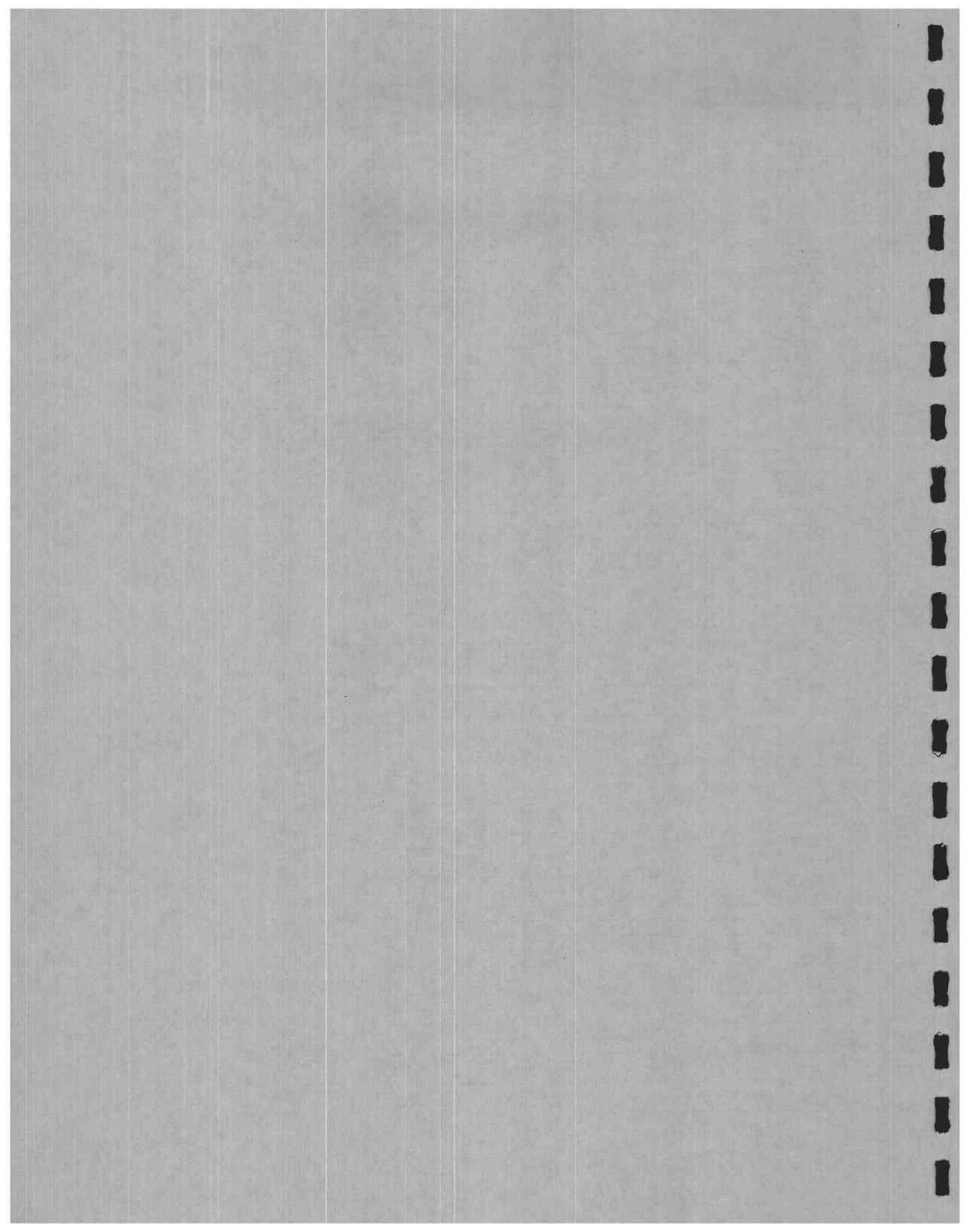
# *Prescription Drug Report*

*SEPTEMBER 2007*



WV PEIA - Monthly Trend

Plan Demographics	Jul-07	Aug-07	Sep-07	2007 - 2008 Fiscal	2006 - 2007 Fiscal	% Change
Total Drug Cost	\$10,960,871	\$12,272,768	\$11,763,965	\$34,997,604	\$36,396,768	-3.84%
Amount Paid By Plan Sponsor	\$6,215,895	\$8,937,669	\$8,981,276	\$24,134,840	\$25,994,221	-7.15%
Amount Paid By Members	\$4,744,976	\$3,335,099	\$2,782,689	\$10,862,764	\$10,402,547	4.42%
Total Claims	173,364	189,171	185,959	548,494	538,073	1.94%
Average Eligible Member	153,233	153,346	153,830	153,470	155,432	-1.26%
Average # of Rx's Per Member Per Month	1.13	1.23	1.21	1.19	1.15	3.24%
Plan Paid Per Member Per Month (PMPM)	\$40.56	\$58.28	\$59.38	\$52.42	\$55.75	-5.97%
Average Eligible Enrollees	71,040	71,016	71,168	71,075	72,557	-2.04%
Average # of Rx's Per Enrollee Per Month	2.44	2.66	2.61	2.57	2.47	4.06%
Plan Paid Per Enrollee Per Month (PEPM)	\$87.50	\$125.85	\$126.20	\$113.19	\$119.42	-5.22%
Rx Cost Share						
Avg. Claim Cost to Plan	\$35.85	\$47.25	\$48.30	\$44.00	\$48.31	-8.92%
AVg. Member Cost/Claim	\$27.37	\$17.63	\$14.86	\$19.80	\$19.33	2.44%
Percent member Cost Share	43.3%	27.2%	23.7%	31.0%	28.6%	8.60%
Average Ingredient Costs						
Single Source (no generics available)	\$148.07	\$153.44	\$152.42	\$151.37	\$132.48	14.25%
Multi-Source Brand (generics available)	\$36.87	\$35.67	\$35.91	\$36.15	\$40.74	-11.27%
Generic Drugs	\$19.58	\$20.40	\$20.52	\$20.18	\$24.83	-18.04%
Brand/Generic Dispensing Rates						
Single Source (no generics)	32.47%	32.02%	30.99%	31.81%	37.70%	-15.62%
Multi-Source Brand % (generics available)	1.11%	1.06%	1.00%	1.06%	1.26%	-15.93%
Generic Drug	66.41%	66.92%	68.01%	67.13%	61.04%	9.97%
Generics Dispensed when available	98.35%	98.44%	98.55%	98.45%	97.98%	0.48%
Percent of Plan Cost for Single Source	86.13%	82.11%	79.97%	82.35%	78.52%	4.88%
Retail Pharmacy Program						
Avg. Day Supply	32.4	33.1	32.3	32.6	32.3	0.86%
Avg. Plan Cost/Day Supply	\$1.09	\$1.41	\$1.48	\$1.34	\$1.48	-9.84%
Avg. Claim Cost to Plan	\$35.45	\$46.75	\$47.88	\$43.56	\$47.90	-9.07%
Avg. Member Cost / Claim	\$27.22	\$17.48	\$14.87	\$19.67	\$19.22	2.36%
Percent Member Cost Share	43.43%	27.22%	23.70%	31.11%	28.6%	8.66%
Special Maint Netwk (% of claims filled)	10.99%	11.88%	11.69%	11.53%	11.11%	3.78%
Other Maint (% of claims filled)	0.59%	0.64%	0.56%	0.80%	1.30%	-54.10%
Avg. Days Supply for Maint. Netwks	87.6	87.6	87.7	87.6	87.6	-0.05%
Total # Claims Fills 1-34 Days Supply	150,764	162,777	161,117	474,858	466,897	1.86%
Total # Claims Fills 35-60 Day Supply	1,150	1,353	1,203	3,706	3,699	0.19%
Total # Claims Fills 61-90 Day Supply	19,862	23,190	22,009	65,061	62,418	4.23%
Total # Claims Fills 91+ Day Supply	7	9	6	22	99	-77.76%
Mail Service Program						
Avg. Days Supply	71.0	72.0	70.8	71.3	72.2	-1.31%
Avg. Plan Cost/Days Supply	\$1.13	\$1.36	\$1.36	\$1.29	\$1.27	0.93%
Avg. Cost to Plan	\$79.89	\$97.90	\$96.19	\$91.71	\$92.06	-0.39%
Avg. Member Cost/Claim	\$44.18	\$32.72	\$25.80	\$34.08	\$31.64	7.73%
Percent Member Cost Share	35.61%	25.05%	21.15%	27.10%	25.6%	5.94%
Total # Claims Fill 1-34 Days Supply	511	553	525	1589	1,485	7.00%
Total # Claims Fills 35-60 Days Supply	2	5	3	10	15	-33.33%
Total # Claims Fills 61-90 Days Supply	1,068	1,284	1,096	3,448	3,460	-0.35%
Total # Claims Fills 91+ Day Supply	0	0	0	0		
Formulary Program						
S/S Formulary Drugs (% by claim)	23.70%	23.51%	22.91%	23.37%	25.05%	-6.71%
S/S Non-Formulary Drugs (% by claim)	8.77%	8.50%	8.08%	8.44%	12.65%	-33.25%
M/S Drugs (% by claim)	1.11%	1.06%	1.00%	1.06%	1.26%	-15.93%
Generic Drugs (% by Claim)	66.41%	66.92%	68.01%	67.13%	61.04%	9.97%
S/S Formulary Drugs (% by \$)	74.79%	70.16%	68.25%	70.64%	61.22%	15.39%
s/s non-Formulary Drugs (% by \$)	11.34%	11.96%	11.72%	11.71%	17.30%	-32.30%
M/S Drugs (% by \$)	0.28%	0.21%	0.21%	0.23%	0.41%	-45.29%
Generic Drugs (% by \$)	13.80%	17.88%	19.82%	17.43%	21.07%	-17.30%
Specialty Drugs						
Total Drug Cost	\$1,085,982	\$1,164,601	\$1,015,694	\$3,266,277	\$3,237,246	0.90%
Amount Paid by Plan Sponsor	\$1,030,966	\$1,127,423	\$986,334	\$3,144,723	\$3,092,774	1.68%
Amount Paid by Members	\$55,016	\$37,178	\$29,360	\$121,554	\$144,471	-15.86%
Total Claims	622	673	590	1,885	2,282	-17.40%
Avg # of Rx's per Member per Month	0.00	0.00	0.00	0.00	0.005	-18.34%
Plan Paid Per Member Per Month (PMPM)	\$6.73	\$7.35	\$6.41	\$6.83	\$6.63	2.98%
Avg Claim Cost to Plan	\$1,657.50	\$1,675.22	\$1,671.75	\$1,668.29	\$1,355.29	23.09%
Avg Claim Cost to Member	\$68.45	\$55.24	\$49.76	\$64.48	\$63.31	1.86%
Percent of Member Cost Share	5.07%	3.19%	2.89%	3.72%	4.46%	-16.61%
Percent of Overall Drug Spend	9.91%	9.49%	8.63%	9.33%	8.89%	4.93%





**Key Performance Indicators**  
Comprehensive Indicators  
WV Public Employees Ins - w/o AccessWV

Current Period: 09/2007 - 09/2007  
Previous Period: 09/2006 - 09/2006

	Current Period	Previous Period	% Change
<b>Overall Performance</b>			
Plan Cost PMPM	\$58.45	\$86.07	-32.1 %
Average Mbrs/Month	153,830	188,336	-18.3 %
Average Subs/Month	71,168	96,889	-26.5 %
% Utilizing Members	43.9 %	50.0 %	-12.3 %
% Retail Utilizing Members	43.6 %	49.7 %	-12.3 %
% Mail Utilizing Members	0.5 %	0.7 %	-25.0 %
<b>Rx Measures</b>			
Rxs PMPM	1.21	1.59	-23.7 %
Retail Rxs PMPM	1.20	1.57	-23.7 %
Mail Rxs PMPM	0.01	0.02	-31.0 %
Average Admin Fee/Rx	\$0.00	\$0.00	-67.3 %
Avg Retail Admin Fee/Rx	\$0.00	\$0.00	-67.4 %
Avg Mail Admin Fee/Rx	\$0.00	\$0.00	0.0 %
Average Plan Cost/Rx	\$48.28	\$54.24	-11.0 %
Avg Retail Plan Cost/Rx	\$47.86	\$53.82	-11.1 %
Avg Mail Plan Cost/Rx	\$96.19	\$96.61	-0.4 %
Average Mbr Contrib/Rx	\$14.98	\$13.68	9.5 %
Avg Retail Mbr Contrib/Rx	\$14.89	\$13.59	9.5 %
Avg Mail Mbr Contrib/Rx	\$25.80	\$22.49	14.7 %
Average Ing Cost/Rx	\$61.55	\$65.77	-6.4 %
Avg Retail Ing Cost/Rx	\$61.03	\$65.27	-6.5 %
Avg Mail Ing Cost/Rx	\$120.49	\$117.60	2.5 %
Average AWP/Rx	\$103.63	\$99.79	3.9 %
Avg Retail AWP/Rx	\$102.78	\$98.98	3.8 %
Avg Mail AWP/Rx	\$200.46	\$183.07	9.5 %
Average Days Supply/Rx	32.6	34.5	-5.6 %
Avg Retail Days/Rx	32.3	34.2	-5.6 %
Avg Mail Days/Rx	70.8	73.1	-3.1 %
Average Plan Cost/Day	\$1.48	\$1.57	-5.7 %
Avg Retail Plan Cost/Day	\$1.48	\$1.58	-5.8 %
Avg Mail Plan Cost/Day	\$1.36	\$1.32	2.8 %
% Plan Cost	76.3 %	79.9 %	-4.4 %
% Member Contribution	23.7 %	20.1 %	17.6 %
% Retail Plan Cost	76.3 %	79.8 %	-4.5 %
% Retail Mbr Contrib	23.7 %	20.2 %	17.7 %
% Mail Plan Cost	78.8 %	81.1 %	-2.8 %
% Mail Member Contrib	21.2 %	18.9 %	12.0 %





**Key Performance Indicators**  
**Comprehensive Indicators**

**WV Public Employees Ins - w/o AccessWV**

**Current Period: 09/2007 - 09/2007**  
**Previous Period: 09/2006 - 09/2006**

	Current Period	Previous Period	% Change
<b>Rx Sources</b>			
% Mail Rxs	0.9 %	1.0 %	-9.5 %
% Retail Rxs	99.1 %	99.0 %	0.2 %
% Member Submit Rxs	0.0 %	0.1 %	-89.7 %
<b>Rx Types</b>			
Avg SSB Plan Cost/Rx	\$124.52	\$110.46	12.7 %
Avg Retail SSB Plan Cost/Rx	\$123.85	\$109.78	12.8 %
Avg Mail SSB Plan Cost/Rx	\$186.99	\$170.43	9.7 %
Avg MSB Plan Cost/Rx	\$10.08	\$12.54	-19.7 %
Avg Retail MSB Plan Cost/Rx	\$10.14	\$12.58	-19.4 %
Avg Mail MSB Plan Cost/Rx	\$0.00	\$5.38	-100.0 %
Avg GEN Plan Cost/Rx	\$14.06	\$22.01	-36.1 %
Avg Retail GEN Plan Cost/Rx	\$13.85	\$21.83	-36.6 %
Avg Mail GEN Plan Cost/Rx	\$41.43	\$43.10	-3.9 %
% Single-Source Brand Rxs	31.0 %	36.6 %	-15.2 %
% Multi-Source Brand Rxs	1.0 %	1.2 %	-19.1 %
% Generic Rxs	68.0 %	62.2 %	9.3 %
% Retail Single-Source Brand	31.0 %	36.5 %	-15.2 %
% Retail Multi-Source Brand	1.0 %	1.2 %	-19.3 %
% Retail Generic	68.0 %	62.3 %	9.3 %
% Mail Single-Source Brand	37.8 %	42.2 %	-10.5 %
% Mail Multi-Source Brand	0.7 %	0.7 %	2.7 %
% Mail Generic	61.5 %	57.1 %	7.7 %
% Formulary Rxs	90.3 %	85.8 %	5.3 %
% Retail Formulary Rxs	90.3 %	85.8 %	5.3 %
% Mail Formulary Rxs	88.1 %	85.8 %	2.6 %
% DAW Rxs	0.7 %	0.9 %	-25.9 %
% Retail DAW Rxs	0.7 %	0.9 %	-26.0 %
% Mail DAW Rxs	1.3 %	1.6 %	-20.8 %
% Generic Conversion	98.6 %	98.1 %	0.5 %
% Retail GEN Conversion	98.6 %	98.0 %	0.5 %
% Mail GEN Conversion	98.9 %	98.9 %	0.1 %
<b>Period Totals</b>			
Total Plan Cost	\$8,991,119.89	\$16,210,574.11	-44.5 %
Retail Plan Cost	\$8,834,914.37	\$15,932,327.88	-44.5 %
Mail Plan Cost	\$156,205.52	\$278,246.23	-43.9 %
Total Member Contribution	\$2,789,859.23	\$4,087,837.88	-31.8 %
Retail Member Contrib	\$2,747,957.32	\$4,023,064.40	-31.7 %





**Key Performance Indicators**  
 Comprehensive Indicators

WV Public Employees Ins - w/o AccessWV

Current Period: 09/2007 - 09/2007  
 Previous Period: 09/2006 - 09/2006

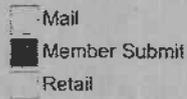
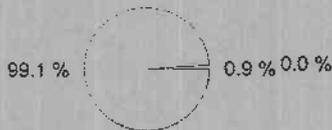
	Current Period	Previous Period	% Change
Mail Member Contrib	\$41,901.91	\$64,773.48	-35.3 %
Total Rx Count	186,222	298,895	-37.7 %
Retail Rx Count	184,584	295,797	-37.6 %
Member Submit Rxs	14	218	-93.6 %
Mail Rx Count	1,624	2,880	-43.6 %
Total Admin Fee	\$141.00	\$693.00	-79.7 %
Total UC Savings	\$6,434,636.60	\$9,814,737.72	-34.4 %
Total Lost Savings	\$10,770.88	\$19,150.14	-43.8 %

**Demographics**

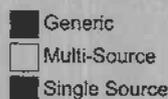
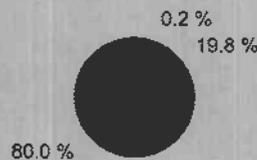
Average Age	38.8	45.3	-14.5 %
% Male Members	46.5 %	45.2 %	3.0 %
% Female Members	53.5 %	54.8 %	-2.5 %

**Graphs based on Current Period: 09/2007 - 09/2007**

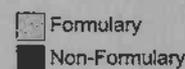
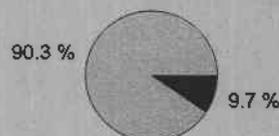
Claim Source by Rx Count



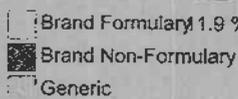
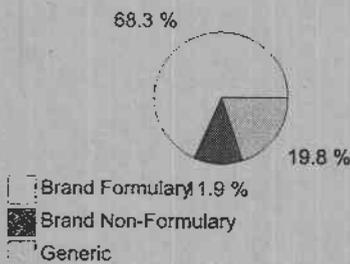
Drug Type by Plan Cost



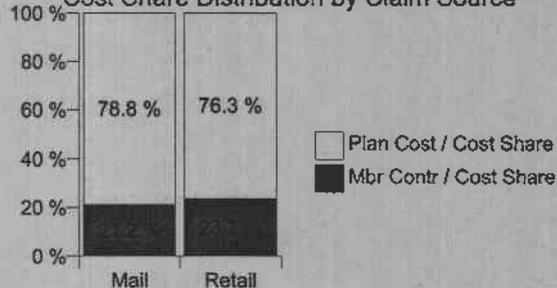
Formulary Status by Rx Count



Drug Formulary Status by Plan Cost



Cost Share Distribution by Claim Source





Utilization Report by Population Level  
 Prescriptions Filled From 09/2007 - 09/2007  
 WV Public Employees Ins - w/o AccessWV



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Div Name (DIV)	Avg Mbr Count	Avg Util Mbr/Mnth	Rx Count	Plan Cost	Member Contr/Rx	Plan Cost/Rx	Mail % Rxs	Gen % Rxs	Form % Rxs	Gen Conv %	PMPM Plan Cost
WV PUBLIC EMPLOYEES INSURANCE (WVA)	153,830	67,488	186,222	\$8,991,120	\$14.98	\$48.28	0.9 %	68.0 %	90.3 %	98.6 %	\$58.45
<b>Grand Total</b>	<b>153,830</b>		<b>186,222</b>	<b>\$8,991,120</b>	<b>\$14.98</b>	<b>\$48.28</b>	<b>0.9 %</b>	<b>68.0 %</b>	<b>90.3 %</b>	<b>98.6 %</b>	<b>\$58.45</b>



Utilization Report by Population Level  
 Prescriptions Filled From 09/2007 - 09/2007  
 WV Public Employees Ins - w/o AccessWV



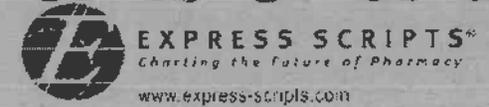
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WV PUBLIC EMPLOYEES INSURANCE (WVA)

Reporting Level 1	Avg Mbr Count	Avg Util Mbr/Mnth	Rx Count	Plan Cost	Member Contr/Rx	Plan Cost/Rx	Mail % Rxs	Gen % Rxs	Form % Rxs	Gen Conv %	PMPM Plan Cost
STATE (1000)	132,854	58.662	161,988	\$7,931,874.88	\$15.08	\$48.97	0.8 %	67.6 %	90.1 %	98.5 %	\$59.70
NON STATE (2000)	20,625	8.645	23,639	\$1,013,004.92	\$14.26	\$42.86	1.2 %	70.9 %	91.6 %	98.8 %	\$49.12
COBRA (3000)	351	181	595	\$46,240.09	\$15.63	\$77.71	0.0 %	60.7 %	87.7 %	98.1 %	\$131.74
<b>Grand Total</b>	<b>153,830</b>		<b>186,222</b>	<b>\$8,991,120</b>	<b>\$14.98</b>	<b>\$48.28</b>	<b>0.9 %</b>	<b>68.0 %</b>	<b>90.3 %</b>	<b>98.5 %</b>	<b>\$56.45</b>



Utilization Report by Population Level  
 Prescriptions Filled From 09/2007 - 09/2007  
 WV Public Employees Ins - w/o AccessWV



WV PUBLIC EMPLOYEES INSURANCE (WVA)

Reporting Level 2	Avg Mbr Count	Avg Util Mbr/Mnth	Rx Count	Plan Cost	Member Contr/Rx	Plan Cost/Rx	Mail % Rxs	Gen % Rxs	Form % Rxs	Gen Conv %	PMPM Plan Cost
STATE AGENCIES (01)	117,115	50,158	134,871	\$6,484,578.10	\$15.06	\$48.08	0.8 %	67.8 %	90.0 %	98.5 %	\$55.37
STATE RETIREES (07)	12,498	7,756	25,568	\$1,391,725.56	\$14.89	\$54.43	1.0 %	66.0 %	90.8 %	98.4 %	\$111.36
NON STATE AGENCIES (02)	17,540	7,316	19,802	\$858,226.17	\$13.90	\$43.34	1.1 %	70.9 %	91.4 %	98.8 %	\$48.93
NON STATE RETIREES (08)	862	544	1,951	\$100,693.13	\$13.32	\$51.61	1.9 %	67.9 %	92.6 %	98.7 %	\$116.81
STATE AGENCIES (01B)	3,237	747	1,546	\$54,870.90	\$20.42	\$35.49	1.7 %	71.7 %	89.4 %	98.9 %	\$16.95
NON STATE AGENCIES PLAN B (02B)	2,220	785	1,886	\$54,085.62	\$19.01	\$28.68	1.4 %	74.9 %	92.6 %	99.3 %	\$24.36
COBRA (COBRA)	351	181	595	\$46,240.09	\$15.63	\$77.71	0.0 %	60.7 %	87.7 %	98.1 %	\$131.74
STATE RETIREES ASST 60 (0760)	4	1	3	\$700.32	\$45.00	\$233.44	0.0 %	0.0 %	100.0 %	0.0 %	\$175.08
NON STATE RETIREES 60 (0860)	1	NA	NA	\$0.00	NA	NA	NA	NA	NA	NA	NA
TEST GROUP (XXXX)	2	NA	NA	\$0.00	NA	NA	NA	NA	NA	NA	NA
<b>Grand Total</b>	<b>153,830</b>		<b>186,222</b>	<b>\$8,991,120</b>	<b>\$14.98</b>	<b>\$48.28</b>	<b>0.9 %</b>	<b>68.0 %</b>	<b>90.3 %</b>	<b>98.6 %</b>	<b>\$58.45</b>



West Virginia Board of Risk and Insurance Management  
UNAUDITED BALANCE SHEET

**DRAFT**

	September 30	
	2007	2006
<b>ASSETS</b>		
Short Term Assets		
Cash and Equivalents	\$ 31,669,286	\$ 30,651,336
Advance Deposit with Carrier/Trustee	126,899,160	98,497,808
Receivables - Net	2,964,414	1,543,705
Prepaid Insurance	3,464,716	3,517,768
<b>Total Short Term Assets</b>	<b>164,997,576</b>	<b>134,210,617</b>
Long Term Assets		
Investments	118,931,349	110,019,653
<b>Total Long Term Assets</b>	<b>118,931,349</b>	<b>110,019,653</b>
<b>TOTAL ASSETS</b>	<b>283,928,925</b>	<b>244,230,270</b>
<b>LIABILITIES</b>		
Short Term Liabilities		
Accounts payable	2,049,052	1,208,800
Claims Payable	140,279	75,076
Agents Commissions Payable	2,481,507	513,659
Unearned Revenue	9,853,427	10,934,810
Current Estimated Claim Reserve	54,853,556	51,706,302
<b>Total Short Term Liabilities</b>	<b>69,377,821</b>	<b>64,438,647</b>
Long Term Liabilities		
Compensated Absences	200,147	163,620
Estimated Noncurrent Claim Reserve	108,657,526	124,962,701
<b>Total Long Term Liabilities</b>	<b>108,857,673</b>	<b>125,126,321</b>
<b>TOTAL LIABILITIES</b>	<b>178,235,494</b>	<b>189,564,968</b>
Prior Year Net Assets	97,546,877	44,843,685
Current Year Earnings	8,146,554	9,821,617
<b>TOTAL NET ASSETS</b>	<b>105,693,431</b>	<b>54,665,302</b>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<b>\$ 283,928,925</b>	<b>\$ 244,230,270</b>

DRAFT - Unaudited - Management Purposes Only

11/14/07

West Virginia Board of Risk and Insurance Management  
**UNAUDITED INCOME STATEMENT**  
 For the three months ending

**DRAFT**

	September 30	
	2007	2006
Operating Revenues		
Premium Revenues	\$ 18,700,472	\$ 20,480,348
Less - Excess Insurance	(1,154,515)	(1,527,471)
Total Operating Revenues	17,545,957	18,952,877
Operating Expenses		
Claims Expense	13,358,418	13,038,361
Property & MS Claims Expense	110,508	1,618,642
Personal Services	345,521	324,772
Operating Expenses	669,019	778,698
Total Operating Expenses	14,483,466	15,760,473
Operating Income	3,062,491	3,192,404
Nonoperating Revenues		
Court Fees	8,210	7,260
Claim Interest Income	-	-
Investment Income	5,075,853	6,621,953
Total Nonoperating Revenues	5,084,063	6,629,213
Net Income	8,146,554	9,821,617

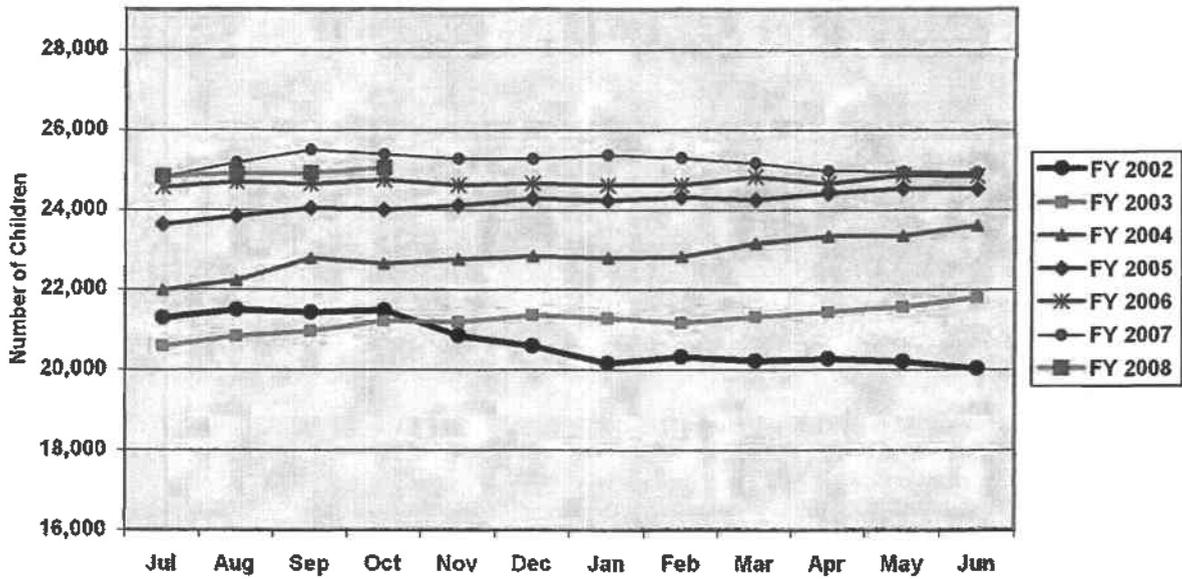


**West Virginia  
Children's Health Insurance Program  
1018 Kanawha Boulevard East  
Suite 209  
Charleston, WV 25301  
Phone: 304-558-2732  
Toll-Free: 1-877-WVA CHIP  
Fax: 304-558-2741  
[www.wvchip.org](http://www.wvchip.org)**

# **Joint Committee on Government and Finance Report**

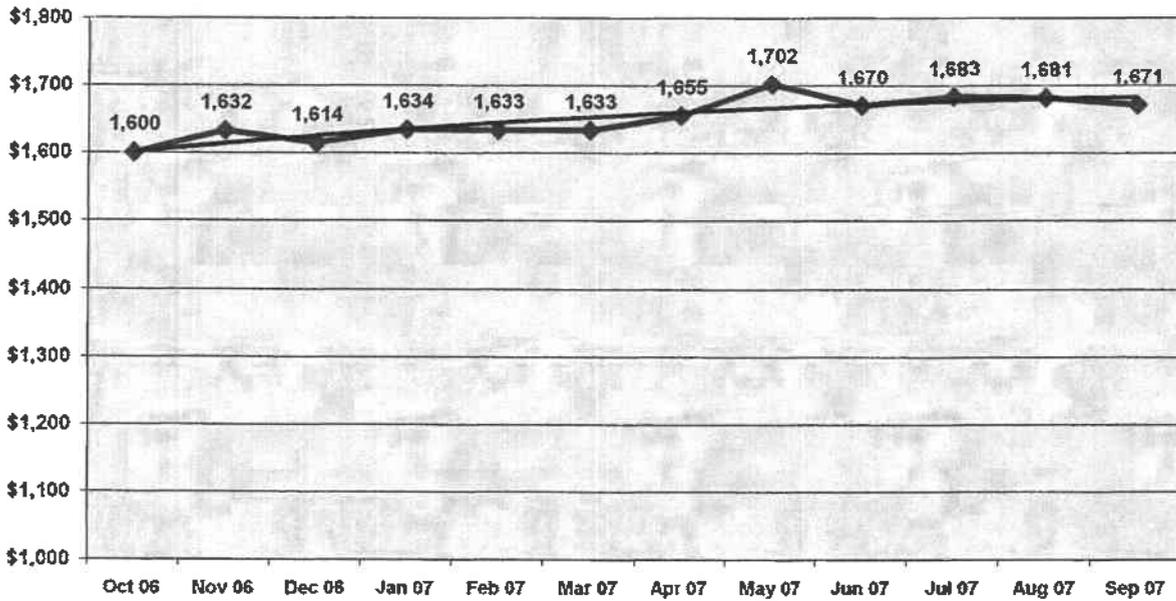
**November 2007**

### WV CHIP Enrollment



October 31, 2007 Enrollment 25,045

### Annualized Health Care Expenditures (Cost per Child)



**West Virginia Children's Health Insurance Program**  
**Comparative Balance Sheet**  
**September 30, 2007 and 2006**  
 (Accrual Basis)

	September 30, 2007	September 30, 2006	Variance	
<b>Assets:</b>				
Cash & Cash Equivalents	\$5,280,671	\$1,607,055	\$3,673,616	229%
Due From Federal Government	\$2,924,859	\$3,601,813	(\$676,954)	-19%
Due From Other Funds	\$687,416	\$637,154	\$50,262	8%
Accrued Interest Receivable	\$20,946	\$8,395	\$12,551	150%
Fixed Assets, at Historical Cost	<u>\$63,011</u>	<u>\$63,071</u>	(\$60)	0%
<b>Total Assets</b>	<u>\$8,976,904</u>	<u>\$5,917,488</u>	<u>\$3,059,416</u>	<u>52%</u>
<b>Liabilities:</b>				
Due to Other Funds	\$92,275	\$79,405	\$12,870	16%
Deferred Revenue	\$981,900	\$1,276,374	(\$294,474)	-23%
Unpaid Insurance Claims Liability	<u>\$3,520,000</u>	<u>\$3,290,000</u>	<u>\$230,000</u>	<u>7%</u>
<b>Total Liabilities</b>	<u>\$4,594,175</u>	<u>\$4,645,779</u>	(\$51,604)	-1%
<b>Fund Equity</b>	<u>\$4,382,728</u>	<u>\$1,271,709</u>	<u>\$3,111,019</u>	<u>245%</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$8,976,904</u>	<u>\$5,917,488</u>	<u>\$3,059,416</u>	<u>52%</u>

**PRELIMINARY FINANCIAL STATEMENTS**

Unaudited - For Management Purposes Only - Unaudited

**West Virginia Children's Health Insurance Program**  
**Comparative Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Three Months Ending September 30, 2007 and September 30, 2006**  
**(Modified Accrual Basis)**

	September 30, 2007	September 30, 2006	Variance	
<b>Revenues:</b>				
Federal Grants	8,537,543	8,428,508	109,035	1%
State Appropriations	2,193,799	2,193,340	459	0%
Premium Revenues	15,099	-	15,099	
Investment Earnings	<u>64,943</u>	<u>16,501</u>	<u>48,442</u>	294%
<b>Total Operating Revenues</b>	<b><u>10,811,384</u></b>	<b><u>10,638,349</u></b>	<b><u>173,035</u></b>	<b><u>2%</u></b>
<b>Operating Expenditures:</b>				
<b>Claims:</b>				
Outpatient Services	2,418,617	2,341,893	76,724	3%
Physicians & Surgical	1,929,324	2,119,154	(189,830)	-9%
Prescribed Drugs	1,887,300	1,803,046	84,254	5%
Dental	1,321,104	1,256,299	64,805	5%
Inpatient Hospital Services	896,652	1,171,988	(275,336)	-23%
Vision	299,756	343,998	(44,242)	-13%
Outpatient Mental Health	244,635	319,953	(75,318)	-24%
Durable & Disposable Med. Equip.	90,371	123,489	(33,118)	-27%
Therapy	89,286	93,517	(4,231)	-5%
Inpatient Mental Health	71,238	196,100	(124,862)	-64%
Medical Transportation	68,328	104,121	(35,793)	-34%
Other Services	15,948	47,338	(31,390)	-66%
Less: Collections*	<u>(226,078)</u>	<u>(208,426)</u>	<u>(17,652)</u>	8%
<b>Total Claims</b>	<b><u>9,106,481</u></b>	<b><u>9,712,470</u></b>	<b><u>(605,989)</u></b>	<b><u>-6%</u></b>
<b>General and Admin Expenses:</b>				
Salaries and Benefits	129,390	121,990	7,400	6%
Program Administration	552,052	477,303	74,749	16%
Eligibility	86,251	64,649	21,602	33%
Outreach & Health Promotion	4,153	6,643	(2,490)	-37%
Current	<u>35,447</u>	<u>10,962</u>	<u>24,485</u>	<u>223%</u>
<b>Total Administrative</b>	<b><u>807,293</u></b>	<b><u>681,547</u></b>	<b><u>125,746</u></b>	<b><u>18%</u></b>
<b>Total Expenditures</b>	<b><u>9,913,774</u></b>	<b><u>10,394,017</u></b>	<b><u>(480,243)</u></b>	<b><u>-5%</u></b>
<b>Excess of Revenues</b>				
Over (Under) Expenditures	897,610	244,332	653,278	267%
<b>Fund Equity, Beginning</b>	<b><u>3,485,118</u></b>	<b><u>1,027,377</u></b>	<b><u>2,457,741</u></b>	<b><u>239%</u></b>
<b>Fund Equity, Ending</b>	<b><u>4,382,728</u></b>	<b><u>1,271,709</u></b>	<b><u>3,111,019</u></b>	<b><u>245%</u></b>

\* Collections are primarily drug rebates and subrogation

\* State Appropriations restated in prior year to actual draw deposited

## PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program  
 Budget to Actual Statement  
 State Fiscal Year 2008  
 For the Three Months Ended September 30, 2007

	Budgeted for Year	Year to Date Budgeted Amt	Year to Date Actual Amt	Year to Date Variance*		Monthly Budgeted Amt	Sep-07	Aug-07	Jul-07
Projected Cost	\$49,020,492	\$12,255,123	\$8,932,307	\$3,322,816	27%	\$4,085,041	\$2,408,572	\$3,685,635	\$2,838,101
Premiums	136,290	\$34,073	15,099	\$18,974	-56%	11,358	5,453	5,529	4,117
Medical Copays	576,800	\$144,200	0	144,200	-100%	48,067			
Drug Copays	489,250	\$122,313	0	122,313	-100%	40,771			
Subrogation & Rebates	<u>760,000</u>	<u>190,000</u>	<u>226,078</u>	<u>(36,078)</u>	19%	<u>63,333</u>	<u>55,366</u>	<u>72,324</u>	<u>98,388</u>
Net Benefit Cost	47,058,152	\$11,764,538	\$8,691,130	\$3,073,408	26%	3,921,513	2,347,753	3,607,782	2,735,596
Salaries & Benefits	\$519,673	\$129,918	\$129,389	\$529	0%	\$43,306	\$40,243	\$41,241	\$47,905
Program Administration	2,166,796	541,699	537,928	3,771	1%	180,566	189,848	306,071	42,009
Eligibility	340,055	85,014	87,339	(2,325)	-3%	28,338	80,693	0	6,846
Outreach	27,157	6,789	3,052	3,737	55%	2,263	1,780	611	661
Current Expense	<u>287,741</u>	<u>71,935</u>	<u>37,255</u>	<u>34,681</u>	48%	<u>23,978</u>	<u>18,320</u>	<u>7,534</u>	<u>11,401</u>
Total Admin Cost	\$3,341,422	\$835,356	\$794,963	\$40,392	5%	\$278,452	\$330,884	\$355,457	\$108,622
Total Program Cost	<u>\$50,399,574</u>	<u>\$12,599,894</u>	<u>\$9,486,093</u>	<u>\$3,113,800</u>	25%	<u>\$4,199,965</u>	<u>\$2,678,637</u>	<u>\$3,963,239</u>	<u>\$2,844,218</u>
Federal Share 80.97%	40,823,655	\$10,205,914	\$7,692,273	2,513,641	25%	3,401,971	2,172,107	3,213,790	2,306,376
State Share 19.03%	<u>9,575,919</u>	<u>\$2,393,980</u>	<u>\$1,793,820</u>	<u>600,160</u>	25%	<u>797,993</u>	<u>506,530</u>	<u>749,448</u>	<u>537,842</u>
Total Program Cost	<u>\$50,399,574</u>	<u>\$12,599,894</u>	<u>\$9,486,093</u>	<u>\$3,113,800</u>	25%	<u>\$4,199,965</u>	<u>\$2,678,637</u>	<u>\$3,963,239</u>	<u>\$2,844,218</u>

\* Positive percentages indicate favorable variances

\*\* Budgeted Year Based on CCRC Actuary 6/30/2007 Report.

Please note: Medical and Drug Co-pay figures are incomplete.

Unaudited - Cash Basis For Management Purposes Only - Unaudited

# WV CHIP Enrollment Report

ATTACHMENT 1

October 2007

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Oct-07	Total Medicaid Enrollment Oct-07	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Barbour	3,248	307	1,518	1,825	56.2%	92.5%	34	255
Berkeley	22,882	1,130	4,967	6,097	26.6%	93.9%	21	1,084
Boone	5,706	322	2,434	2,756	48.3%	97.9%	4	133
Braxton	3,044	210	1,514	1,724	56.6%	95.6%	13	155
Brooke	4,658	299	1,375	1,674	35.9%	98.5%	3	0**
Cabell	18,900	998	7,573	8,571	45.3%	91.6%	39	1,218
Calhoun	1,389	132	781	913	65.7%	88.0%	52	207
Clay	2,454	205	1,313	1,518	61.8%	95.1%	15	94
Doddridge	1,607	128	676	804	50.0%	96.4%	6	60
Fayette	9,692	951	4,543	5,494	56.7%	92.1%	36	706
Gilmer	1,154	96	553	649	56.3%	92.8%	32	115
Grant	2,463	158	855	1,013	41.1%	95.8%	11	82
Greenbrier	7,110	578	2,591	3,169	44.6%	94.8%	17	306
Hampshire	5,110	288	1,696	1,984	38.8%	91.3%	40	295
Hancock	6,270	412	2,065	2,477	39.5%	92.9%	31	443
Hardy	2,950	143	949	1,092	37.0%	93.6%	26	200
Harrison	14,973	936	5,598	6,534	43.6%	99.9%	1	0**
Jackson	6,277	386	2,233	2,619	41.7%	93.9%	22	340
Jefferson	11,465	432	1,899	2,331	20.3%	93.9%	23	651
Kanawha	40,647	2,111	15,746	17,857	43.9%	96.4%	7	772
Lewis	3,577	298	1,726	2,024	56.6%	88.0%	53	431
Lincoln	4,945	411	2,376	2,787	56.4%	93.3%	27	327
Logan	7,610	545	3,743	4,288	56.3%	92.1%	37	654
Marion	11,245	792	4,019	4,811	42.8%	95.9%	10	516
Marshall	7,176	423	2,601	3,024	42.1%	97.5%	5	217
Mason	5,461	347	2,238	2,585	47.3%	95.7%	12	249
McDowell	5,170	422	3,242	3,664	70.9%	93.8%	25	373
Mercer	12,687	1,107	6,206	7,313	57.6%	91.0%	41	1,268
Mineral	5,973	309	1,871	2,180	36.5%	90.7%	43	251
Mingo	6,204	433	3,129	3,562	57.4%	88.5%	51	566
Monongalia	14,346	711	3,753	4,464	31.1%	92.6%	33	1,144
Monroe	2,728	252	875	1,127	41.3%	93.1%	29	196
Morgan	3,365	226	934	1,160	34.5%	89.2%	49	285
Nicholas	5,478	462	2,400	2,862	52.2%	94.4%	19	324
Ohio	9,068	483	2,924	3,407	37.6%	95.6%	14	480
Pendleton	1,632	119	385	504	30.9%	99.0%	2	19
Pleasants	1,593	108	455	563	35.3%	93.9%	24	88
Pocahontas	1,717	151	627	778	45.3%	87.7%	54	224
Preston	6,354	542	2,182	2,724	42.9%	90.2%	47	236
Putnam	12,522	623	3,004	3,627	29.0%	93.2%	28	486
Raleigh	15,992	1,302	6,398	7,700	48.1%	91.7%	38	1,395
Randolph	5,971	498	2,300	2,798	46.9%	89.7%	48	653
Ritchie	2,234	159	785	944	42.2%	96.2%	9	81
Roane	3,266	282	1,570	1,852	56.7%	90.5%	44	336
Summers	2,322	238	1,094	1,332	57.4%	88.9%	50	315
Taylor	3,307	228	1,366	1,594	48.2%	90.9%	42	356
Tucker	1,354	165	424	589	43.5%	93.1%	30	103
Tyler	1,887	107	845	952	50.5%	94.9%	16	93

# WV CHIP Enrollment Report

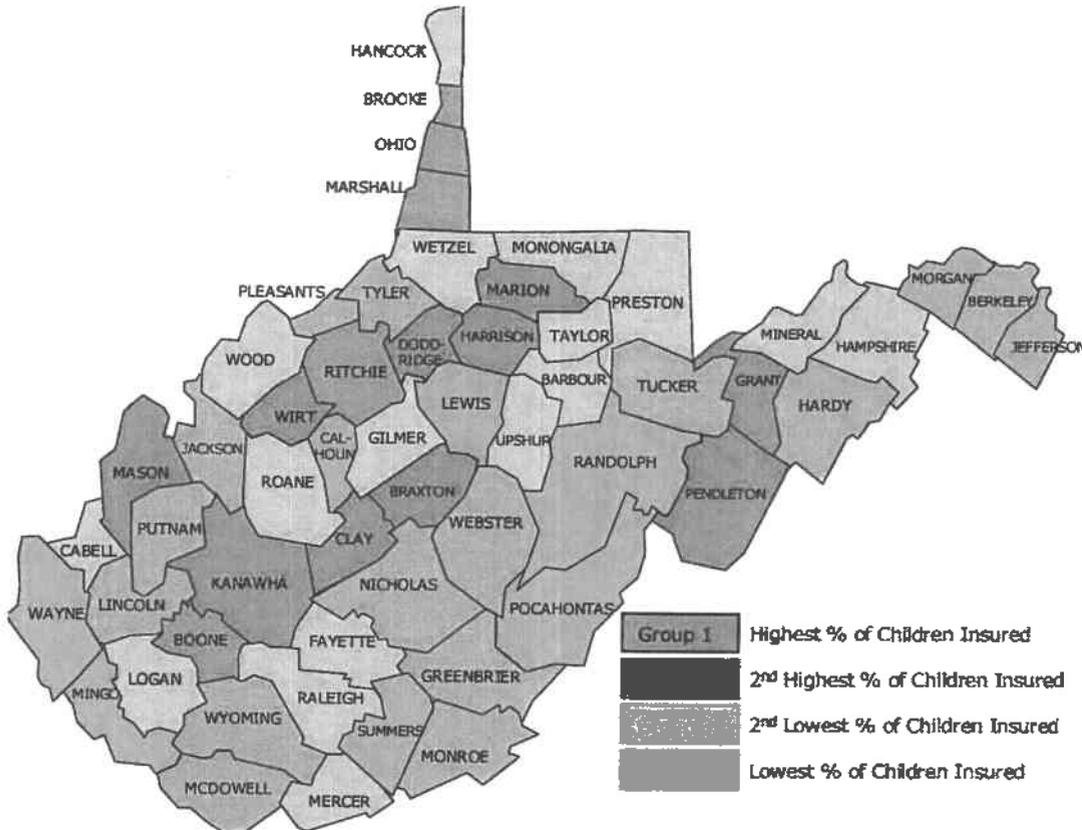
ATTACHMENT 1

October 2007

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Oct-07	Total Medicaid Enrollment Oct-07	Total CHIP/Medicaid Enrollment	CHIP/Medicaid % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Upshur	4,956	401	2,112	2,513	50.7%	90.4%	46	547
Wayne	9,176	567	3,966	4,533	49.4%	87.7%	55	1,034
Webster	2,020	199	1,034	1,233	61.1%	94.7%	18	103
Wetzel	3,732	225	1,562	1,787	47.9%	92.5%	35	334
Wirt	1,268	132	522	654	51.6%	96.3%	8	46
Wood	19,063	1,115	7,379	8,494	44.6%	90.5%	45	1,624
Wyoming	5,092	441	2,662	3,103	60.9%	94.0%	20	231
<b>Totals</b>	<b>382,490</b>	<b>25,045</b>	<b>143,588</b>	<b>168,633</b>	<b>44.1%</b>	<b>93.4%</b>		<b>22,446</b>

\*Based on data from "Health Insurance in West Virginia: The Children's Report" – a survey by The Institute for Health Policy Research at the West Virginia University Robert C. Byrd Science Center

\*\*There may be some uninsured eligible children in these counties, but according to the results of the survey sampling none were found.

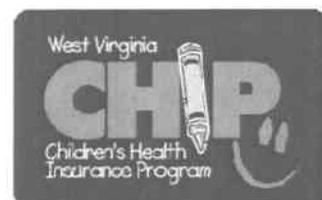


Legislative Oversight Commission on  
Health and Human Resources Accountability

*November 2007*

Department of Administration

State Children's Health Insurance Program  
UPDATE



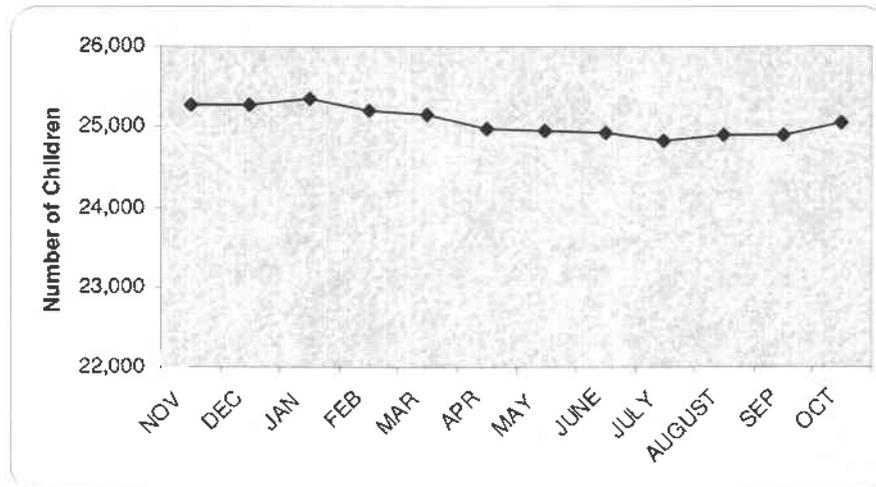
# WV CHILDREN'S HEALTH INSURANCE AGENCY

## REPORT FOR NOVEMBER 2007

### I. Enrollment on October 31, 2007: 25,045

See Attachment 1 for enrollment by county.

Current 12-Month Enrollment Period: November 2006 through October 2007



Enrollee Totals: August 2007 to October 2007

Month	Total	1 Year	Total
August	1,856	Average	1,789
September	1,778	High	2,084
October	1,658	Low	1,493

New Enrollee (Never Before on CHIP) Totals: August 2007 to October 2007

Month	Total	1 Year	Total
August	750	Average	793
September	812	High	917
October	732	Low	668

### II. Re-enrollment for 3 Month Period: August 2007 to October 2007

Total Forms Mailed		Enrolled within Notice Period		Reopened Cases After Closure		Final Closures	
Month	Total	#	%	#	%	#	%
August	2,150	1,283	60%	252	12%	615	29%
September	1,936	1,093	56%	268	14%	575	30%
October	1,863	1,112	60%	223	12%	528	28%

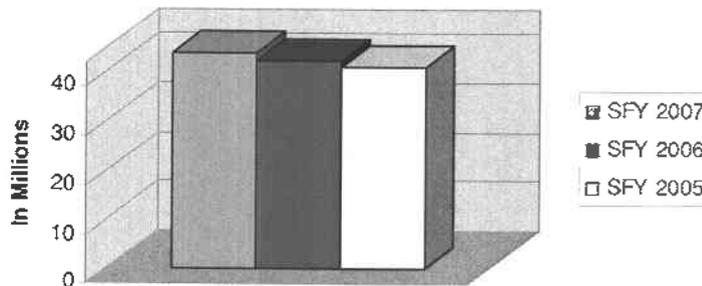
**III. Financial Activity**

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

The average annualized claims cost per child for the month ended September 2007 was \$1,799.

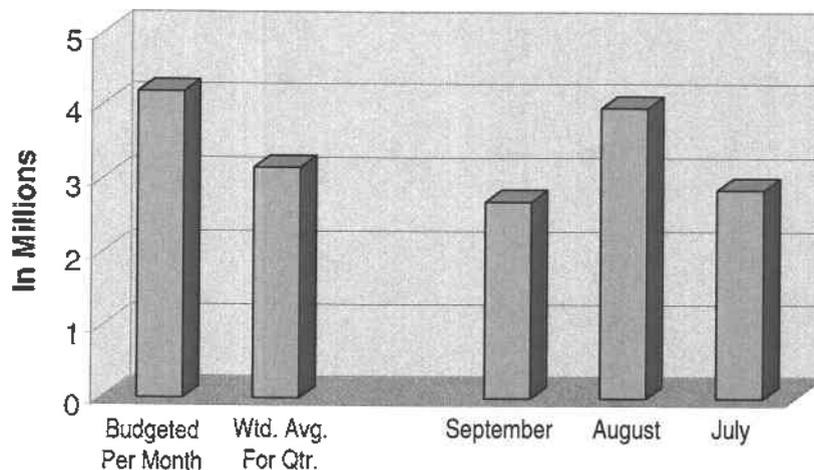
**Annual Expenditures for a 3 Year Period: SFY 2005 – SFY 2007**

	SFY 2007	FFP% 2007	SFY 2006	FFP% 2006	SFY 2005	FFP% 2005
Federal	35,472,537	80.97	34,247,276	81.09	33,767,136	82.26
State	8,336,944	19.03	7,986,385	18.91	7,235,862	17.74
<b>Total Costs</b>	<b>43,809,481</b>	<b>100.00</b>	<b>42,233,661</b>	<b>100.00</b>	<b>41,002,998</b>	<b>100.00</b>



**Monthly Budgeted and Current 3 Month Period: July 2007 – September 2007**

	Budgeted Per Month	Wtd. Avg. For Qtr.	Actual		
			September 2007	August 2007	July 2007
Federal	3,401,971	2,562,953	2,172,107	3,213,790	2,302,963
State	797,994	599,078	506,530	749,449	541,255
<b>Total</b>	<b>4,199,965</b>	<b>3,162,031</b>	<b>2,678,637</b>	<b>3,963,239</b>	<b>2,844,218</b>



**IV. Other Highlights**

**FEDERAL FUNDING UPDATE**

Although a revised SCHIP reauthorization bill was again passed by Congress in early November, it fell short of votes needed in the House to override a Presidential veto. The current Contingency Resolution for continued SCHIP funds now expires December 14<sup>th</sup>. When Congress returns after the Thanksgiving recess, they will again take up discussions on SCHIP reauthorization, but recent reports on negotiations indicate that chances for reaching a compromise are dimming. This may mean that SCHIP would be funded through the entire year (as has happened with some other programs) through continuing resolutions.

# WV CHIP Enrollment Report

ATTACHMENT 1

October 2007

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Oct-07	Total Medicaid Enrollment Oct-07	Total CHIP/Medicaid Enrollment	CHIP/Medicaid % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Barbour	3,248	307	1,518	1,825	56.2%	92.5%	34	255
Berkeley	22,882	1,130	4,967	6,097	26.6%	93.9%	21	1,084
Boone	5,706	322	2,434	2,756	48.3%	97.9%	4	133
Braxton	3,044	210	1,514	1,724	56.6%	95.6%	13	155
Brooke	4,658	299	1,375	1,674	35.9%	98.5%	3	0**
Cabell	18,900	998	7,573	8,571	45.3%	91.6%	39	1,218
Calhoun	1,389	132	781	913	65.7%	88.0%	52	207
Clay	2,454	205	1,313	1,518	61.8%	95.1%	15	94
Doddridge	1,607	128	676	804	50.0%	96.4%	6	60
Fayette	9,692	951	4,543	5,494	56.7%	92.1%	36	706
Gilmer	1,154	96	553	649	56.3%	92.8%	32	115
Grant	2,463	158	855	1,013	41.1%	95.8%	11	82
Greenbrier	7,110	578	2,591	3,169	44.6%	94.8%	17	306
Hampshire	5,110	288	1,696	1,984	38.8%	91.3%	40	295
Hancock	6,270	412	2,065	2,477	39.5%	92.9%	31	443
Hardy	2,950	143	949	1,092	37.0%	93.6%	26	200
Harrison	14,973	936	5,598	6,534	43.6%	99.9%	1	0**
Jackson	6,277	386	2,233	2,619	41.7%	93.9%	22	340
Jefferson	11,465	432	1,899	2,331	20.3%	93.9%	23	651
Kanawha	40,647	2,111	15,746	17,857	43.9%	96.4%	7	772
Lewis	3,577	298	1,726	2,024	56.6%	88.0%	53	431
Lincoln	4,945	411	2,376	2,787	56.4%	93.3%	27	327
Logan	7,610	545	3,743	4,288	56.3%	92.1%	37	654
Marion	11,245	792	4,019	4,811	42.8%	95.9%	10	516
Marshall	7,176	423	2,601	3,024	42.1%	97.5%	5	217
Mason	5,461	347	2,238	2,585	47.3%	95.7%	12	249
McDowell	5,170	422	3,242	3,664	70.9%	93.8%	25	373
Mercer	12,687	1,107	6,206	7,313	57.6%	91.0%	41	1,268
Mineral	5,973	309	1,871	2,180	36.5%	90.7%	43	251
Mingo	6,204	433	3,129	3,562	57.4%	88.5%	51	566
Monongalia	14,346	711	3,753	4,464	31.1%	92.6%	33	1,144
Monroe	2,728	252	875	1,127	41.3%	93.1%	29	196
Morgan	3,365	226	934	1,160	34.5%	89.2%	49	285
Nicholas	5,478	462	2,400	2,862	52.2%	94.4%	19	324
Ohio	9,068	483	2,924	3,407	37.6%	95.6%	14	480
Pendleton	1,632	119	385	504	30.9%	99.0%	2	19
Pleasants	1,593	108	455	563	35.3%	93.9%	24	88
Pocahontas	1,717	151	627	778	45.3%	87.7%	54	224
Preston	6,354	542	2,182	2,724	42.9%	90.2%	47	236
Putnam	12,522	623	3,004	3,627	29.0%	93.2%	28	486
Raleigh	15,992	1,302	6,398	7,700	48.1%	91.7%	38	1,395
Randolph	5,971	498	2,300	2,798	46.9%	89.7%	48	653
Ritchie	2,234	159	785	944	42.2%	96.2%	9	81
Roane	3,266	282	1,570	1,852	56.7%	90.5%	44	336
Summers	2,322	238	1,094	1,332	57.4%	88.9%	50	315
Taylor	3,307	228	1,366	1,594	48.2%	90.9%	42	356
Tucker	1,354	165	424	589	43.5%	93.1%	30	103
Tyler	1,887	107	845	952	50.5%	94.9%	16	93

# WV CHIP Enrollment Report

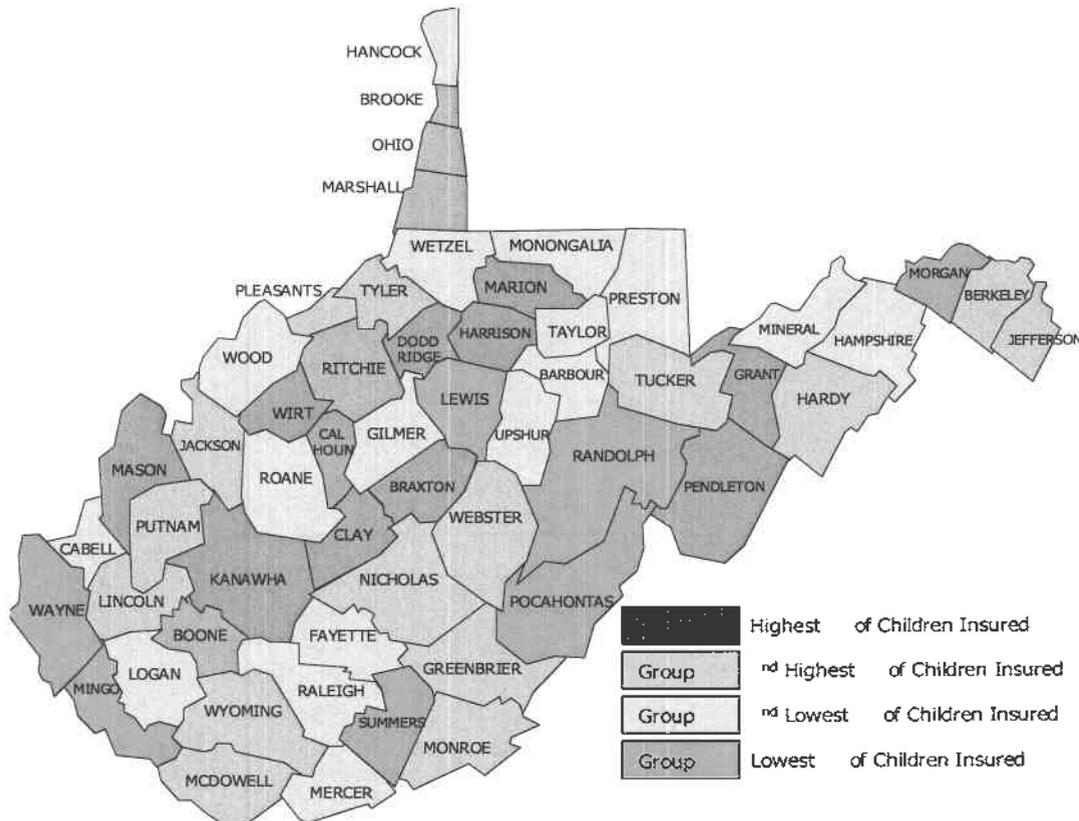
ATTACHMENT 1

October 2007

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Oct-07	Total Medicaid Enrollment Oct-07	Total CHIP/Medicaid Enrollment	CHIP/Medicaid % of Population	Total % Insured 3/2002*	# Children Insured Ranking*	Est. # Uninsured Eligible*
Upshur	4,956	401	2,112	2,513	50.7%	90.4%	46	547
Wayne	9,176	567	3,966	4,533	49.4%	87.7%	55	1,034
Webster	2,020	199	1,034	1,233	61.1%	94.7%	18	103
Wetzel	3,732	225	1,562	1,787	47.9%	92.5%	35	334
Wirt	1,268	132	522	654	51.6%	96.3%	8	46
Wood	19,063	1,115	7,379	8,494	44.6%	90.5%	45	1,624
Wyoming	5,092	441	2,662	3,103	60.9%	94.0%	20	231
<b>Totals</b>	<b>382,490</b>	<b>25,045</b>	<b>143,588</b>	<b>168,633</b>	<b>44.1%</b>	<b>93.4%</b>		<b>22,446</b>

\*Based on data from "Health Insurance in West Virginia: The Children's Report" – a survey by The Institute for Health Policy Research at the West Virginia University Robert C. Byrd Science Center

\*\*There may be some uninsured eligible children in these counties, but according to the results of the survey sampling none were found.



**West Virginia Children's Health Insurance Program**  
**Comparative Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Three Months Ending September 30, 2007 and September 30, 2006**  
**(Modified Accrual Basis)**

	September 30, 2007	September 30, 2006	Variance	
<b>Revenues:</b>				
Federal Grants	8,537,543	8,428,508	109,035	1%
State Appropriations	2,193,799	2,193,340	459	0%
Premium Revenues	15,099	-	15,099	
Investment Earnings	<u>64,943</u>	<u>16,501</u>	<u>48,442</u>	294%
<b>Total Operating Revenues</b>	<b><u>10,811,384</u></b>	<b><u>10,638,349</u></b>	<b><u>173,035</u></b>	<b><u>2%</u></b>
<b>Operating Expenditures:</b>				
<b>Claims:</b>				
Outpatient Services	2,418,617	2,341,893	76,724	3%
Physicians & Surgical	1,929,324	2,119,154	(189,830)	-9%
Prescribed Drugs	1,887,300	1,803,046	84,254	5%
Dental	1,321,104	1,256,299	64,805	5%
Inpatient Hospital Services	896,652	1,171,988	(275,336)	-23%
Vision	299,756	343,998	(44,242)	-13%
Outpatient Mental Health	244,635	319,953	(75,318)	-24%
Durable & Disposable Med. Equip.	90,371	123,489	(33,118)	-27%
Therapy	89,286	93,517	(4,231)	-5%
Inpatient Mental Health	71,238	196,100	(124,862)	-64%
Medical Transportation	68,328	104,121	(35,793)	-34%
Other Services	15,948	47,338	(31,390)	-66%
Less: Collections*	<u>(226,078)</u>	<u>(208,426)</u>	<u>(17,652)</u>	8%
<b>Total Claims</b>	<b><u>9,106,481</u></b>	<b><u>9,712,470</u></b>	<b><u>(605,989)</u></b>	<b><u>-6%</u></b>
<b>General and Admin Expenses:</b>				
Salaries and Benefits	129,390	121,990	7,400	6%
Program Administration	552,052	477,303	74,749	16%
Eligibility	86,251	64,649	21,602	33%
Outreach & Health Promotion	4,153	6,643	(2,490)	-37%
Current	<u>35,447</u>	<u>10,962</u>	<u>24,485</u>	<u>223%</u>
<b>Total Administrative</b>	<b><u>807,293</u></b>	<b><u>681,547</u></b>	<b><u>125,746</u></b>	<b><u>18%</u></b>
<b>Total Expenditures</b>	<b><u>9,913,774</u></b>	<b><u>10,394,017</u></b>	<b><u>(480,243)</u></b>	<b><u>-5%</u></b>
<b>Excess of Revenues</b>				
Over (Under) Expenditures	897,610	244,332	653,278	267%
<b>Fund Equity, Beginning</b>	<b><u>3,485,118</u></b>	<b><u>1,027,377</u></b>	<b><u>2,457,741</u></b>	<b><u>239%</u></b>
<b>Fund Equity, Ending</b>	<b><u>4,382,728</u></b>	<b><u>1,271,709</u></b>	<b><u>3,111,019</u></b>	<b><u>245%</u></b>

\* Collections are primarily drug rebates and subrogation

\* State Appropriations restated in prior year to actual draw deposited

## PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program  
 Budget to Actual Statement  
 State Fiscal Year 2008  
 For the Three Months Ended September 30, 2007

	Budgeted for Year	Year to Date Budgeted Amt	Year to Date Actual Amt	Year to Date Variance*		Monthly Budgeted Amt	Sep-07	Aug-07	Jul-07
Projected Cost	\$49,020,492	\$12,255,123	\$8,932,307	\$3,322,816	27%	\$4,085,041	\$2,408,572	\$3,685,635	\$2,838,101
Premiums	136,290	\$34,073	15,099	\$18,974	-56%	11,358	5,453	5,529	4,117
Medical Copays	576,800	\$144,200	0	144,200	-100%	48,067			
Drug Copays	489,250	\$122,313	0	122,313	-100%	40,771			
Subrogation & Rebates	760,000	190,000	226,078	(36,078)	19%	63,333	55,366	72,324	98,388
Net Benefit Cost	47,058,152	\$11,764,538	\$8,691,130	\$3,073,408	26%	3,921,513	2,347,753	3,607,782	2,735,596
Salaries & Benefits	\$519,673	\$129,918	\$129,389	\$529	0%	\$43,306	\$40,243	\$41,241	\$47,905
Program Administration	2,166,796	541,699	537,928	3,771	1%	180,566	189,848	306,071	42,009
Eligibility	340,055	85,014	87,339	(2,325)	-3%	28,338	80,693	0	6,646
Outreach	27,157	6,789	3,052	3,737	55%	2,263	1,780	611	661
Current Expense	287,741	71,935	37,255	34,681	48%	23,978	18,320	7,534	11,401
Total Admin Cost	\$3,341,422	\$835,356	\$794,963	\$40,392	5%	\$278,452	\$330,884	\$355,457	\$108,622
Total Program Cost	\$50,399,574	\$12,599,894	\$9,486,093	\$3,113,800	25%	\$4,199,965	\$2,678,637	\$3,963,239	\$2,844,218
Federal Share 80.97%	40,823,655	\$10,205,914	\$7,692,273	2,513,641	25%	3,401,971	2,172,107	3,213,790	2,306,376
State Share 19.03%	9,575,919	\$2,393,980	\$1,793,820	600,160	25%	797,993	506,530	749,448	537,842
Total Program Cost *	\$50,399,574	\$12,599,894	\$9,486,093	\$3,113,800	25%	\$4,199,965	\$2,678,637	\$3,963,239	\$2,844,218

\* Positive percentages indicate favorable variances  
 \*\* Budgeted Year Based on CCRC Actuary 6/30/2007 Report.  
 Please note: Medical and Drug Co-pay figures are incomplete.

Unaudited - Cash Basis For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program  
WVFIMS Fund 2154  
For the Month Ended September 30, 2007  
(Accrual Basis)

Investment Account
--------------------

Funds Invested	\$4,272,958
Interest Earned	<u>64,943</u>
<b>Total</b>	<b><u>\$4,337,901</u></b>

Unaudited - For Management Purposes Only - Unaudited

**Department of Administration Leasing Report  
For The Period of October 1, 2007 through November 14, 2007**

**NEW CONTRACT OF LEASE**

**EMPLOYEE GRIEVANCE BOARD**

**EGB-011** New contract of lease for 3 years consisting of the unlimited use of a conference room/hearing room at \$500.00 per month full service with Raleigh County Community of Aging, in the City of Beckley, Raleigh County.

**WEST VIRGINIA STATE UNIVERSITY**

**WSU-001** New contract of lease For 1 year containing 240 square feet of office space at \$10.00 psf, rate full service with WWSU R&D Corporation in the City of Institute, Kanawha County.

**DIVISION OF JUVENILE SERVICES**

**DJS-011** New contract of lease for 25 years consisting of approximately 2.14 acres of land at \$1.00 annually with Wood County Commission, in the City of Parkersburg, Wood County.

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES**

**HHR-158** New contract of lease for 1 year containing 310 square feet of office space at \$14.00 psf, full service with Berkeley Business Park Associates in the City of Martinsburg, Berkeley County.

**STRAIGHT RENEWALS**

**CHILDRENS HEALTH INSURANCE PROGRAM**

**CHP-002** Renewal for 3 years containing 3,012 square feet of office space at the current psf rate of \$13.00 with Riggs Development, LLC in the City of Charleston, Kanawha County.

**DIVISION OF CORRECTIONS**

**COR-033** Renewal for 2 years containing 10,358 square feet of storage and office space at the same \$7.27 psf rate with Doran H. Frame and Geraldine Frame, in the City of Charleston, Kanawha County.

## **STRAIGHT RENEWALS CONTINUED**

**FSC-026** Renewal for 1 year containing 200 square feet of storage space at the same rate of \$60.00 per month, with Climate Control Storage Plus, LLC, in the City of Fairmont, Marion County.

## **RENEWAL/RENT INCREASES**

### **DIVISION OF CORRECTIONS**

**COR-030** Renewal for 1 year containing 1,046 square feet of office space with a rental increase from \$10.86 psf to \$11.08 psf, full service with Mull Center Limited Liability Co., in the City of Wheeling, Ohio County.

### **LOTTERY COMMISSION**

**LOT-002** Renewal for 5 years containing 6,200 square feet of office space with a rental increase from \$8.30 psf to \$9.76 psf rate, full service with Kanawha-Roxalana Company in the City of Charleston, Kanawha County.

**LOT-011** Renewal for 5 years containing 36,200 square feet of office space with a rent increase from \$8.30 psf to \$9.76 psf. rate, full service with Kanawha-Roxalana Company, in the City of Charleston, Kanawha County.

## **DECREASING SPACE**

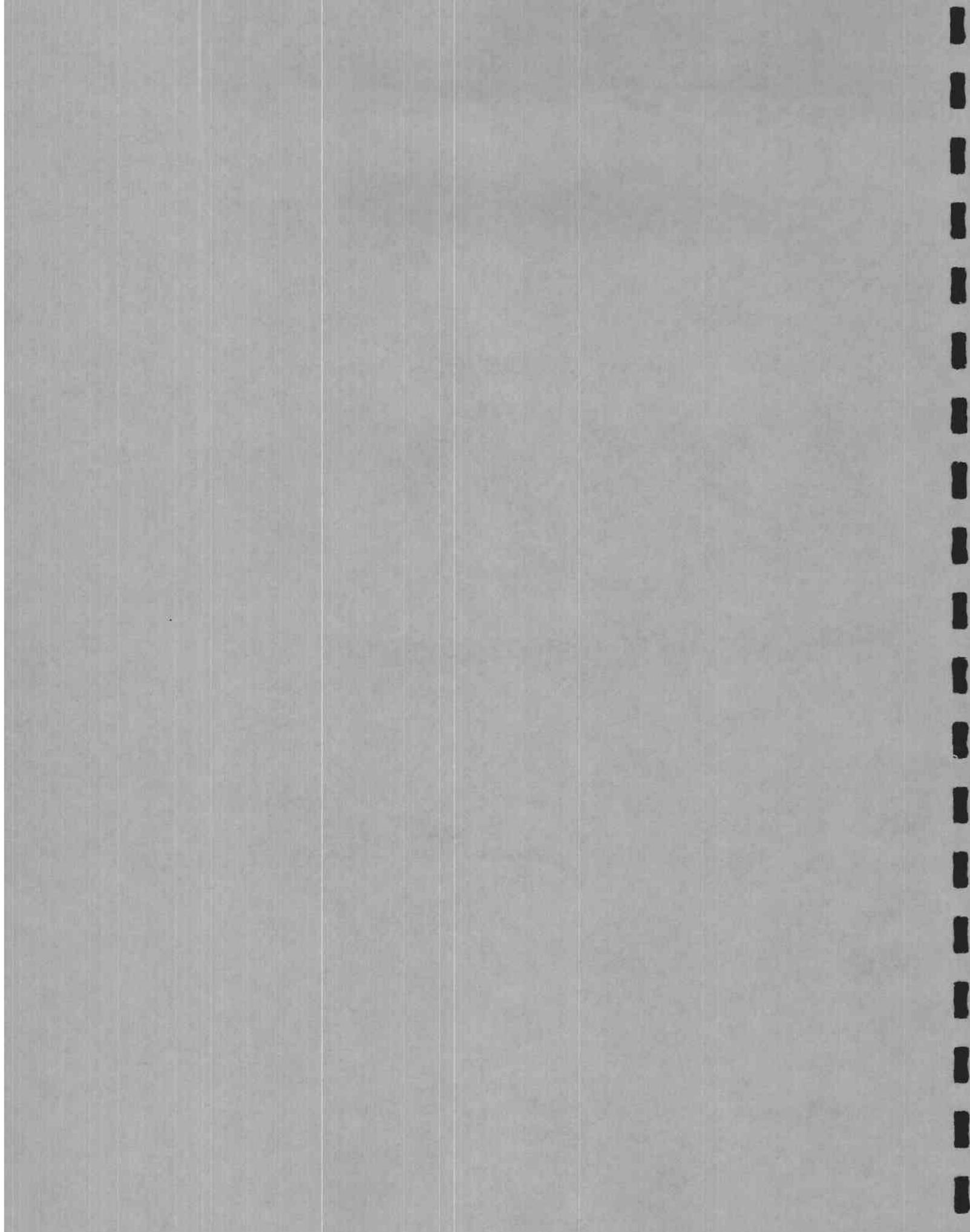
**FOR-077** decrease office space from 288 square feet to 144 square feet, at the same \$12.50 psf, full service, with Frankie Walkup, in the City of Lewisburg, Greenbrier County.

**MEDICAID REPORT**

Department of Health and Human Resources

*November 2007*

Joint Committee on Government and Finance



WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES  
 BUREAU FOR MEDICAL SERVICES  
 MEDICAID CASH REPORT  
 SFY2008

**MONTH OF AUGUST 2007**

	<b>ACTUALS</b> 8/1/07 Thru 8/31/07	<b>ACTUALS</b> Year-To-Date Thru 8/31/07	<b>PROJECTED</b> 9/1/2007 Thru 06/30/08	<b>TOTAL</b> SFY2008
<b>REVENUE SOURCES</b>				
Beg. Bal. (5084/1020 prior mth)	25,948,284	\$26,493,079	\$0	\$26,493,079
<b>MATCHING FUNDS</b>				
General Revenue (0403/189)	26,247,046	52,494,092	341,211,595	393,705,687
Rural Hospitals Under 150 Beds (0403/940)	216,333	432,667	2,163,333	2,596,000
Tertiary Funding (0403/547)	404,667	809,334	4,046,666	4,856,000
Lottery Waiver (Less 550,000) (5405/539)	0	6,450,000	16,822,578	23,272,578
Lottery Transfer (5405/871)	0	2,500,000	7,800,000	10,300,000
Trust Fund Appropriation (5185/189)	0	0	30,556,594	30,556,594
Provider Tax (5090/189)	12,950,000	24,850,000	130,450,072	155,300,072
Certified Match	2,514,433	4,969,818	17,585,742	22,555,560
Reimbursables <sup>(1)</sup>	358,265	835,449	4,264,032	5,099,481
Other Revenue (MWIN, Escheated Warrants, etc.) 5084/4010 & 4015 CMS - 64 Adjustments	21,485	21,485	(21,485)	0
<b>TOTAL MATCHING FUNDS</b>	<b>\$68,660,513</b>	<b>\$119,855,925</b>	<b>\$554,879,127</b>	<b>\$674,735,051</b>
<b>FEDERAL FUNDS</b>	<b>\$138,457,292</b>	<b>\$265,113,176</b>	<b>\$1,460,898,147</b>	<b>\$1,726,011,323</b>
<b>TOTAL REVENUE SOURCES</b>	<b>\$207,117,805</b>	<b>\$384,969,100</b>	<b>\$2,015,777,274</b>	<b>\$2,400,746,374</b>
<b>TOTAL EXPENDITURES:</b>				
Provider Payments	\$195,764,657	\$373,599,321	\$1,998,802,901	\$2,372,402,222
<b>TOTAL</b>	<b>\$11,353,148</b>	<b>\$11,369,779</b>		<b>\$28,344,152</b>

Note: FMAP (07' - 72.82% applicable July - Sept. 2007) ( 08' - 74.25% applicable Oct. 2007 - June 2008)

(1) This amount will revert to State Only if not reimbursed.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES  
 BUREAU FOR MEDICAL SERVICES  
 EXPENDITURES BY PROVIDER TYPE  
 SFY2008

MONTH OF AUGUST 2007	TOTAL	ESTIMATED	ESTIMATED	ACTUALS	ACTUALS	PROJECTED
	SFY2007	SFY2008	Current Month Aug-07	Current Month Aug-07	Year To-Date Thru 08/31/07	09/01/07 Thru 06/30/08
<b>EXPENDITURES:</b>						
Inpatient Hospital Services	226,282,408	229,804,865	13,698,376	11,356,568	29,257,867	200,546,998
Inpatient Hospital Services - DSH Adjustment Payments	54,096,937	54,331,200	13,582,800	15,138,061	15,138,061	39,193,139
Mental Health Facilities	40,250,781	42,231,954	3,257,669	2,924,870	6,398,714	35,833,240
Mental Health Facilities - DSH Adjustment Payments	18,924,239	18,811,200	4,702,800	4,690,367	4,690,367	14,120,833
Nursing Facility Services	413,063,985	437,881,637	36,507,645	36,528,522	71,003,889	366,877,748
Intermediate Care Facilities - Public Providers	-	-	-	-	-	-
Intermediate Care Facilities - Private Providers	58,706,822	61,221,903	5,106,900	4,517,708	9,146,383	52,075,520
Physicians Services	128,612,962	131,675,987	9,028,127	7,880,809	19,248,093	112,427,894
Outpatient Hospital Services	98,279,923	105,465,915	8,123,708	7,427,925	17,069,548	88,396,367
<b>Prescribed Drugs ***</b>	305,342,895	340,245,439	26,293,030	23,800,492	54,481,929	285,763,510
Drug Rebate Offset - National Agreement	(93,163,811)	(85,011,600)	(1,166,678)	(774,332)	(17,409,886)	(67,601,714)
Drug Rebate Offset - State Sidebar Agreement	(31,467,242)	(30,218,400)	(3,906,714)	(382,902)	(6,916,754)	(23,301,646)
<b>Dental Services ***</b>	37,032,509	39,606,038	3,053,746	2,773,436	6,317,866	33,288,172
Other Practitioners Services	20,319,941	21,707,667	1,704,631	1,595,758	6,558,179	15,149,488
Clinic Services	38,178,813	38,539,490	2,968,477	3,777,271	9,822,705	28,716,785
Lab & Radiological Services	7,948,506	8,697,854	680,069	580,834	1,324,619	7,373,235
Home Health Services	27,688,972	31,413,779	2,449,808	1,808,844	3,949,589	27,464,190
Hysterectomies/Sterilizations	571,861	628,069	48,369	37,112	75,144	552,925
Pregnancy Terminations	-	-	-	-	-	-
EPSDT Services	2,458,929	2,696,948	207,700	167,536	362,858	2,334,090
Rural Health Clinic Services	6,602,490	7,245,819	559,823	400,851	898,237	6,347,582
Medicare Health Insurance Payments - Part A Premiums	16,768,356	17,586,200	1,465,517	1,449,114	2,866,294	14,719,906
Medicare Health Insurance Payments - Part B Premiums	62,881,209	70,281,400	5,856,783	5,518,589	11,037,618	59,243,782
120% - 134% Of Poverty	3,492,445	-	-	328,279	649,732	(649,732)
Medicaid Health Insurance Payments: Managed Care Organizations (MCO)	241,130,268	254,923,200	21,243,600	22,054,653	39,962,186	214,961,014
Medicaid Health Insurance Payments: Group Health Plan Payments	360,065	482,900	37,146	24,424	53,074	429,826
Home & Community-Based Services (MR/DD)	200,535,722	230,116,182	17,703,415	18,070,563	37,296,293	192,819,889
Home & Community-Based Services (Aged/Disabled)	56,417,341	89,132,815	6,856,370	4,651,061	10,612,983	78,519,832
Community Supported Living Services	38	-	-	-	-	-
Personal Care Services	36,793,019	40,243,200	3,095,631	3,306,180	6,482,077	33,761,123
Targeted Case Management Services	7,800,004	8,609,312	668,169	501,041	1,135,697	7,473,615
Primary Care Case Management Services	738,666	882,800	67,908	61,401	123,714	759,086
Hospice Benefits	9,736,788	10,297,200	792,092	810,511	1,721,943	8,575,257
Federally Qualified Health Center	15,204,205	17,522,314	1,355,500	1,072,529	2,208,479	15,313,835
Other Care Services	126,149,153	136,183,348	10,550,052	10,695,005	21,875,263	114,308,085
Less: Recoupments	(1)	-	-	(100,888)	(195,770)	195,770
<b>NET EXPENDITURES:</b>	<b>2,137,739,218</b>	<b>2,333,236,637</b>	<b>196,592,469</b>	<b>192,692,192</b>	<b>367,246,991</b>	<b>1,965,989,646</b>
Collections: Third Party Liability (line 9A on CMS-64)	(4,618,212)					
Collections: Probate (line 9B on CMS-64)	(98,465)					
Collections: Identified through Fraud & Abuse Effort (line 9C on CMS-64)	(389,328)					
Collections: Other (line 9D on CMS-64)	(6,565,965)					

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES  
 BUREAU FOR MEDICAL SERVICES  
 EXPENDITURES BY PROVIDER TYPE  
 SFY2008

MONTH OF AUGUST 2007	TOTAL	ESTIMATED	ESTIMATED	ACTUALS	ACTUALS	PROJECTED
	SFY2007	SFY2008	Current Month Aug-07	Current Month Aug-07	Year To-Date Thru 08/31/07	09/01/07 Thru 08/30/08
<b>NET EXPENDITURES and CMS-64 ADJUSTMENTS:</b>	2,126,067,248	2,333,236,637	196,592,469	192,692,192	367,246,991	1,965,989,646
Plus: Medicaid Part D Expenditures	28,577,768	31,440,000	2,418,462	2,496,301	4,983,275	26,456,725
Plus: State Only Medicaid Expenditures	4,557,527	3,928,434	302,187	290,923	674,716	3,253,718
<b>TOTAL MEDICAID EXPENDITURES</b>	<b>2,159,202,543</b>	<b>2,368,605,071</b>	<b>199,313,118</b>	<b>195,479,416</b>	<b>372,904,982</b>	<b>1,995,700,089</b>
Plus: Reimbursables <sup>(1)</sup>	3,273,687	3,797,151	292,089	285,241	694,339	3,102,812
<b>TOTAL EXPENDITURES</b>	<b>2,162,476,230</b>	<b>2,372,402,222</b>	<b>199,605,207</b>	<b>195,764,657</b>	<b>373,599,321</b>	<b>1,998,802,901</b>

(1) This amount will revert to State Only if not reimbursed.

\*\*\* CMS is currently reviewing portions of these payments. Until review is completed these expenses will be classified as state-only on the CMS-64. With all outside reviews, there is a potential for a portion of these costs to remain state-only if any of them are disallowed

**BUREAU FOR MEDICAL SERVICES**  
**SFY 2007 Medicaid Approved Claims Report**  
**As of November 15, 2007**

REF#	CMS 64 Category Of Service	SFY 2007	SFY 2008 Tentative		YTD Totals
			200707	200708	JUL-AUG 2007
1A	Inpatient Hospital Services	229,365,525	16,081,619.05	12,854,855.89	28,936,475
1B	Inpatient Hospital Services - DSH	54,220,771	0.00	15,322,603.00	15,322,603
2A	Mental Health Facilities	40,628,759	3,014,542.58	3,387,736.72	6,402,279
2B	Mental Health Facilities - DSH	18,800,405	0.00	4,690,367.00	4,690,367
3	Nursing Facility Services	405,794,188	33,445,596.59	35,875,301.46	69,320,898
4B	Intermediate Care Facilities - Private Providers	58,697,741	4,759,140.96	4,476,718.71	9,235,860
5	Physicians Services	122,327,646	9,780,262.26	8,187,620.11	17,967,882
6	Outpatient Hospital Services	100,870,576	7,580,937.86	9,681,523.70	17,262,462
7	Prescribed Drugs	317,302,910	25,390,944.59	24,416,107.76	49,807,052
7	Part D Premium - State Only	28,577,768	2,486,974.25	2,496,301.15	4,983,275
7A1	Drug Rebate Offset - National	(93,411,318)	(16,561,981.84)	(774,332.00)	(17,336,314)
7A2	Drug Rebate Offset - State	(31,239,277)	(6,607,424.76)	(382,902.00)	(6,990,327)
///	Total Rebates	(124,650,595)	(23,169,406.60)	(1,157,234.00)	(24,326,641)
///	NET DRUG COST	221,230,083	4,708,512	25,755,175	30,463,886
8	Dental Services	37,945,980	3,020,273.53	3,484,249.05	6,504,523
9	Other Practitioners Services	20,762,927	4,672,115.66	1,721,945.74	6,394,061
10	Clinic Services	35,142,939	3,220,304.97	1,723,761.00	4,944,066
11	Lab & Radiological Services	16,150,843	644,140.52	608,506.78	1,252,647
12	Home Health Services	28,558,463	1,904,676.77	2,358,330.03	4,263,007
13	Hysterectomies/Sterilizations	560,115	39,881.59	30,195.35	70,077
14	Pregnancy Termination	220,178	28,496.02	17,725.28	46,221
15	EPSDT Services	2,450,918	181,768.88	212,505.40	394,274
16	Rural Health Clinic Services	6,696,486	390,751.33	450,018.25	840,770
17A	Medicare - Part A Premiums	15,465,910	0.00	2,879,128.00	2,879,128
17B	Medicare - Part B Premiums	61,496,992	0.00	11,710,688.50	11,710,689
18A	Managed Care Organizations	257,900,656	1,138,250.55	22,054,652.53	23,192,903
18C	Group Health Plan Payments	329,728	28,650.18	47,339.73	75,990
19	Home & Community-Based Services (MR/DD)	201,156,249	17,820,044.71	18,782,547.08	36,602,592
20	Home & Community-Based Services (Aged/Disabled)	56,505,657	5,018,000.97	5,822,755.20	10,840,756
23	Personal Care Services	35,989,302	3,000,305.63	3,384,212.33	6,384,518
24	Targeted Case Management	7,850,996	585,019.91	530,756.60	1,115,777
25	Primary Care Case Management	800,139	0.00	62,133.00	62,133
26	Hospice Benefits	9,991,391	979,918.29	859,899.31	1,839,818
28	Federally Qualified Health Center	15,469,566	1,153,811.18	1,168,897.84	2,322,709
29	Other Care Services	111,853,165	9,389,860.62	9,493,771.20	18,883,632
	Unclassified	211,644	0.00	0.00	0
///	TOTALS	2,175,445,938	132,586,882.85	207,635,919.70	340,222,803

This report's data is prepared based on claims received and approved for payment (Modified Accrual basis of Accounting). Therefore, the data presented in this report will not match the CMS-64 Quarterly Reports which are prepared on a cash basis.

# BOARD OF TREASURY INVESTMENTS



**CALENDAR NOTES**  
6 Month CD Auction  
January 9, 2008

## OPERATING REPORT SEPTEMBER 2007

**Board of  
Treasury  
Investments**

1900 Kanawha  
Boulevard East  
Suite E-122  
Charleston WV  
25305  
(304) 340-1578  
www.wvbt.com

**Board of  
Directors**

John D. Perdue,  
State Treasurer,  
Chairman

Joe Manchin III,  
Governor

Glen B. Gainer  
III, State Auditor

Martin Glasser,  
Esq. Attorney  
Appointed by  
the Governor

Jack Rossi, CPA  
Appointed by  
the Governor

**Executive Staff**

Executive  
Director  
Glenda Probst,  
CPA, CTP

Chief Financial  
Officer

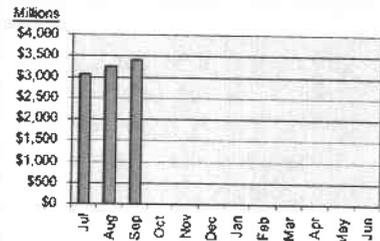
Kara K. Brewer,  
CPA, MBA

### Total Net Assets Under Management

**\$3,394,064,000**

Last Month  
**\$3,236,513,000**

Beginning of Fiscal Year  
**\$2,923,172,000**

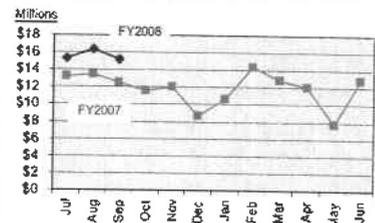


**16.1% Growth This Fiscal  
Year**

### Total Net Income & Gains

**This Month \$15,243,000**

**Fiscal Year \$46,970,000**

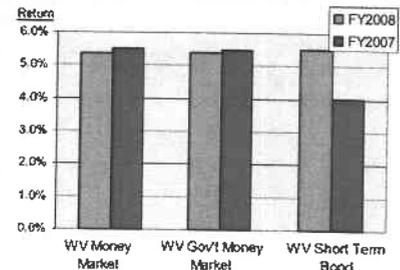


**Outpacing Last Year**

### Effective Rates of Return

*Time Weighted, Annualized, Net of All Fees*

	Sept. <u>2007</u>	Fiscal Year <u>2008</u>	Fiscal Year <u>2007</u>
WV Money Market	5.3%	5.3%	5.5%
WV Gov't Money Market	5.4%	5.4%	5.5%
	Fiscal Year <u>2008</u> <i>(Past 12 Months)</i>	Fiscal Year <u>2007</u> <i>(Past 12 Months)</i>	
WV Short Term Bond	5.5%	4.0%	



*Returns are annualized fiscal year to date for WV Money Mkt & WV Gov't Money Mkt; past 12 months for WV Short Term Bond*

**Fiscal Year Return  
Comparisons**

**WEST VIRGINIA BOARD OF TREASURY INVESTMENTS**  
**THE ECONOMIC STATE**  
**SEPTEMBER 2007**

---

**Exports Boost Economic Growth;  
Home Building Falls to 12-Year Low**

The U.S. unemployment rate rose to 4.7% in September, but job growth accelerated by 110,000 after a revised 89,000 increase in August. The August figure was originally reported as a decline, the first in four years. During the second quarter, the U.S. economy grew at a revised 3.8% annual growth rate, boosted by a surge in exports and the fastest pace in more than a year. Consumer spending slowed to a 1.4% annual pace from 3.7% the previous quarter. Residential construction dropped to a 12-year low and sales of previously owned homes dropped to a 5-year low in August. The number of properties on the market rose to a record in August and manufacturing slowed, suggesting second quarter growth will be the strongest of the year. U.S. consumer prices unexpectedly fell 0.1% in August as energy prices fell 3.2%, the largest decline since October. The core CPI, which excludes food and energy, rose 0.2% in August and 2.1% for the trailing twelve months. The Producer Price Index also fell more than forecast in August, dropping 1.4%, the biggest decline since October. The drop in the August PPI was led by a 6.6% decline in energy costs. Excluding food and energy costs, producer prices rose 0.2% in August. Over the last twelve months, the PPI and the core PPI only rose 2.2%. Oil prices reached record highs in September, topping \$83/barrel and consumer confidence fell to the lowest level in two years.

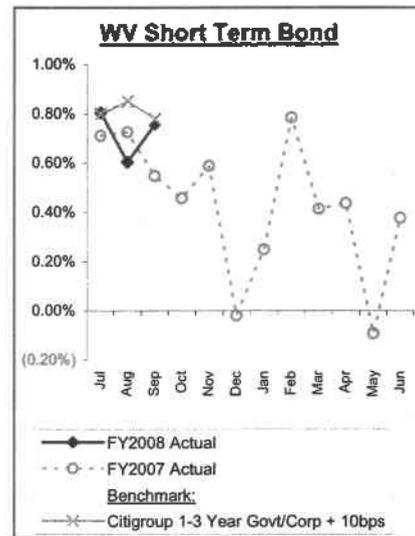
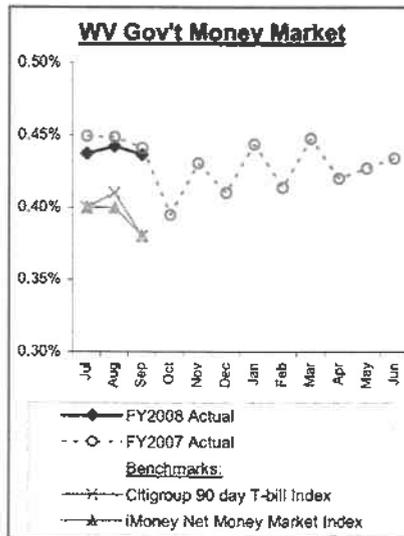
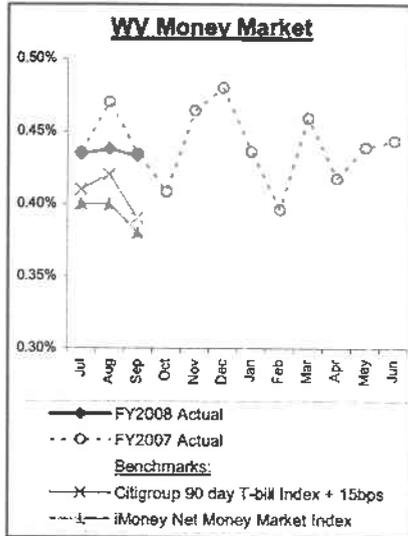
The Fed lowered the overnight lending rate at the September 18th meeting by a greater-than-expected half a point, dropping it to 4.75%, as inflation continued to recede and recession concerns increased. This was the first rate cut since 2003 and further cuts are expected if inflation remains under control. The Fed will next meet on October 31, 2007. For the month of September, the yield curve steepened as yields shifted lower on the short end of the curve, but increased slightly on the long end due to concerns about inflation. The 3- and 6-month Treasuries fell 31 and 13 bps to 3.80% and 4.08%, respectively. The 2-year Treasury yield declined 15 bps in September to 3.98%, while the 3-year Treasury dropped 13 bps to 4.02%. The 10-year Treasury yield rose 6 bps to 4.59% as the 30-year Treasury yield rose slightly to 4.84%, widening the yield spread between the 30-year and the 2-year Treasury to 85 bps.

Ninety-day T-Bills returned 0.38% in September, underperforming the 0.71% return of 1-3 Year Government Bonds. Year-to-date in 2007, 90-Day T-bills have earned 3.91%, while 1-3 Year Government Bonds have returned 4.86%. For the last 12 months, T-bills underperformed with a 5.21% return as 1-3 Year Government Bonds earned 5.81%.

# West Virginia Board of Treasury Investments

## Financial Highlights as of September 30, 2007

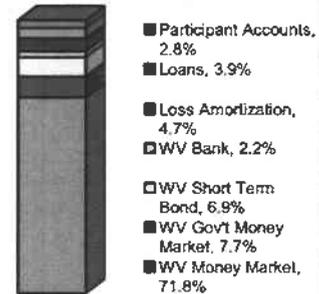
### Monthly Rates of Return for Operating Pools (Net of Fees)



### Summary of Value and Earnings (In Thousands)

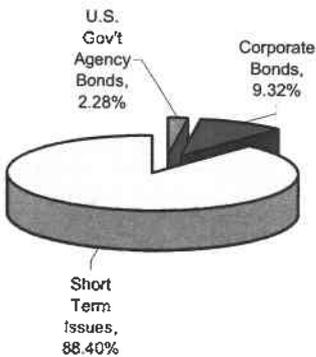
Pool	Asset Value	Sept. Net Income (Loss)	Fiscal YTD Net Income (Loss)
WV Money Market	\$ 2,435,186	\$ 10,237	\$ 29,378
WV Gov't Money Market	260,307	1,057	3,094
WV Short Term Bond	234,334	1,764	5,033
WV Bank	75,850	277	501
Loss Amortization	160,764	1,131	6,486
Loans	131,523	440	1,336
Participant Accounts	96,100	337	1,142
	<u>\$ 3,394,064</u>	<u>\$ 15,243</u>	<u>\$ 46,970</u>

#### Percent of Total Net Asset Value

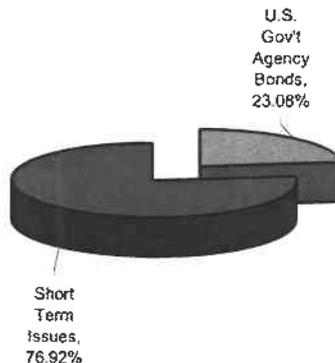


### Securities by Type for Operating Pools (Percentage of Asset Value)

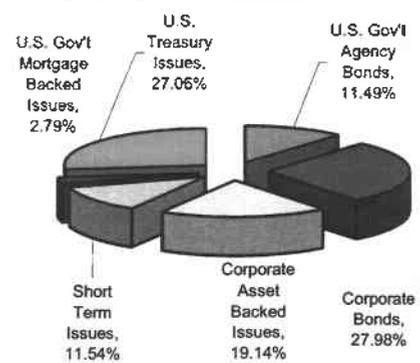
#### WV Money Market



#### WV Gov't Money Market



#### WV Short Term Bond



**WEST VIRGINIA BOARD OF TREASURY INVESTMENTS**  
**SCHEDULE OF NET ASSETS, OPERATIONS & CHANGES IN NET ASSETS –**  
**UNAUDITED**

**SEPTEMBER 30, 2007**

*(IN THOUSANDS)*

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Other Pools	Participant Directed Accounts
<b>Assets</b>						
Investments:						
At amortized cost	\$ 2,431,033	\$ 259,910		\$ 75,000	\$ 131,085	\$ 46,364
At fair value	-	-	\$ 239,261	-	160,764	48,778
Collateral for securities loaned	426,068	34,619	63,509	-	-	-
Other assets	4,434	427	1,636	850	442	959
<b>Total assets</b>	<u>2,861,535</u>	<u>294,956</u>	<u>304,406</u>	<u>75,850</u>	<u>292,291</u>	<u>96,101</u>
<b>Liabilities</b>						
Payable for securities loaned	426,068	34,619	63,509	-	-	-
Other liabilities	281	30	6,563	-	4	1
<b>Total liabilities</b>	<u>426,349</u>	<u>34,649</u>	<u>70,072</u>	<u>-</u>	<u>4</u>	<u>1</u>
<b>Net Assets</b>	<u>\$ 2,435,186</u>	<u>\$ 260,307</u>	<u>\$ 234,334</u>	<u>\$ 75,850</u>	<u>\$ 292,287</u>	<u>\$ 96,100</u>
<b>Investment income</b>						
Interest and dividends	\$ 4,253	\$ 676	\$ 896	\$ 277	\$ 444	\$ 362
Securities lending income	1,753	200	255	-	-	-
Net accretion (amortization)	6,000	385	47	-	542	(19)
Provision for uncollectible loans	-	-	-	-	-	-
<b>Total investment income</b>	<u>12,006</u>	<u>1,261</u>	<u>1,198</u>	<u>277</u>	<u>986</u>	<u>343</u>
<b>Expenses</b>						
Fees	215	23	35	-	4	1
Securities lending borrower rebates	1,554	181	201	-	-	-
<b>Total expenses</b>	<u>1,769</u>	<u>204</u>	<u>236</u>	<u>-</u>	<u>4</u>	<u>1</u>
<b>Net investment income</b>	<u>10,237</u>	<u>1,057</u>	<u>962</u>	<u>277</u>	<u>982</u>	<u>342</u>
Net realized gain (loss)						
from investments	-	-	23	-	-	-
Net increase (decrease)						
in fair value of investments	-	-	779	-	589	(5)
Net gain (loss) from investments	-	-	802	-	589	(5)
<b>Net increase (decrease) in net assets from operations</b>	<u>10,237</u>	<u>1,057</u>	<u>1,764</u>	<u>277</u>	<u>1,571</u>	<u>337</u>
<b>Distributions to participants</b>	<u>10,237</u>	<u>1,057</u>	<u>1,404</u>	<u>277</u>	<u>440</u>	<u>-</u>
<b>Participant activity</b>						
Purchases, reinvestment of units and contributions	851,750	70,137	971	277	440	25
Redemptions and withdrawals	691,876	71,875	-	-	-	4,126
Inter-pool transfers in	-	-	-	25,000	-	-
Inter-pool transfers out	25,000	-	-	-	-	-
<b>Net increase (decrease) in net assets from participant activity</b>	<u>134,874</u>	<u>(1,738)</u>	<u>971</u>	<u>25,277</u>	<u>440</u>	<u>(4,101)</u>
Increase (decrease) in net assets	134,874	(1,738)	1,331	25,277	1,571	(3,764)
Net assets at beginning of period	2,300,312	262,045	233,003	50,573	290,716	99,864
<b>Net assets at end of period</b>	<u>\$ 2,435,186</u>	<u>\$ 260,307</u>	<u>\$ 234,334</u>	<u>\$ 75,850</u>	<u>\$ 292,287</u>	<u>\$ 96,100</u>



west virginia department of environmental protection

Executive Office  
601 57<sup>th</sup> Street SE  
Charleston, WV 25304  
Phone: (304) 926-0440  
Fax: (304) 926-0446

Joe Manchin III, Governor  
Stephanie R. Timmermeyer, Cabinet Secretary  
www.wvdep.org

November 1, 2007

The Honorable Earl Ray Tomblin, Chairman  
Joint Committee on Government and Finance  
Room 227M, Building 1  
State Capitol Complex  
Charleston, West Virginia 25305

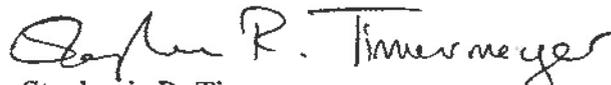
The Honorable Richard Thompson, Chairman  
Joint Committee on Government and Finance  
Room 234M, Building 1  
State Capitol Complex  
Charleston, West Virginia 25305

RE: Underground Storage Tank Fund Proposal

Dear Chairman Tomblin and Chairman Thompson:

Please find enclosed for your review the West Virginia Department of Environmental Protection's Underground Storage Tank Fund Proposal as required by Senate Bill No. 490, enacted by the Legislature in 2007. If you need further information or assistance on this, please feel free to contact me.

Sincerely,

  
Stephanie R. Timmermeyer  
Cabinet Secretary

Enclosure

SRT/kww

cc: Aaron Allred  
John Homburg



Promoting a healthy environment.

Proposal to:



**WEST VIRGINIA LEGISLATURE**  
Joint Committee on Government and Finance

regarding

**Senate Bill 490**

from

**West Virginia Department of  
Environmental Protection**



Stephanie R. Timmermeyer  
Cabinet Secretary

November 2007

## **Proposal Regarding Underground Storage Tank Insurance Fund**

### **Background of Proposal**

On March 8, 2007, the Legislature passed Senate Bill No. 490, amending the State Code related to the Underground Storage Tank Insurance Fund (Fund). The bill provided that the Fund would cease to operate and any remaining assets of the Fund be administered by the Secretary of the Department of Environmental Protection (DEP) pursuant to the bill's terms and further directed the Secretary to submit a proposal by November 1, 2007 for the remediation of the fifty-eight (58) sites that had been previously insured under the Fund. The bill expressed the sense of the legislature that "to the extent public funds are determined by the Legislature to be available, they may be appropriated to assist individuals with the remediation of these sites and to prevent potential adverse environmental impacts and harm to human health that could result from a failure to remediate."

The legislation requires the Secretary to include in her proposal budget amounts needed each year for completing remediation activities by December 31, 2009, but in any event by December 31, 2012. The Secretary must also include in her funding request money to reimburse persons and vendors who have incurred costs not yet reimbursed for work undertaken at the sites previously authorized by the Secretary. Accordingly, the DEP submits the following proposal:

### **Reimbursement of Previously Incurred Costs**

Although the last major distribution of moneys from the Fund occurred in 2004, remediation work has continued at many of the sites, and reimbursement of these costs is important, as recognized by Senate Bill No. 490. The DEP has continued to collect invoices from those claimants who have continued to remediate their sites, and on September 7, 2007, sent a letter to the claimants requesting that they provide any additional invoices so all such costs could be reflected in this proposal. As of mid-October, invoices had been submitted for thirty-two (32) sites for a total amount of approximately \$2.9 million. See Attachment A, column (c).

These invoices have not been reviewed or adjusted, and the first step in the DEP's proposal is to retain a qualified claims adjuster who can determine which costs are reimbursable consistent with industry standards, previous Fund practice and the terms of the policies previously issued by the Fund. The Fund currently has a balance of approximately \$727,000, and in order to expedite reimbursement of these previously incurred costs, the DEP proposes to use a portion of this balance to retain an adjuster who can begin reviewing the invoices and complete the work by July 1, 2008. The DEP will request the adjuster to first review the approximately \$180,000 worth of invoices that have been submitted for the eight (8) sites that have completed remediation (see discussion on page 4 of this proposal). This will allow the DEP to reimburse these particular claims during the spring of 2008 and will still leave a sufficient balance in the

Fund to meet contingencies, including a lawsuit awaiting decision by the Kanawha County Circuit Court. The remaining \$2,700,000 of costs previously incurred is included in the cost estimates for FY 2009 under column (f) of Attachment A, along with the remediation costs requested for that fiscal year. This will ensure that all reimbursable costs incurred to date are paid out to persons after authorization of moneys by the Legislature, effective July 1, 2008, and will allow the continued remediation of these sites to progress with future reimbursements occurring in a timely fashion.

The DEP will consult with the Underground Storage Tank Advisory Committee before reimbursing any of the previously incurred costs determined valid and reimbursable. Additionally, before such costs can be reimbursed, Senate Bill No. 490 requires the DEP to enter an agreement with the claimant specifying the degree of cleanup required for the site and any other conditions the DEP believes necessary.

#### **Future Remediation—Methodology and Estimated Costs**

The next step in the DEP's proposal is to address how site remediation at the previously insured sites will be completed within the time frames specified in Senate Bill No. 490. This proposal also includes budget estimates necessary to accomplish the remediation work at all of the sites. The cost estimates are broken down by fiscal year for the next four and one-half years, ensuring completion of all remediation by December 31, 2012 in accordance with Senate Bill No. 490. See Attachment A, columns (f) through (j).

The DEP believes the actual remediation work should be carried out by the claimants and proposes to follow the same approach as outlined in a letter to the claimants on April 28, 2006. This approach requires the claimants to place all future work out to bid following the bid process required under the UST Fund rule, 33CSR32. It also requires the claimants, before continuing any remediation work, to enter an agreement with the DEP specifying the degree of cleanup that will be accomplished at the site and any other conditions the Secretary believes appropriate, such as a schedule of compliance to complete the work.

The levels of cleanup required by Senate Bill No. 490 (also reflected in the DEP's April 2006 letter) are "voluntary remediation" or risk-based standards, or if more cost effective, an alternative standard resulting in at least the same degree of cleanup. There are three potential mechanisms that will achieve this cleanup standard. Two are risk-based approaches, resulting in a site cleanup where the future uses of the property are limited and protective of human health and the environment. These are the "Voluntary Remediation" approach and the "Uniform Environmental Covenant Act" (UECA) approach. The UECA approach follows the agency's Voluntary Remediation and Redevelopment Act Guidance but would only address contaminants previously covered by the Fund. The third approach is found under the Leaking Underground Storage Tank (LUST) program, which depending upon the cleanup status of the site, may in fact be more cost effective. All three of the mechanisms result in a type of "no further action" letter or certificate from the DEP after completion of the work. The DEP will engage in discussions with each claimant and finalize an agreement outlining which mechanism

will be used, a timetable for completion of the work, and any other conditions the Secretary considers reasonable.

### **Explanation of Cost Estimates**

The DEP has reviewed each of the sites and has estimated the costs that will be required to complete remediation, including the DEP's oversight costs at each site closed under a risk-based approach. These estimates are based upon a preliminary review of the status and needs of each site without the benefit of the precise assessment and sampling tools that will be required before actual remediation work continues. For purposes of estimating costs, the DEP has assumed that most of the claimants will utilize the UECA approach in lieu of the Voluntary Remediation approach because State funds will only be available for the cleanup of contaminants covered by the Fund, not any other contaminants that must be addressed under the Voluntary Remediation program. No matter which risk-based approach is followed, however, the administrative costs associated with the program will be reimbursable.

The DEP has projected that ten (10) of the sites can be remediated using the LUST track at a lower cost than cleaning the sites to a risk-based standard, and these sites' costs are noted separately from the sites that can be cleaned up under the UECA program in Attachment A, column (d).

To derive the estimates for future remediation, the DEP compiled a list of project tasks that are generally associated with the cleanup of these types of sites and assumed a certain cost for each task. These line-item costs are based upon the agency's experience in remediating similar sites and discussions with several consultants familiar with this type of work.

The cost estimates for future remediation work at each site were then reviewed in relation to the invoices submitted for each site, any remaining deductible amounts and the limits of liability applicable to each site under the terms of the Fund's insurance policy (generally \$1,000,000 per site). There are four sites where, after payment of the invoices submitted to the DEP, future costs estimates will exceed the \$1,000,000 limit. See note in Attachment A, column (d) "exceeds limit of liability." Senate Bill No. 490 at W.Va. Code §22-17-22(b) expressly restricts the amount of money that can be paid out to these claimants in accordance with the limits of liability, and the requested budget amounts have therefore been adjusted to reflect this fact. If additional funds are necessary to completely remediate these sites, it will be the responsibility of the claimants to pay the additional amounts.

Seven (7) of the sites pose a greater risk than the others due to the presence of free product or potential off-site migration of petroleum-based contaminants, and these sites are listed as the first seven sites on Attachment A. There is also a separate total at the end of Attachment A showing the costs needed on a fiscal year basis to reimburse these priority sites for past costs and complete remediation activities.

All of the cost estimates for future remediation are broken down into budget years, commencing with FY 2009 and terminating in the middle of FY 2013, in accordance with Senate Bill No. 490. In order to complete the remediation of these sites within the required time frames, work at most of the sites should begin in FY 2009, explaining why the costs in that year are estimated to be substantially higher than in subsequent fiscal years. Under this approach, the DEP estimates that more than half of the sites still requiring remediation can be closed within the first two fiscal years and the cost estimates in Attachment A reflect these differing time frames in columns (f) through (j).

An alternative approach to the one described above is to more evenly distribute the costs between the first and second fiscal years by only funding the previously incurred costs and the costs for the seven (7) priority sites during the first fiscal year, FY 2009, plus the costs of an adjuster. This approach would mean the other sites would not receive reimbursement for future remediation work until FY 2010, but they may still be able to complete the remediation work within the legislative time frames if the work is commenced that year and pursued in an expeditious manner. If this alternative were chosen, it would result in a cost of approximately \$4,800,000 for FY2009 and approximately \$5,000,000 for FY 2010, with approximately \$2,400,000 remaining to be distributed in FY 2011 through the first half of FY 2013.

In a similar manner to the invoices for past work, the costs related to future remediation must be adjusted by a professional claims adjuster before any payments are made to the claimants. The Secretary will consult with the Underground Storage Tank Advisory Committee prior to payment of the claims. The DEP has included the costs for an adjuster in its cost estimates for FY 2009 through FY 2013. See Attachment A, columns (f) through (j). These estimates are based upon the DEP's past experience in hiring an adjuster for the UST Fund.

#### **Sites that are Closed or Near Completion**

Eight (8) of the sites have received "no further action" letters from the DEP, meaning no further remediation is required at the site and no additional costs will be incurred, although approximately \$180,000 is still needed to fully reimburse these sites for past costs. These sites are listed as the last eight (8) sites on Attachment A. As previously noted, the costs to reimburse these sites will be paid out of the Fund's current balance. Several other sites are expected to complete remediation in the near future and will therefore have fairly minimal costs estimated for the future.

#### **Sites with No Responsible Party**

There may be four (4) sites where a responsible party no longer exists to continue site remediation. The DEP proposes to review the particular facts at each of these sites and determine whether there is a viable entity that can conduct the remediation work. If there is not, the DEP will use the appropriated moneys to contract directly to undertake the work at these sites, using the same approach it does in other situations where there is no responsible party to conduct site cleanup.

## Summary

The above proposal represents a total amount of approximately \$12,150,000, extending from FY 2009 to the second half of FY 2013. As explained in this proposal, this figure represents DEP's best estimation of the moneys that will be required to fully reimburse the claimants for their past costs and for future remediation of the sites, after some reduction at four of the sites based on the limits of liability. The cost estimates for FY 2009 total approximately \$9,900,000, representing approximately \$2,700,000 in invoices for past costs, the remediation costs for the first year's work at all of the sites and the costs of an adjuster. The cost estimates for the subsequent fiscal years represent the costs of an adjuster and the continued remediation work that is required to complete closure of the sites within the time frames specified by Senate Bill No. 490.

The DEP believes this proposal represents a sound approach to reimbursing the persons who purchased insurance from the State Fund and will allow the State to continue working with these persons to fulfill their legal obligations to complete remediation of the sites in a manner that is protective of human health and the environment. The DEP respectfully requests the Joint Committee on Government and Finance's favorable consideration of this proposal.

ATTACHMENT A

UST Fund Sites

Cost Estimates

(a) Insured Site Name and Location	(b) Total Paid to Date	(c) Invoices Pending Review by Adjuster	(d) Estimated UECA or LUST Closure Costs	(e) Total Requested Amount for Invoices and Closure Based on Limits of Liability	(f) FY2009 Invoices, 1st Year Remediation and Closure Costs	(g) FY2010 Second Year Remediation and Closure Costs	(h) FY2011 Third Year Remediation and Closure Costs	(i) FY2012 Fourth Year Remediation and Closure Costs	(j) 1st half FY2013 Closure Costs
<i>Black's Sunoco</i> Hurricane Putnam County	\$318,128	\$330,775	\$147,995	\$478,771	\$422,840	\$29,547	\$26,384	\$0	\$0
<i>Certified of Charleston</i> Chester Hancock County	\$0	\$30,806	\$75,977	\$97,156	\$69,058	\$28,098	\$0	\$0	\$0
<i>Clements Oil</i> Dotson's Exxon, Elizabeth Wirt County	\$3,598	\$0	\$472,466	\$472,466	\$355,579	\$41,640	\$41,640	\$16,640	\$16,967
<i>Heedy, Bill</i> Bill's Quaker State, Moundsville Marshall County	\$443,850	\$90,534	\$626,512	\$551,150	\$441,082	\$86,604	\$23,464	\$0	\$0
			* exceeds limit of liability						
<i>Layman, Russ</i> Layman's Auto Marshall County	\$135,208	\$56,845	\$566,080	\$622,925	\$398,529	\$72,903	\$72,903	\$78,590	\$0
<i>McCombs, Patricia</i> A&B Auto Sales Wheeling Ohio County	\$333,970	\$0	\$487,125	\$487,125	\$316,559	\$72,112	\$72,112	\$26,342	\$0
<i>Ramesh-Sirish LLC</i> Sonny's One Stop Martinsburg Berkeley County	\$103,658	\$0	\$868,811	\$868,811	\$511,214	\$85,685	\$85,685	\$85,685	\$100,542
Appalachian Oil Co. S & S Express Mercer County	\$294,639	\$0	\$452,589	\$452,589	\$356,453	\$74,821	\$21,315	\$0	\$0
Appalachian Oil Co. Hall's Markette Mercer County	\$331,519	\$0	\$432,358	\$432,358	\$347,386	\$84,972	\$0	\$0	\$0

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UST Fund Sites  
Cost Estimates

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Appalachian Oil Co. Village Store Mercer County	\$160,462	\$0	\$54,095	\$54,095	\$38,980	\$15,115	\$0	\$0	\$0
Appalachian Oil Co. Ye Olde Food Shoppe Mercer County	\$303,942	\$0	\$346,504	\$346,504	\$332,387	\$14,117	\$0	\$0	\$0
Billy Oil Weirton Brooke County	\$107,914	\$11,484	\$31,345	\$42,829	\$42,829	\$0	\$0	\$0	\$0
Buckner's Tradin' Post Melrose Square, Princeton Mercer County	\$50,003	\$8,642	\$434,744	\$443,386	\$351,544	\$70,661	\$8,661	\$12,520	\$0
Chico Dairy Dairy Mart #5, Morgantown Monongalia County	\$654,625	\$244,656	\$603,702	\$340,375	\$340,375	\$0	\$0	\$0	\$0
			* exceeds limit of liability						
Chico Dairy Dairy Mart #6, Morgantown Monongalia County	\$314,974	\$209,094	\$94,274	\$303,368	\$303,368	\$0	\$0	\$0	\$0
Clements Oil Arnold's Exxon, Smithburg Doddridge County	\$0	\$0	\$14,316	\$14,316	\$14,316	\$0	\$0	\$0	\$0
Clyde Cooper (2 RPs – one which is the property owner) Cooper's Service Center, Parkersburg, Wood County	\$663,672	\$0	\$25,681	\$25,681	\$17,320	\$8,361	\$0	\$0	\$0

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UST Fund Sites  
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Prima Marketing, LLC Pantry Store #29, Williamstown Wood County	\$0	\$47,551	\$24,726	\$72,276	\$72,276	\$0	\$0	\$0	\$0
Potts, Gretchen Potts Service Station, Newell Hancock County	\$431,605	\$0	\$37,477	\$37,477	\$37,477	\$0	\$0	\$0	\$0
Raleigh Boone Nellis Boone County	\$30,401	\$0	\$113,911	\$113,911	\$91,342	\$22,569	\$0	\$0	\$0
Roach & Sons - Cupp's Texaco, Martinsburg Berkeley County	\$908,521	\$9,723	\$65,206 * exceeds limit of liability LUST closure	\$41,479	\$41,479	\$0	\$0	\$0	\$0
Rogers Motor Lodge Weston Lewis County	\$443,570	\$0	\$35,754	\$35,754	\$29,395	\$6,359	\$0	\$0	\$0
R T Rogers Park Ave. Exxon, Hinton Summers County	\$283,633	\$0	\$423,985	\$423,985	\$339,129	\$69,674	\$15,182	\$0	\$0
Sigmon, Mary Fred's Ashland, Belle Kanawha County	\$185,482	\$0	\$54,962 LUST closure	\$54,962	\$46,967	\$7,995	\$0	\$0	\$0
Somerset Pantry Store, Philippi Barbour County	\$256,733	\$235,532	\$68,655	\$304,187	\$289,052	\$15,135	\$0	\$0	\$0

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Southern Gas & Oil Y460 Shell Station, Princeton Mercer County	\$67,263	\$0	\$427,998	\$427,998	\$341,097	\$70,549	\$16,352	\$0	\$0
Southland Corp. Store #10673, Ranson Jefferson County	\$439,677	\$341,433	\$143,933	\$485,366	\$405,306	\$18,804	\$18,804	\$42,452	\$0
Southland Corp. Store #10663, Charles Town Jefferson County	\$299,531	\$241,602	\$107,471	\$349,073	\$285,960	\$15,867	\$15,867	\$31,379	\$0
Swecker, Chris Country Convenience & General Store Valley Bend Randolph County	\$19,877	\$0	\$54,799	\$54,799	\$36,131	\$5,519	\$13,149	\$0	\$0
			LUST closure						
Tri-State Petroleum Point Gas, Station, Wheeling Ohio County	\$92,531	\$0	\$33,489	\$33,489	\$33,489	\$0	\$0	\$0	\$0
Vernon McCoy Trust Ranger Pic Pac, Ranger Lincoln County	\$28,355	\$1,055 * additional invoices previously denied	\$105,744	\$106,799	\$83,643	\$9,267	\$13,889	\$0	\$0
Wheeler-Clevenger Ernie's Sunoco, Huntington Cabell County	\$103,749	\$0	\$184,001	\$184,001	\$132,669	\$18,673	\$32,659	\$0	\$0

**ATTACHMENT A**  
**UST Fund Sites**  
**Cost Estimates**

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Wheeler-Clevenger Lundy's, Kermit Mingo County	\$42,617	\$0	\$81,262	\$81,262	\$78,401	\$2,861	\$0	\$0	\$0
LUST closure									
Worley's Exxon Beckley Raleigh County	\$73,884	\$0	\$377,606	\$377,606	\$337,688	\$28,751	\$11,167	\$0	\$0
Chico Dairy Dairy Mart #72, Richwood Ave. Monongalia County	\$711,234	\$6,378	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
Chico Dairy Dairy Mart #73, Morgantown Monongalia County	\$396,522	\$113,283	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
J Q Dickinson & Co. Malden Kanawha County	\$145,426	\$40,752	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
Nicholas County Bd. Of Education Richwood Nicholas County	\$29,920	\$0	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
Prima Marketing, LLC Pantry Store #5606, Mannington Marion County	\$52,809	\$4,869	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
Rt 2 Shopping Center Ohio River Rd., Huntington Cabell County	\$0	\$14,244	Case closed	\$0	\$0	\$0	\$0	\$0	\$0

**ATTACHMENT A**  
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Southland Corp. Store #28310, Hedgesville Berkeley County	\$0	\$0	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
Wheeler-Clevenger Sunoco Express, Williamson Mingo County	\$341,620	\$0	Case closed	\$0	\$0	\$0	\$0	\$0	\$0
	<b>\$12,919,924</b>	<b>\$2,877,584</b>	<b>\$10,662,877</b>	<b>\$12,149,532</b>	<b>\$9,646,960</b>	<b>\$1,283,665</b>	<b>\$650,723</b>	<b>\$367,748</b>	<b>\$200,436</b>
				<b>Adjuster Costs</b>	\$336,000	\$100,183	\$68,479	\$54,387	\$46,022
				<b>Total</b>	<b>\$9,982,960</b>	<b>\$1,383,848</b>	<b>\$719,202</b>	<b>\$422,135</b>	<b>\$246,458</b>

Costs for 7 Priority Sites (first 7 sites listed above)				
FY2009	FY2010	FY2011	FY2012	1st half FY2013
<b>\$2,514,860</b>	<b>\$416,589</b>	<b>\$322,188</b>	<b>\$207,257</b>	<b>\$117,509</b>

(President Tomblin presides)

**AGENDA**  
**JOINT COMMITTEE ON GOVERNMENT AND FINANCE**  
**November 28, 2007**

3:00 - 4:00 p.m.

Senate Finance Room

1. Approval of October 9, 2007, minutes
2. Committee Reports/Requests:  
**Select Committee B - Veterans' Issues** (Senator Hunter and Delegate Fleischauer, Chairs) *Requests authorization to increase the amount of the contract with WVU from \$21,558 to, not to exceed \$25,000, for WVU to do a survey of returning veterans. – Aaron Allred*  

MOVE to increase the amount of the contract with WVU from \$21,558 to, not to exceed \$25,000, for WVU to do a survey of returning veterans, be authorized.
3. Monthly/Quarterly Reports Distribution:  
Status Reports on the Lottery Commission, General Revenue Fund and Unemployment Compensation Trust Fund
4. Workers' Compensation: *Jane Cline, Insurance Commissioner*
5. Division of Highways Audit
6. Monthly/Quarterly Reports Distribution:  
PEIA, BRIM, CHIP and Lease Report - *Donna Lipscomb*
7. Monthly/Quarterly Report Distribution from Department of Health and Human Resources:  
Medicaid Report - *Martha Walker, Cabinet Secretary, DHHR*
8. Monthly Report on the Pharmaceutical Cost Management Council: *Shana Phares, Chair*
9. Board of Treasury Investments Report Distribution
10. Department of Environmental Protection's Underground Storage Tank Fund Proposal Distribution
11. Other Business
12. Scheduled Interim Dates: December 9 - 11  
January 6 - 8, 2008
13. Adjournment

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BRIM  
CHIP  
Lease Report
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Medicaid Report
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Summary of Significant Deficiencies/Findings  
Other Comments and Recommendations

and

Other Required Communications

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November 16, 2007

To the Joint Committee on Government and Finance  
West Virginia Legislature

And

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

This letter is intended to inform the Joint Committee on Government and Finance of the West Virginia Legislature and management of The West Virginia Department of Transportation, Division of Highways (Division) about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to these parties.

In addition to our report dated November 16, 2007 on the Division's financial statements, we also issued a report dated November 16, 2007 on our consideration of the Division's internal control over financial reporting and on our tests of compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. That report noted certain reportable conditions/findings which are also summarized in this letter.

In addition, this letter summarizes various other comments and recommendations we noted during our audit of the Division's financial statements for the year ended June 30, 2007, as well as certain other communications required by auditing standards generally accepted in the United States of America.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service.

This report is intended solely for the information and use of the Joint Committee on Government and Finance 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 the specified parties.

  
Hayflich & Steinberg, CPA's, PLLC

West Virginia Department of Transportation

Division of Highways

Summary Listing of Significant Deficiencies/Findings, and Other Comments and Recommendations

June 30, 2007

Fiscal Year Ended

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**SIGNIFICANT DEFICIENCIES/FINDINGS**

Information Systems Controls	5	2007-1	2006-1	2005-1
Procurement of Architectural and Engineering Services			2006-2	2005-4
Evaluation of Consultant's Work (Current Year Comment)	30		2006-3	2005-5
Authorization of Overtime Pay (Current Year Comment)	37		2006-4	2005-6
Land and Leases	8	2007-2	2006-5	2005-7
Accounts Receivable Collection and Financial Reporting				2005-2
Independent Engineer's Cost Estimate				2005-3
Notice to Proceed Utility Delays	9	2007-3		
Payroll Authorization Procedures	10	2007-4		

**OTHER COMMENTS AND RECOMMENDATIONS**

*Internal, External and Procedures Compliance Audit Group*

External Audit Procedures	11	x	x	x
Outdoor Advertising	12	x		
Subrecipient monitoring of federal programs	12	x	x	x
Non-Compliance with Authorized Funding Techniques	14	x	x	
Internal Audit- Information Systems Review				x
Internal Audit and Procedures Compliance- Audit Methodology and Rotation				x
Audit Committee				x
Internal Audit - Findings Follow-up				x

*Information Systems*

Programming Controls	15	x	x	x
Computer Security Incident Response Plan	15	x	x	x
Disaster Recovery Plan Update	16	x	x	x
Windows Directory Access	16	x	x	x
Accounts payable electronic authorization	17	x	x	x
DMV cash register intruder lockout functionality	17	x	x	x
Dormant User Accounts	18	x	x	x
Backup procedures	18	x	x	x
Event log management	19	x	x	x

## OTHER COMMENTS AND RECOMMENDATIONS (Continued)

Project Record System (PRS) SQL Server Log Reviews	19	x	x	
PRS Field Application: Resource Management	20	x	x	
PRS Field Application: Password Policies and Management	20	x	x	
PRS Application Change Control	21	x	x	
Windows Network Audit Policy	21	x	x	
Windows Wireless Infrastructure	22	x	x	
Windows Patch Management	22	x	x	
Windows Obsolete Network Operating System (NOS)	23	x	x	
Windows User Rights	23	x	x	
Windows Anti-Virus	24	x	x	
Windows Generic User Accounts	24	x	x	
Software Licensing Agreements	25	x	x	
Request for Proposal (RFP) Adequacy	25	x		
IT Strategic Plan			x	
Server Build Standards Documentation	26	x		
Stale Computer Objects in Active Directory	26	x		
Time/Day restrictions	27	x		
Account Lockout Configuration	27	x		
User Access & Termination Forms	28	x		
Network Vulnerability Assessments	28	x		
Change Control Procedures	28	x		
Account lockout policy				x
On-line E-Commerce				x
Physical Access				x
User access segregation of duties				x

## OTHER COMMENTS AND RECOMMENDATIONS (Continued)

*West Virginia State Compliance*

Conflicts of Interest	29	x	x	x
Lease Receivables – Automatic Renewals	30	x	x	
Evaluation of Consultant's Work	30	x		
Leased Property Occupancy Prior to Payment			x	x
Lease Revenue - Fair Rental Value			x	x
Land			x	x
Lease Cancellations			x	
West Virginia Procedural Rule			x	x
Accounts Receivable Collection and Financial Reporting (PY Finding)			x	x
Waste Tire Remediation				x
Procurement - Advertisement of Bids				x
Monitoring of Disadvantaged Business Enterprises				x
Lease Renewals				x
Land - Property Sold				x
Commissioner and Property Management Lease Records				x
Lease and Property Records				x

*Other Comments*

Purchasing - Requisitions	32	x	x	x
Risk Analysis	33	x	x	x
Security of Inventory	36	x	x	x
Insurance Policies	36	x	x	
Idle Equipment Time	37	x	x	
Authorization of Overtime Pay (Prior Year Finding)	37	x		
Routine Work Travel Paid by the State			x	x
Purchase Card Credits			x	
Duplicate Payment			x	
Stale Dated Checks			x	
Accounts Receivable - Monthly Reconciliation				x
Inventory Control				x
Payroll Reconciliations				x

## SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL AND REPORTABLE COMPLIANCE AND OTHER MATTERS FINDINGS

In planning and performing our audit of the financial statements of the West Virginia Division of Highways (the Division) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Division's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### **Information Systems Controls (*Internal Control Finding 2007-1*)** (Partial Prior Year Finding)

The management of the Division is responsible for establishing and maintaining adequate information systems internal controls over financial reporting. Furthermore, an integral part of an entity's internal control structure is the effective segregation of duties, which involves assigning responsibilities for authorizing transactions, recording transactions and maintaining custody of assets to different individuals, thus reducing the risk of errors or fraud occurring and not being detected. Additionally, the Division entered into an agreement with the West Virginia Office of Technology (OT) dated February 1, 2007, pursuant to West Virginia Code Article 6 Chapter 5A, OT is to provide the Division with a standardized technology infrastructure from a centrally-managed technology infrastructure support organization. The expected benefit is a decline in technology cost, network and system availability is expected to improve, and security risks to diminish. Although the Division and West Virginia Code outsourced the technology infrastructure of the Division to OT the Division retains the final responsibility for establishing and maintaining adequate information systems internal controls over financial reporting.

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:

- Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Division had a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Division's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Division. By completing this review, the Division will have assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Division has not had a code review on all online/e-commerce applications utilized by the Division. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Division. (Noted in prior year)
- Programmers in the Division's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Noted in the prior year)
- The Division's Information Services Department is not notified immediately upon the termination of employees. Lack of notification to the Information Services Department in a timely basis increases the risk of unauthorized access to the information systems and data. Furthermore, the Division maintains several user accounts which are not for specific employees of the Division. (Noted in the prior year)

We recommend the following:

- The Division should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Division complete a code review on all online/e-commerce applications. Both of these reviews could be conducted under a statewide contract that is currently in place with IS&C. Furthermore, we recommend that the Division develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Division.
- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. The policies and procedures should address controls over development, testing, security, compiling, or moving of programs to the production environment. The Division should institute a formal programming policy, procedure, and project management process that provides controls that cover the necessary review of all aspects of the programming function both internally and at vendors used to develop programs and web based applications. If access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.

- The Division should establish policies and procedures to ensure that the Information Services Department is notified immediately of all employee terminations. The Division should also identify and document user accounts not utilized by employees but need within the servers, such as application and system accounts. User accounts deemed as unnecessary should be disabled or removed.

*Managements Response: Agree - The internal network is undergoing a multitude of changes including migration from the legacy DOT Microsoft Domain to the consolidated Executive Domain, network backbone infrastructure upgrades and upgrades to the Wide Area Network. The migration to the Executive Domain is expected to be completed by the second quarter 2008. Once the new infrastructure is in place, a vulnerability assessment will be conducted. DOT and Office of Technology (OT) will work together to determine if the assessment can be accommodated through OT or whether a third party will be engaged.*

**Land and Leases (Compliance and Internal Control Finding 2007-2)  
(Partial Prior Year Finding)**

Section 157-2-8 of the West Virginia Code sets forth various requirements regarding land and lease issues. West Virginia Code sections 17-2A-19, 5A-8-9, and 12-2-2 also address various criteria to be followed by the State regarding land and lease issues. We noted several issues relating to land and leases, including the following:

- There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further, although the Division has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances.
- There is no system to readily track leases or other property maintained by the Division.
- We noted that the one right of way auction there was no indication the sale was properly recorded in accounting due to the Right of Way division controlling the accounting instead of finance.
- We noted that the one right of way auction had not been removed from the records in a timely fashion due to a conflict as to where the sales proceeds should be applied.

We recommend that the Division develop policies and procedures to establish sound record keeping and internal controls to address the issues noted above. Furthermore, the Division should review the information systems utilized for tracking land by the various departments and determine whether internal programming efforts can enhance the integration of the information systems utilized by the various departments.

*Managements Response: Agree - The Division had two presentations by outside vendors for a right of way tracking system during the past six months. The systems presented would allow for a complete tracking of the right of way process per parcel, project, and even individuals assigned. The Right of Way Division's proposed budget for FY 2008 included a line item for a similar system. Should this be approved a request for proposal and bidding process would be started.*

*Districts are now submitting quarterly reports to allow central office to track acquisitions, sales and leases. The Division is currently working on developing our own system to track leases.*

*The subject property and structure were acquired for Highway Project APD-0484(115), Parcel 28 - Hardy County. The property was purchased as an uneconomic remnant from the owners. Being the property and structure were not needed for highway purposes, the district requested a Property Management authorization to auction the property and structure. Therefore, the Chief of Federal Aid (Right of Way) asked FHWA whether the sale should be credited to the statewide sale of federal-aid excess property or the APD project. The property was removed from the records as soon as response was given. The Division will review its' current policies and procedures and make recommendations to establish sound record keeping and internal controls.*

### **Notice to Proceed - Utility Delays (Compliance and Internal Control Finding 2007-3)**

The management of the Division is responsible for establishing and maintaining adequate controls related to issuing formal "notices to proceed" stipulating the date on which it is expected that a contractor should begin work on an awarded contract.

- There were fifteen instances identified where contractors were provided with a formal notice to proceed prior to securing proper authorizations to proceed from utility companies resulting in idle equipment rental charges from contractors.

We recommend that the Division develop policies and procedures to eliminate its exposure to idle equipment rental charges.

*Managements Response: Agree - The projects in question were designed and programmed prior to the acceptance of the compromise bill. A delay in the advertisement of these projects placed them in lettings after agreements had been made. The Division failed to follow policies and procedures by not reviewing the Utility Status Dates in the contracts and by not requesting the Utilities to review and revise the dates they provided. By following the current policies and procedures, the Division should eliminate its exposure to idle equipment charges due to Utility Delays.*

**Payroll Authorization Procedures (Compliance and Internal Control Finding 2007-4)**

The management of the Division is responsible for establishing and maintaining adequate controls related to the approval of payroll for employees of the Division.

The daily labor reports (DOH – 12) are not being properly approved prior to entry in the Division's payroll system.

We reviewed 40 individual employee payroll cash disbursements during the fiscal year ended June 30, 2007 and noted the following:

- There were 16 instances identified where there was not approval of the daily time sheet.
- There were 4 instances in which the annual leave form was not approved by a supervisor.

The Division appears to have sound policies and procedures in place for the approval of individual employee pay but has failed to actively enforce the procedures. We recommend that the Division enforce and monitor existing payroll authorization procedures.

*Managements Response: Agree - The Division's managerial staff will stress to our supervisory staff the importance of this functional control. It is certainly management intent to have all employees accountable for all payroll related matters.*

OTHER COMMENTS AND RECOMMENDATIONS

## 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 and other matters 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

#### **External Audit Procedures** (Prior Year Comment)

Traditionally, the External Audit group has examined every proposal and every invoice for each external vendor based on their interpretation of West Virginia State Code Section 17-3-4. Effective May 18, 2006, the Division Commissioner approved a change to the third party final cost audit requirements. Now, the External Audit Group is not required to perform an audit on final cost audits of third party negotiated contracts that are less than the petty purchase amount of \$100,000.

We recommend that the External Audit Group continue to follow the new policy while continuing to challenge their processes and continuing to gain efficiency, effectiveness, and timeliness. Furthermore, this would also allow the Internal Audit Group to remain focused on Internal Audit risk areas of the Division.

*Managements Response: Agree - Auditing Division is addressing this recommendation by revising our methodology for reviewing final audits. Since March 2007, we have been working with the various contracting divisions to ensure that interim invoices are more thoroughly reviewed at the time of receipt. By ensuring invoices are reviewed at the division level it will be possible to cease the final audit process we currently use. In order to provide adequate audit coverage we will audit a sample of all paid invoices on a semi annual basis.*

*We have set a goal of early 2008 for completion of final audit work of all final invoices in the current backlog. We are currently training the divisions and districts in review of interim invoices. Once these two areas are addressed we will fully implement our plan to cease the final audit review.*

*This new methodology will allow auditor resources to be redirected to the performance of more internal audit work and facilitate a more effective audit function for the Department.*

## Outdoor Advertising

The review of revenue generated from the outdoor advertising program indicates a lack of control over financial reporting. Revenues reported on the trial balance consist of cash receipts on the program with no amount disclosed as outstanding and unpaid by licensees.

We recommend that the Division develop policies and procedure to better account for the revenue.

*Managements Response: Agree - Management concurs with the recommendation and will take all steps necessary to have the Accounts Receivable Section invoice and account for all outdoor advertising revenue and receivables.*

## Sub-Recipient Monitoring of Federal Programs (Partial Prior Year Comment)

Pass-through entities are required to develop monitoring procedures including programmatic and financial monitoring to ensure subrecipients have used federal funds for authorized purposes. The Division performs some monitoring activities related to its subrecipients; however, the Division does not have a formalized monitoring plan in place to ensure that federal funds are spent for authorized purposes. We specifically noted the following items.

- The Division does not perform desk reviews.
- There is no corrective action or auditee response to the noted findings for some of the items tested. There is no way to determine whether findings were sufficiently addressed.
- One instance was noted where a report was not received within 9 months of fiscal year end for one of twelve items tested.
- The audit report of the subrecipient was not stamped when received for two of twelve items tested

We recommend that the Division develop a formalized desk review monitoring plan that includes the scope, and the monitoring procedures to be performed. The plan should be developed to ensure compliance with the requirements of the Office of Management and Budget Circular A-133.

***Managements Response: Agree***

- *All of our projects are subject to, and actually do receive, audits performed by the WVDOH Auditing Division at the completion of each project. In addition, each invoice submitted by a project's Sponsor is reviewed and approved by the project manager and the SPR Accountant prior to payment. An A-133 audit is the yearly audit performed for the Sponsor if reimbursement to the Sponsor meets or exceeds \$500,000 in federal funds during the fiscal year under which the project is developed. This is a total amount that may include federal funding from other sources, not just the WVDOH. In many cases we have reimbursed a Sponsor less than \$100,000 and the Sponsor has received over \$400,000 from other sources. Since these are in-depth audits often concerning other federal funding agencies than ours, we forward them to the WVDOH Auditing Division for their review. However, we understand that the Auditing Division does not intend to review these audits on a routine basis. Our staff is not qualified to review and comment on such audits in depth. We are greatly concerned that if we become the last office to review them, we will ultimately be held responsible for the "correctness" of these audits whether the WVDOH is the primary grantor agency or not. We feel that the audit/review process would be better served if an accredited in-house auditor were to routinely examine the A -133 audits following a review at our level. If this were the case, we would be far more comfortable performing our own reviews, as they relate to our own grant programs, particularly for those projects that receive \$500,000 or more in reimbursement from WVDOH within a given fiscal year.*
- *In the future, we will attach a note regarding any required actions taken on an audit report.*
- *This is, and will likely continue to be, a problem. Fiscal years are varied and audits are often received late. Even those audits done through the State Auditor's office have been coming in late. We will keep working on this, but in many cases this is an issue beyond our direct control.*
- *We will attempt to stamp each report as received.*

**Non-Compliance with Authorized Funding Techniques**  
(Prior Year Comment)

According to Section 6.2.1 of the *Treasury State Agreement (TSA)*, the composite clearance funding technique requires that the State request Federal funds such that they are deposited on the dollar-weighted average number of days required for funds to be debited from the State's account for a series of disbursements as determined by the Highway Planning and Construction Cluster program's clearance pattern.

From discussions with Division staff, it was determined that the Division has not properly implemented the composite clearance funding technique for payroll costs for programs 20.205, *Highway Planning and Construction*, and 23.003, *Appalachian Development Highway System*. According to Division staff, personnel costs that are chargeable to the Federal programs are entered into Division's billing system as the time is worked. The Division's system then accumulates these costs, along with other direct costs, to determine the amount of Federal funds to be drawn. The funds are drawn such that they are deposited ten days from the request date. Since all personnel at Division are paid in arrears, this results in the Federal funds being deposited in the State's accounts up to twenty-four days in advance of the payroll disbursements clearing the State's accounts.

It appears that when the West Virginia State Board of Investments (the State agency previously responsible for the Cash Management Improvement Act (CMIA)) was working with the Division to implement the composite clearance funding technique there was no differentiation made between how funds were to be drawn for payroll costs and how funds were to be drawn for program costs. Additionally, when the CMIA was implemented, all State employees were paid current. Because of this, at the time the funding technique was first implemented, the method for drawing funds for payroll costs may have substantially complied with requirements for the composite clearance funding technique.

The funding method employed by the Division for payroll costs does not comply with the authorized funding technique as outlined in Section 6.2.1 of the *TSA*. This may result in each program having generated a State interest liability on payroll costs for fiscal year 2006 and 2007.

The Division Staff should continue to work with the Treasurer's Office to resolve this issue.

**Managements Response:** *Agree - The Department will continue to meet with the State Treasurer's Office Staff in regards to CMIA issues. The Department has worked over a decade in establishing clearance patterns for reimbursable funding from FHWA. Currently, the Department provides the State Treasurer's Office the information requested and will continue to provide and work with them to meet the requirements of the CMIA review.*

## Information Systems

### **Programming Controls** (Prior Year Comment)

In response to our comment in prior years, the Division has drafted policies and procedures for programming controls; however, the policies and procedures do not address controls over development, testing, security, compiling, or moving of programs to the production environment. Furthermore, there is no formal standardized programming project management process to control programming projects from inception to completion. A formal programming policy, procedure, and project management process can provide controls that cover the necessary review of all aspects of the programming functions.

We recommend the development and use of a comprehensive programming policy and project management procedure to control programming functions both internally and with vendors used to develop programs and web based applications for the Division.

*Managements Response: Agree - These policies and procedures would have to be established as a joint effort by the programming managers. Some policies would apply to the mainframe system but not to the personal computer environment and vice versa.*

*Our exception to the comment is noted below:*

*Although all phases of a project are not covered in the policies and procedures, control is addressed in the area of moving programs to production. Only the section managers and database administrator have access/authority to move programs to production and to replace them in the program libraries. Therefore, a programmer analyst cannot change production or update the production library.*

### **Computer Security Incident Response Plan** (Updated Prior Year Comment)

OT is in the process of implementing an institution wide IRP (Incident Response Plan), which was provided for our review. While deemed to be adequate, this plan was not finalized and was not in place at the time of our review. An Incident Response Plan provides methods to pursue a quick and clear containment and recovery from a security event.

We recommend OT finalize, and implement the Incident Response plan at the Division. Additionally, we recommend the OT perform security training to staff pertaining to the purpose and usage of the newly developed incident response plan.

*Managements Response: Agree - The OT is in the final review stage for the Security Incident Management Plan. Expected acceptance of plan 1Q 2008.*

*A security training program for staff is in development and will include Incident Response.*

## **Disaster Recovery Plan (DRP) Update** (Updated Prior Year Comment)

The existing DRP for the Division is now maintained by OT, but does not include specific details pertaining to the restoration of services for the Division. Additionally, the DRP has not been tested. The lack of clear, documented priorities will prevent OT from restoring the most important processes and respective dependencies at the Division in the event of a disaster. Additionally, adequately testing the DRP decreases the risk that OT and the Division would be unable to respond to a disaster event.

We recommend that OT enhance the DRP to include specific details on the restoration of services and business units pertaining to the Division. Additionally, we recommend that OT develop a process where the DRP is adequately reviewed and tested on an annual basis.

***Managements Response: Agree** - Though no documented DRP existed prior to consolidation to the OT. The OT can provide DR on a limited basis to the DOT, however, formal planning and testing has not taken place. As part of the ongoing IT consolidation, the OT has continued to refine the general DRP to identify and include the necessary level of detail for each covered Agency. The finalized plan will include testing schedules and metrics, as well as the review process for the same. The OT has identified a dedicated resource to facilitate DR planning.*

## **Windows Directory Access** (Prior Year Comment)

The "Everyone" group was found to have full access to two (2) shared folders, and read & execute permissions on three (3) shared folders on servers tested. When the "everyone" group is used to grant permission to directories and files, all users obtain those granted permissions. The "everyone" group's access permissions should be removed from share access to ensure data confidentiality and reduce the risk of unauthorized access.

We recommend OT remove the "Everyone" group's access permissions to all directories and files. In addition, policies and procedures should be established for when new directories or shares are created, their access is appropriately configured.

***Managements Response: Agree** - The OT is working through a redesign of the DOT Windows Directory Access as a part of the migration to the Executive Domain. This, and several other general security related concerns will be resolved as part of the final network migration into the Executive Domain. The Account Management Section within OT is responsible for all aspects of resource provisioning; to include user and share creation, deletion modification. This is done according to established documented policy and procedures.*

*The Everyone Group has been removed from all identified shares.*

## **Accounts Payable Electronic Authorization**

(Prior Year Comment)

The Division relies on the internal controls established in REMIS, the internal accounting information system utilized by the Division. Accounts payable invoices are authorized for payment in the REMIS system prior to transferring the approved invoices for payment into the West Virginia Financial Information Management System (FIMS). The electronic authorization for an invoice to be paid is made automatically when the REMIS system entry is set to "pay" the invoice by accounts payable staff. Accounts payable staff activate the "pay" status after they have matched the approved purchase order, receiving report and invoice, all with the proper internal approvals. The authorization occurs nightly as the "paid" invoices are processed from REMIS into the FIMS application. If the origin of the payment entry is accounts payable staff, the accounts payable supervisor's electronic authorization is attached to the transaction. This is done without a review of each payment by the accounts payable supervisor which is the electronic authorization accepted by the West Virginia State Auditor's Office in the FIMS system.

The use of an electronic authorization without the review by the accounts payable supervisor of the document being authorized circumvents the approval process. We recommend that electronic authorizations for transactions be performed only after a review of the transaction is performed by the authorizing individual.

*Managements Response: Agree – The Division of Highways is currently moving towards the scanning of invoices to the State Auditor's Office. Once fully implemented the scanning process should resolve this finding as the Accounts Payable Clerk is tracked in the payment paying process.*

## **DMV Cash Register Intruder Lockout Functionality**

The DMV Cash Register system does not provide intruder detection controls. Intruder detection limits the number of invalid login attempts a user has to access the Cash Register system. Unauthorized users often attempt access to an application with the use of password cracking utilities. Intruder lockout functionality limits the ability to run such utilities preventing unauthorized access to the application.

We recommend the DMV request that the Cash Register vendor provide intruder detection to the Cash Register System, and configure it for three (3) invalid login attempts. This will ensure that the Bank is notified of unauthorized and invalid attempts to access the network. Exceptions should be formally documented per the Bank's information security policy.

*Managements Response: Agree - DMV will request the Cash Register vendor to provide intruder detection and configure it for three (3) invalid login attempts.*

## **Dormant User Accounts** (Prior Year Comment)

There were eight (8) dormant user accounts found on the Cash Register System, five (5) dormant accounts found on the Windows Network information system, four (4) dormant user accounts found within the PRS system, and five (5) active user accounts for which Human Resources had no record of employment, but which may be used for external contractors. Dormant user accounts increase the risk of unauthorized system access.

We recommend OT and the Division implement procedures to ensure terminated employees are disabled or removed in a timely basis. Additionally, we recommend OT and the Division implement procedures to ensure that all active domain user accounts can be accounted for.

*Managements Response: Agree - For the Windows Network: This, and several other general security related concerns will be addressed as part of the final network migration into the Executive Domain. The Account Management Section within OT is responsible for all aspects of resource provisioning; to include user and share creation, deletion, modification. This is done according to established documented policy and procedures.*

*In the interim, the OT has employed scheduled reports of existing accounts. These reports are designed to identify 'stale' accounts; which are defined as accounts with no activity for 30 days. This report is generated every 30 days, and identified accounts are then disabled until further review specifies the correct course of action.*

## **Backup Procedures**

OT has not fully documented procedures for daily network backups of all Division resources. Properly documented procedures provide assurance that backup activities are providing the Division with adequate protection from permanent loss or destruction of data. Documentation is also important in providing assurance that the process can be performed in the event of staff turnover or if IT employees that normally perform the process are unavailable.

We recommend OT formally document the network backup procedures.

*Managements Response: Agree - As part of the consolidation to the OT, the lack of documented backup procedures and or policies from DOT originally made this area of concern particularly difficult for the OT to address. Going forward, the OT has spent a significant amount of time and resources addressing this issue in particular. As part of the overall migration, the OT will include the identified DOT backup processes into the existing OT Data Center backup model. At that time the OT will provide detailed documentation of the process and procedures. In the meantime, an established interim process has been put into place.*

**Event Log Management**  
(Updated Prior Year Comment)

OT does not have an effective or efficient process to manage events on the Division's network. Proper event log management decreases the risk of a security event going unnoticed.

We recommend that OT implement a process to manage network event logs. A third party tool could assist OT to centrally manage the logs, review reports, and archive events for storage.

*Managements Response: Agree - The OT has since deployed the Enterasys Dragon Security Command Console (DSCC). The DSCC is currently logging all access for DOT's VPN, Firewall, FTP and Domain Controller. These logs are being correlated with the Enterasys Network Behavioral Detection sensor and NetFlow (collected from DOT's core routers).*

**Project Record System (PRS) SQL Server Log Reviews**  
(Prior Year Comment)

The PRS SQL Server generates application and security logs, which management of the Division indicated are reviewed frequently. However, the reviews are not evidenced with a sign-off. Event logs provide details that include evidence of intrusion, problems within the SQL server, and general health of the application. Reviewer signoff on SQL application and security logs provides assurance that unusual activity is investigated.

We recommend all reviewed SQL logs be evidenced with sign-offs.

*Managements Response: Agree - We feel our current process of reviewing SQL logs is sufficient. It is our intent to improve the documentation of this review, so it can be ascertained a major problem would not go undetected.*

**PRS Field Application: Resource Management**  
(Prior Year Comment)

The Division has devised a process, and developed an application that allows field offices and remote users to connect to their PRS database resources via a Virtual Private Network (VPN) connection. However, the Division does not own the workstations or laptops that are being used by consultants who utilize the PRS Field version of the application. The Division cannot be sure that the computers attaching to the Division's network have up to date Antivirus definitions, critical patches or service pack levels. Computers that are not adequately protected, or are infected with a computer virus can infect, or otherwise damage network resources within the Division.

We recommend that the Division implement a higher level of control over remote client computers, and implement a process or procedure to assure that client antivirus software, critical patches and service pack levels are up to date.

*Managements Response: Agree - The OT is evaluating products and technologies to address this concern on an enterprise level. As stated in prior year reports, the WVDOT does not own the desktop/laptops used by contractors accessing the PRS system. The contractor is required to bring in the desktop/laptop prior to project start date. The PC/LAN staff checks for antivirus software, critical patches and that service pack levels are up to date. The VPN connection limits access to the specific PRS server and application program and files only.*

**PRS Field Application: Password Policies and Management**  
(Prior Year Comment)

The Division has devised a process, and developed an application that allows field offices and remote users to connect to their PRS database resources via VPN connection. This functionality is made possible by three control mechanisms, each with its own independent password. These passwords cannot be changed by the end user due to system limitations of the Cisco VPN solution, and database authentication method that is in use. Weak password parameters and management practices increase the risk of unauthorized access to the system.

We recommend that the Division develop and implement specific password policies and procedures that require passwords for these control mechanisms to be manually changed at regular intervals.

*Managements Response: Agree - The VPN password will be migrated to authentication through Active Directory at the post Executive Domain migration period. Authorized users of PRS are recognized from their network logon identification. To logon to the network (and thereafter access PRS or any other program authorized for the user), users must enter their assigned logon ID and current unique password. Network logon passwords are subject to the DOT's password policies and this method of user identification is common across all DOT network applications and works effectively at this time.*

### **PRS Application Change Control**

(Prior Year Comment)

The Division has methods and mechanisms that are in place regarding change management for the PRS application; however, these changes do not go through a formal change control process. Parameter and database structure changes and other such modifications are performed by the administrator without formal authorization. The lack of a formal change control process increases the risk of inappropriate or unauthorized changes being made to the system.

We recommend that the Division develop and implement a formal parameter change control procedure for the PRS system.

*Managements Response: Agree - Requests are made to the manager of PC/LAN applications and will be reviewed by the Director of Information Services. If approved, changes will be logged and processed. Microsoft Source Safe source code librarian is used to track changes. The updates are then distributed to the Districts and remote sites.*

### **Windows Network Audit Policy**

(Prior Year Comment)

The existing Audit Policy on the Division's Microsoft Windows network needs to be improved to record additional information. In addition, the server security log sizes are not set to record and retain information to sufficiently investigate a security incident. System auditing tracks system level events such as logons and file and directory access. It can provide valuable information in the event of an unauthorized network intrusion.

We recommend that OT enhance the use of the Audit Policy to record the following events:

<b>Audit Policy</b>	<b>All Devices</b>	<b>Domain Controllers</b>
Account logon events	None	Success and Failure
Account management	Success and Failure	Success and Failure
Directory service access	None	Success and Failure
Logon events	Success and Failure	Success and Failure
Policy change	Success and Failure	Success and Failure
Process tracking	Success and Failure	Success and Failure
System events	Success and Failure	Success and Failure
Object access	Where applicable	Where applicable
Privilege use	None	None

In addition, we recommend OT increase the size of the logs between 16MB and 199MB depending on the frequency of log archival

**Managements Response: Agree** - The above referenced guidelines are reflective of the overall design for the Executive Domain. The Client Services Delivery section of OT will continue to work with the Security group within OT to develop and implement standardized event logging and retention log size. Where possible, the OT has incorporated the same within the existing DOT domain. This initiative on the legacy domain has been limited due to barriers in connectivity, access, and hardware age and condition.

#### **Windows Wireless Infrastructure** (Prior Year Comment)

We were able to connect to an unsecured wireless access point connected to the Division's network. Additionally, the Division is using 128 bit WEP encryption on their wireless bridge, which is externally mounted on the Division's building. This device is configured to provide wireless access to the Division network for detached clients outside of the physical building. WEP technology has many known weaknesses that increase the risk of unauthorized access to data.

We recommend that OT remove the unsecured wireless access point from their network, and strengthen their encryption levels on their wireless bridge. In addition, we recommend that the Division implement a Wireless Intrusion/Prevent Systems that will alert management when unauthorized wireless devices attempt to connect to their network.

**Managements Response: Agree** - The unsecured wireless access point was removed from the DOT network at the time of discovery. The wireless bridge is planned to be replaced by a traditional data circuit to improve reliability. WPA2 security standards will be implemented on all future wireless deployments and will include radius authentication.

#### **Windows Patch Management** (Prior Year Comment)

Ten (10) sampled Division servers did not have the most current Microsoft service-pack. Implementing service packs on a timely basis decrease the risk of unauthorized access caused by operating system vulnerabilities.

We recommend that OT review and enhance the current patch management program to ensure that all Division servers and workstations are updated to current service pack and available hot fix levels. In addition, a formal change control process should be implemented to ensure any system or configuration changes are appropriately authorized.

**Managements Response: Agree** - This has been corrected. The OT has incorporated the DOT network into its existing Microsoft Windows Server Update Services infrastructure patching system. This is parented out of the OT, and includes the existing Executive Domain as well. The process has been formalized.

### **Windows Obsolete Network Operating System (NOS)**

(Prior Year Comment)

The Division is utilizing one (1) Windows NT 4.0 server and one (1) Windows NT4 workstation in their production network environment. This operating system has not been supported by Microsoft since 2004. Windows NT Server 4.0 cannot adhere to the Division's intended network security policies, due to features that do not exist on the NOS. Lack of adequate systems security and use of an unsupported operating system may provide the opportunity for unauthorized access to systems and data.

We recommend that the Division replace the Windows NT 4.0 servers with equipment running the most current NOS.

*Managements Response: Agree - The Windows NT environment is currently required to support a business application. Testing is being conducted to determine whether the issue can be resolved by utilization of an NT4 virtual image on a Microsoft XP Professional system. If the virtual machine is unsuccessful, the OT will physically segment these devices from the network until the DOT is able to replace the business application. As stated in prior year, an RFP for a new business system is in process.*

### **Windows User Rights**

(Prior Year Comment)

Local users on domain member servers have "access this computer from the network" rights. This setting will allow a user to log into the server from the network using a local account, bypassing domain security.

We recommend that the Division restrict the rights to the setting "access computer from the network" strictly to domain users on the member servers.

*Managements Response: Agree - This implementation of this process has been ongoing for the existing DOT domain. Once the migration to the Executive Domain has been completed, this will no longer be an issue.*

**Windows Anti-Virus**  
(Prior Year Comment)

Virus protection software has not been installed on three (3) of the ten (10) Division servers selected for testing. Additionally, two (2) servers were found to have virus definitions that were out of date. Unauthorized users can inadvertently or deliberately infect the network with highly damaging viruses or malicious software. Once infected, the containment and restoration process may render the network, databases and other related resources unusable for a period of time.

We recommend that OT install anti-virus software on all servers and develop procedures to ensure virus signature files are frequently updated.

*Managements Response: Agree - This issue has been resolved. Antivirus is installed on all DOT servers and is updated through a standard routine update process.*

**Windows Generic User Accounts**  
(Prior Year Comment)

Of the 100 users sampled, we detected seven (7) generic user accounts on the Division's Active Directory network. While these user accounts appear to be needed for business purposes, they have not been documented. Generic user accounts do not provide for individual accountability and increase the risk of unauthorized access going undetected, and increase the risk of unauthorized system access.

We recommend that OT disable and delete generic user accounts or provide compensating controls with their use. Examples of compensating controls include setting stronger account restrictions and password controls by initiating a password on each user account, restricting the user account to specific workstations, and maintaining daily logs of users assigned to generic user accounts. In addition, we recommend that OT document all generic, system and application user accounts.

*Managements Response: Agree - The process of identifying and removing duplicative and/or unnecessary generic accounts within the existing DOT domain has been ongoing. The accounts that have been identified as necessary have been documented and have strong controls implemented, as well as listing the individuals the OT has been informed of having access.*

*At the completion of the migration to the Executive Domain, the use of windows generic accounts will be limited to defined service roles only and will be audited.*

**Software Licensing Agreements**  
(Prior Year Comment)

The Division does not have a system in place to ensure compliance with all software licensing agreements.

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

*Managements Response: Agree - The DOT and OT will work cooperatively to ensure the licenses acquired by the DOT are reflective of the installed software base. When the migration to the Executive Domain is complete, the OT will deploy an automated inventory tool which will enhance and formalize this process.*

**Request for Proposal (RFP) Adequacy**

We reviewed the RFP (Request for Proposal) that has been drafted for the replacement of the existing DMV cash register system. Our review reveals that there are no requirements pertaining to the encryption of credit card numbers stored or cached within the system. Deficiencies in an RFP may cause the Division to purchase a software solution that does not, or cannot meet all the requirements of the organization.

We recommend the DMV review the existing RFP, and include requirements pertaining to the encryption of locally stored sensitive data, and, to be sure that all other organizational requirements are included.

*Managements Response: Agree - Suggested language has been received from our IT Auditors and was added in the final RFP.*

## Server Build Standards Documentation

OT has not fully developed a server build standard guide. Server build standards include information regarding the configuration of servers, and help IT staff to ensure that servers are configured appropriately. A server build standard should include, but may not be limited to:

- Sensitive application services;
- Security parameter configuration;
- Required exceptions;
- Protocols in use; and
- Standard software installation list.

Documentation of items listed above will help to ensure exceptions related to server configuration, such as the ones noted in the report, will be limited.

We recommend that OT establish documented server build standards to ensure that servers are configured according to established standards.

*Managements Response: Agree - The OT has an existing team charged with the building of servers, and has defined base installation instructions for the general server roles. Exceptions to the standard builds are documented.*

## Stale Computer Objects in Active Directory

We identified multiple stale computer objects in the Active Directory database. Inspection of servers and workstation objects finds there to be 102 registered "Windows NT4" computer objects in the Division's Active Directory database. These stale objects represent computer accounts that are no longer in use, but that still exist within Active Directory. The existence of stale objects in Active Directory can create security concerns and could present problems in the event that Active Directory restoration would need to be performed.

We recommend that OT remove these objects from the Active Directory database. Additionally, we recommend that OT create a procedure to ensure that accounts for retired computers have been completely removed from Active Directory.

*Managements Response: Agree - The process for the legacy DOT Domain does not include the deletion of stale PC accounts. They are instead disabled then moved to a designated container specifically defined for this role.*

*Once the migration to Executive Domain has been completed, this will no longer be an issue. The Executive Domain has automated processes to prune these types of machine accounts on regular intervals.*

## **Time/Day Restrictions**

OT is not utilizing the time/day restriction feature for Windows user accounts. This feature allows the Organization to restrict users from gaining network access during non-business hours thereby reducing the risk that unauthorized users exploit these user accounts to gain access to the network.

We recommend that OT develop and implement time/day restriction standards that cover a significant majority of the user population. Both the standards and approved exceptions should be documented per the IT security policy.

***Managements Response: Agree** - The OT believes that implementation of Time/Day restrictions is a business decision and technology plays a supportive role. The OT can implement these restrictions and document upon request by DOT. The OT will work with DOT to determine if and or when restrictions will be put into place as standard part of the planning process of migrating to the Executive Domain.*

*The Information Security Group within OT will consider modifying the applicable security policies to incorporate Time/Day restrictions.*

## **Account Lockout Configuration**

The Account Lockout Policy on the Microsoft Windows network is not configured adequately. The account lockout threshold is currently configured to seven (7) invalid login attempts. Unauthorized users often attempt access to a network with the use of password cracking utilities. When set properly, intruder detection limits the ability to run such utilities preventing unauthorized access to the network.

We recommend the Windows Account Lockout Threshold to be set to three (3) invalid logon attempts.

***Managements Response: Agree** - The recommendation is in fact the standard on the existing Executive Domain, but has not been implemented on the legacy DOT domain. This will be resolved upon completion of the migration to the Executive Domain.*

## **User Access & Termination Forms**

OT was unable to produce eight (8) out of fifteen requested user access forms, and zero (0) out of fifteen requested user termination forms. User authorization form and termination forms provide crucial information to update employee user accounts in the designated application (s), maintain an audit trail of changes to user permissions and ensure accounts belonging to former employees are disabled in a timely manner. The lack of such documentation increases the risk of unauthorized access to system resources.

We recommend that management enhance the existing procedures of add/change/delete authorization forms to ensure that any change in employee status is accounted for.

*Managements Response: Agree - This, and several other general user account related concerns will be addressed as part of the final network migration into the Executive Domain. The Account Management Section within OT is responsible for all aspects of resource provisioning; to include user and share creation, deletion, modification. This is done according to established documented policy and procedures.*

## **Network Vulnerability Assessments**

There is no documented evidence that OT has performed or had third party internal or external network vulnerability assessments of the Division's network structure. By completing these types of review, the Division will have assurance that perimeter network resources, network devices and server platforms are protected from current and emerging threats and vulnerabilities.

We recommend that OT complete a vulnerability assessment of the internal and external network environment at the Division.

*Managements Response: Agree - The OT InfoSec is currently working to procure Tenable Security Center or equivalent. We expect this purchase to be made by 2<sup>nd</sup> quarter 2008. This will provide DOT with ongoing vulnerability discovery and remediation. This will also allow DOT to be audited for policy compliance.*

## **Change Control Procedures**

OT has not documented change control procedures for the Division's network, including changes to the firewall, router, switches, server, and workstations. Lack of documented change control policies and procedures increase the risk of unauthorized changes to network devices.

We recommend that OT document change control policies and procedures over network devices.

*Managements Response: Agree - The OT is in the initial stages of developing a change management process. A change control log for Servers has been initiated, and Configuration Control Board for PC devices is in place.*

## West Virginia State Compliance

### **Conflicts of Interest**

(Partial Prior Year Comment)

Chapter 17-2A-5 of the West Virginia State Code states in part that: "No person, while in the employ of or holding any official relation to any person, firm or corporation selling or furnishing materials entering into the construction, reconstruction, repair or maintenance of any state roads or highways, or any part thereof, or who is pecuniarily interested therein as a stockholder or otherwise shall be appointed commissioner or be otherwise employed in any capacity or employment by the commission or commissioner." Furthermore, Section II, C-13 of the Division's policies and procedures regarding conflicts of interest states in part that, "Generally, it may be concluded that there is a conflict of interest in an employee's public position if the combination of official and outside activities result in any of the following: (1) Cause or appear to cause the treatment of official duties with anything but complete impartiality; (2) Cause or appear to cause the use of public position for personal gain; or (3) Interfere with or impair the efficiency of performance in the public position.

Areas of concern related to conflict of interest which should be addressed include: (1) employees with significant approval power for contracts who take employment with such contractors; (2) employees who have immediate family members with financial interest in businesses which contract with the Division; (3) employees who may have other employment with vendors who supply the Division; and (4) family members who may work together or may approve each other's time or other projects.

Through inquiry and observation, we identified several employees with significant approval authority that did not have conflict of interest statements on file.

We recommend that the Division work with the West Virginia Ethics Commission to prepare and maintain a list of the employees with significant approval authority and obtain conflict of interest statements from them and initiate an education process identifying and defining potential conflicts of interest. We strongly recommend that this policy be implemented and followed through to ensure that the Division is practicing acceptable methods of protecting itself from potential self-dealing issues.

***Managements Response: Agree – The Director of the Ethics Commission and the Director of Finance Division have already had verbal discussion concerning this issue. Hopefully, we will resolve the issue prior to the calendar year.***

**Lease Receivables - Automatic Renewals**  
(Prior Year Comment)

Both the Division and Mountaineer Gas have assumed responsibility of the lease agreements between the original parties in the lease agreement (New York Central Railroad and United Fuel Gas Company). The original leases were established in 1947 as a utility easement. They are set up as automatic renewals and the latest documentation contained in the file is a Lease Receivable Notice Report dated 1994. Further, no appraisals were found in the files. Lease numbers are 0352-0120, 0353-0120, 0356-0120, and 0354-0120.

We recommend that the Division review these leases to see if the amounts are still reasonable and periodically review them for updates as needed.

*Managements Response: Agree - The above referenced leases have now come to term and by letter dated August 17, 2007, the District notified Mountaineer Gas Company the leases are being cancelled. The company is to obtain utility permits for these easements.*

**Evaluation of Consultant's Work**  
(Prior Year Finding)

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 states that: "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. On contracts where the final product has been accepted by the Division but the final invoices have not been paid, the consultant will not need to be evaluated..."

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

Through inquiry and observation it was determined that the Division has not finalized and implemented its new procedures for evaluating consultant's work. Our attribute testing focused on nineteen large projects in which all nineteen projects received final evaluations but not all were performed in a timely fashion.

We recommend that the Division adopt and implement policies to be in compliance with West Virginia Code Section 157-1-7.10.

*Managements Response: Agree - In the late 1990's, the DOH, working in conjunction with the American Council of Consulting Engineers of West Virginia (ACEC of WV) developed a new evaluation form for reviewing work by consultants on highway projects. At the same time, the DOH and ACEC of WV wrote up a process by where the evaluation would not only be done annually and at the end of the project, but also during various milestones of the project such as preliminary office review, final office review, etc. These additional evaluations were intended to provide more feedback to the consultants as to how well they were doing rather than just once a year. It was also a process agreed upon by only the DOH and the ACEC of WV. It was not officially approved by the FHWA, nor was it implemented into the West Virginia Code or the Code of State Rules. The additional evaluations turned out to take a lot more time than originally thought; therefore, the DOH was not able to make all the evaluations agreed upon by the DOH and ACEC of WV. Due to the high workload and many other demands on the Project Manager's time, many of the evaluations required at various milestones were not done. Trying to comply with providing evaluations at so many milestones hindered the DOH's ability to even be in compliance with Section 157-1-7.10 of the Code of State Rules.*

*In order to be in compliance with the Code of State Rules, the DOH will no longer require evaluations of consultants at various milestones, but will require evaluations be made once a year on every active project, and an evaluation performed at the completion of each active project. The annual evaluations will be completed in March on all active projects.*

*To enable us to be in compliance with the Code of State Rules, the following steps have been taken:*

- 1. The Section Head of the Review Section of Engineering Division has been tasked with the responsibility of seeing that evaluations for all active consultant projects be performed in March of each year. He has further been tasked with the responsibility of seeing that evaluations are done at the completion of each active project. He will have the responsibility of providing all evaluations to the Section Head of the Initial Design Section in a timely manner for distribution and file. Currently, Mr. Dave Bodnar is the Section Head of the Review Section and Mr. Carl Bowyer is the Section Head of the Initial Design Section.*

- 2. The Section Head of the Initial Design Section of Engineering Division has been tasked with the responsibility of sending the evaluations to the consultants for review and comment, and further has the responsibility of seeing that any and all comments received from the consultants in regard to the evaluations are attached to the final report and filed appropriately.*

*By following Chapter 5A, Article 8, Section 9, of the West Virginia Code and Section 157-1-7.10 of the Code of State Rules and assigning responsibility as noted above, it is felt that the DOH can be in compliance in regard to evaluation of consultants work on all active projects.*

**Other Comments**

**Purchasing - Requisitions**  
(Prior Year Comment)

The Division utilizes manual purchase requisitions for the processing and approval documentation of purchasing requests. Although this process is working, we recommend that the Division review the current information systems technology to determine if electronic requisitions could be utilized to create a more effective and efficient process.

*Managements Response: Agree – During the past three months the Department has participated in surveys regarding SAP and ERP system. The Department is hopeful a statewide financial system can be implemented which will include a purchasing module.*

## **Risk Analysis**

(Partial Prior Year Comment)

Risk management is a key component in effective management and strategic planning. The Division operates in a complex environment and is responsible for numerous activities and functions which have been assigned to different levels of the organization. The Division faces multiple risks arising from factors such as an aging work force, catastrophic weather conditions, changes in demographics and economic factors that influence fuel usage and automobile sales (major sources of non federal revenue), and uncertainties about future levels of federal aid. Additionally, the Division should respond and plan for issues related to errors, irregularities, defalcations, misappropriation of assets, and changing political agendas. In addition, because the Division is impacted by a vast array of issues, there is risk associated with managing and planning for changes that occur outside the agency that have significant impact on operations. Generally, an effective risk assessment is based on formal input from personnel across the agency and effective risk management involves the formal assessment of the risks identified and the planned approaches to mitigate significant risks to critical activities.

We recommend that management continue to develop and implement a formal risk assessment plan. The process at a minimum should include:

- Identification of the primary goals and objectives of the Division.
- Establishment of a formal Committee or designation of a top managerial position to analyze risks that may impact management's ability to achieve the critical goals and objectives identified. Information gained from this analysis should be communicated to all top and mid-level managers.
- A plan to mitigate or offset risks that are deemed likely to impact the operation of the Division in the short-term. Formal or informal plans may exist for short-term problems such as computer failure, occupancy problems, or how best to respond to minor budgetary problems, but the collection of those plans and notification to other managers of their existence may benefit the organization.
- A long-term plan to address the condition of the Division's bridges including identification of required repairs and replacements.
- A long-term plan to address the Division's labor shortages. The Division's present workforce is getting older and replacement workers aren't coming up through the ranks in great enough numbers to meet coming demand.

**Managements Response:** *Agree The Division of Highways' goal is to provide a safe and efficient highway system for the public in the most cost-effective manner in order to transport the people, goods and services throughout the State. With this goal in mind, our objective is to design, construct and maintain roads in the State Highway System.*

*The Division has a formal program review committee comprised of top management that reviews all facets of the agency. These weekly meetings review the current financial status of the agency in addition to personnel, highway projects, etc. The meetings are multi-faceted in that they assure that the Division is working within the budget, they consider the political impact, the current environmental and economic factors that may impact the budget and, when necessary, to realign the program to meet those needs.*

*The Division is in the process of creating and updating the needs for improvement in management systems throughout the agency. In order to accomplish this goal, the Division is looking to acquire new technology to monitor, maintain and/or improve existing management systems. These programs include the bridge maintenance program, the maintenance program, and geographic information systems program.*

*Each year, the Division in conjunction with the Federal Highway Administration, selects areas and/or programs within the agency and conducts a formal review of the processes for possible improvements. In some areas, this has resulted in eliminating or combining certain steps to expedite the process and/or program under review.*

*Informal self-assessments are routinely performed by all functions and programs within the Division. In order to allocate limited resources to cover expanding demands for the maintenance and development of the State's transportation system, Division managers are making daily assessments to determine resource allocation.*

*The Division has narrowed its current performance measures to meet both the mission of the agency and the needs of the public. Goals and objectives are set to create and maintain an outstanding transportation network. In an effort to increase the efficiency and effectiveness of operations, the reliability of financial reporting, compliance with applicable laws and regulations and the safeguarding of assets, the Division's Auditing Division is conducting training in internal controls and risk assessment for managers. This course has been specifically designed for the Division to assist managers in defining and identifying risks within our organization. Performing regular self-assessments within all levels of the Division will allow managers to implement an internal control structure that will not only reduce the level of risk but also detect deficiencies in a timely manner.*

*The Division has had a bridge maintenance program in place for many years. Each structure in the State Highway System is inspected at least every two years to assure the integrity of the structure and to protect the public. The Division employs personnel that have been specifically highly trained to review bridges to assure that the structure is structurally sound. The Division also offers municipalities this service in order to assure their structures are structurally sound and that their maintenance needs are addressed in a timely manner to avoid a catastrophic accident. Within the State Highway System, the bridges are rated for replacement according to this review and maintenance work is identified and scheduled accordingly in order to keep the structure open to the public. In the unlikely event that a review would determine a structure to be unsafe for vehicular travel, the structure would be closed immediately.*

*The Division is well aware of the labor shortage within the agency. As a short-term measure, we are recruiting retired employees to help with snow and ice removal. The Division's top management is working with both the Governor's Office and the State Division of Personnel to develop new recruitment/retainment methods. These offices are considering numerous suggestions including but not limited to recruitment bonuses, increased salaries to retain employees, and alternative work scenarios such as flex time.*

**Security of Inventory**  
(Prior Year Comment)

Management of the Division has made significant progress in enhancing the physical security of inventory throughout the State; however, during our physical inventory observations, we noted that there were several locations where inventory was not secured during non-business hours.

We recommend that management continue to 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 adequate funding is budgeted to secure locations that are considered high risk and for which the benefit of securing the location would outweigh the cost.

*Managements Response: Agree - The Department continues to review our facilities and strive to improve security with the Buildings and Grounds Program. During the past year additional emphasis was placed on salt storage and gasoline storage sites. The Department is limited in funding sources and there are many areas in need of a funding source.*

**Insurance Policies**  
(Partial Prior Year Comment)

During 2007 management with the assistance of WVBRIM reviewed and updated the insurance policies for buildings and grounds in all divisions. No determination was made as to the adequacy of coverage for building contents.

We recommend that management continue to work with WVBRIM and determine if the Division has adequate coverage for building contents.

*Managements Response: Agree - The Department will continue to work with WVBRIM to ensure that our buildings and their contents have adequate insurance coverage.*

**Idle Equipment Time**  
(Partial Prior Year Comment)

The Equipment Idle Charges report summarizes the amount of time Division equipment remains idle within the Districts and assigns an hourly rate base on a calculated rental rate determined for cost allocation purposes to arrive at a total of lost time for equipment on idle status. The report for 2007 and 2006 reflected computed amounts of approximately \$24,400,000 and \$21,700,000. The Division performed a comprehensive review of idle equipment during 2007 considering usage and quality of existing equipment and held an auction for the various pieces of equipment that were determined to be unessential to Division operations.

*Managements Response: Agree - On July 1, 2007 rolling equipment stock in the maintenance organizations was reallocated to match the core maintenance plan activities. This process identified underutilized equipment that was the main cause of the idle equipment time. The reduction and reallocation of equipment is expected to have a significant impact on idle equipment time and we expect this to impact the long term rental rates of the equipment.*

**Authorization of Overtime Pay**  
(Prior Year Finding)

The management of the Division is responsible for establishing and maintaining adequate controls related to the approval and authorization of overtime pay for employees of the Division.

Total overtime expense for fiscal year 2007, 2006 and 2005 was approximately \$13,519,000, \$8,505,000, and \$14,002,000, respectively, a \$5,014,000 increase and \$5,497,000 reduction respectively. For a six month period January to June of each year, the totals were \$7,889,000 for 2007, \$4,792,000 for 2006, and \$6,814,000 for 2005 and a \$3,097,000 increase and a \$2,022,000 reduction, respectively.

We recommend that the Division continue to review and monitor their policies and procedures for approval and authorization for overtime pay to determine if changes are needed. Furthermore, we recommend that management continue to review overtime paid to determine the appropriateness of the amount charged and the effectiveness of the hours worked. In addition, we recommend that the Division work with the West Virginia Division of Personnel and review their policies and procedures for determining which employees are eligible for overtime and ensure policies and procedures are in compliance with the new Federal overtime laws and regulations. In addition, management should monitor overtime for individuals within the retirement window to ensure that compensation for retirement calculation purposes is not inappropriately inflated. Further, management should work to seek resolution of the overtime increment pay.

*Managements Response: Agree - The Division of Highways attempts to use overtime only when it is absolutely necessary. Certainly a large percentage of overtime is related to weather. Additionally, the Division is approximately five hundred employees short of our reduced quotas. This situation tends to reduce the flexibility of managers to keep the overtime as tightly controlled as in the past.*

OTHER REQUIRED COMMUNICATIONS

November 16, 2007

To the Joint Committee on Government and Finance  
West Virginia Legislature

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The West Virginia Department of Transportation Division of Highways for the year ended June 30, 2007, and have issued our report thereon dated November 16, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated May 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of The West Virginia Department of Transportation Division of Highways. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of The West Virginia Department of Transportation Division of Highway'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.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The West Virginia Department of Transportation Division of Highways are described in Note One to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by The West Virginia Department of Transportation Division of Highways 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 estimate(s) affecting the financial statements were the valuation of inventories, receivables, infrastructure assets, depreciation of capital assets, compensated absences, and the liability for claims and adjustments.

Management's aforementioned estimates are based on all the relevant facts available to them at the time of recording them. We evaluated the key factors and assumptions used to develop the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **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 detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on The West Virginia Department of Transportation Division of Highway's financial reporting process (that is, cause future financial statements to be materially misstated).

There were no audit adjustments made to the original trial balance presented to us.

### **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 financial statements or the auditor's 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as The West Virginia Department of Transportation Division of Highway'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 and completing our audit.

This information is intended solely for the use of the Joint Committee on Government and Finance and management of The West Virginia Department of Transportation Division of Highways and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Hayflich & Steinberg, CPA's, PLLC

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS**  
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA AND  
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

AUDITED FINANCIAL STATEMENTS  
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2007  
AND  
INDEPENDENT AUDITORS' REPORTS

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## INDEPENDENT AUDITORS' REPORT

Joint Committee on Government and Finance  
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the West Virginia Department of Transportation, Division of Highways, as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation, Division of Highway's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation, Division of Highways' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the West Virginia Department of Transportation, Division of Highways are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the West Virginia Department of Transportation and of the State of West Virginia, that is attributable to the transactions of the Division of Highways. As a result, the financial statements do not purport to, and do not, present fairly, the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2007 and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road (General) Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2007 on our consideration of the West Virginia Department of Transportation, Division of Highways' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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. However, we did not audit the information and express no opinion on it.

*Kayle & Steady, CPAs, PLLC*

November 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2007. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT**

*Net Assets* - The Division's total combined net assets are \$6.9 billion as of the close of fiscal year 2007.

*Changes in Net Assets* - During the year the Divisions' Net Assets increased \$281 million or 4.24%. This percentage of increase is a slight decline from the prior year, when Net Assets increased \$294 or 4.65%.

*Revenues and Expenses* - Total revenues decreased by \$13 million or 1.16%. Total expenses increased \$1 million or 0.12%. There were no significant changes in the programs carried out by the Division during the year.

*Governmental Funds - Fund Balances* - As of the close of fiscal year 2007, the Division's governmental funds reported combined total fund equity of \$388 million, an increase of \$156 million in comparison with the prior year. Of this total amount, \$355 million represents the "unreserved fund balances" with substantially all of that in the general fund. This is approximately 34.55% of the total governmental fund expenditures for the year.

*Long-term Debt* - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$18 million during the current fiscal year. The Division sold two issues of Surface Transportation Improvements Special Obligation Notes increasing debt by \$109 million for a net increase in debt of \$91 million or 20.31%.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the Division's basic financial statements. The Division's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

**Government-wide Statements**

Government-wide financial statements provide both long-term and short-term information about the Division's financial condition. Changes in the Division's financial position may be measured over time by increases and decreases in the Statement of Net Assets. Information on how the Division's net assets changed during the fiscal year is presented in the Statement of Activities.

**Fund Financial Statements**

The fund financial statements focus on the individual parts of the Division, reporting the Division's operations in more detail than the government-wide financial statements. Fund financial statements can include the statements for governmental, proprietary, and fiduciary funds. The Division has only governmental funds.

**Notes to the Financial Statements**

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Condensed Statement of Activities**

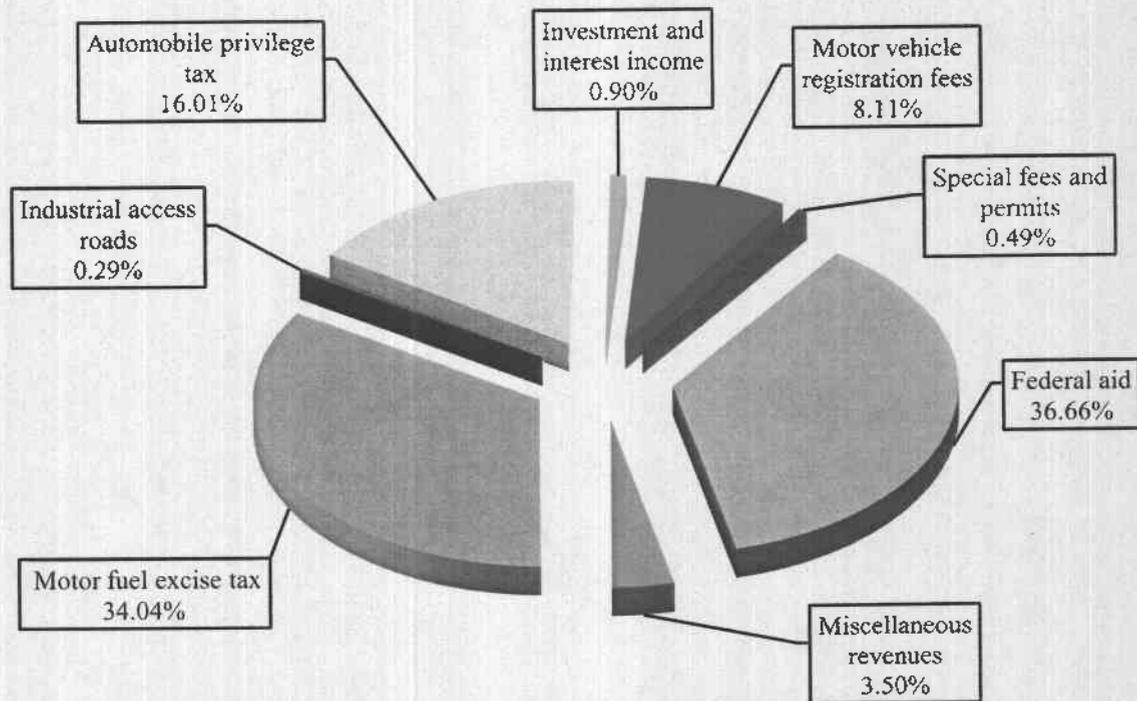
The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
<b>Revenues</b>			
Taxes	\$ 535,979	\$ 501,022	6.98%
Investment and interest income	9,652	4,701	105.32%
Miscellaneous revenues	37,459	53,255	(29.66%)
Total general revenues	<u>583,090</u>	<u>558,978</u>	4.31%
Federal aid	392,533	429,583	(8.62%)
Industrial access roads	3,126	3,016	3.65%
Charges for service	92,103	91,824	0.30%
Total program revenues	<u>487,762</u>	<u>524,423</u>	(6.99%)
Total revenues	<u>1,070,852</u>	<u>1,083,401</u>	(1.16%)
<b>Expenses</b>			
Road maintenance	338,550	316,475	6.98%
Other road operations	365,796	366,874	(0.29%)
General and administration	59,358	81,349	(27.03%)
Interest on long-term debt	22,977	21,283	7.96%
Unallocated depreciation	3,251	3,030	7.29%
Total expenses	<u>789,932</u>	<u>789,011</u>	0.12%
Change in net assets	280,920	294,390	(4.58%)
Net assets, beginning	<u>6,621,946</u>	<u>6,327,556</u>	4.65%
Net assets, ending	<u>\$ 6,902,866</u>	<u>\$ 6,621,946</u>	4.24%

Over time, increases and decreases in net assets measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$281 million or 4.24% percent.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following chart depicts the revenues of the Division for the fiscal year.



Total revenues decreased by approximately \$13 million. Total tax revenues increased by approximately \$35 million. Federal aid revenue decreased by approximately \$37 million or (8.62%). The following summarizes revenues for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

	2007	2006	Increase (decrease)	% Increase (decrease)
Motor fuel excise tax	\$ 364,550	\$ 330,538	\$ 34,012	10.29%
Industrial access roads	3,126	3,016	110	3.65%
Automobile privilege tax	171,429	170,484	945	0.55%
Motor vehicle registration fees	86,840	87,534	(694)	(0.79%)
Special fees and permits	5,263	4,290	973	22.68%
Federal aid	392,533	429,583	(37,050)	(8.62%)
Investment and interest income	9,652	4,701	4,951	105.32%
Miscellaneous revenues	37,459	53,255	(15,796)	(29.66%)
	<u>\$ 1,070,852</u>	<u>\$ 1,083,401</u>	<u>\$ (12,549)</u>	<u>(1.16%)</u>

The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration and license fees, net of costs incurred by the Division of Motor Vehicles in collecting funds for deposit into the State Road Fund.

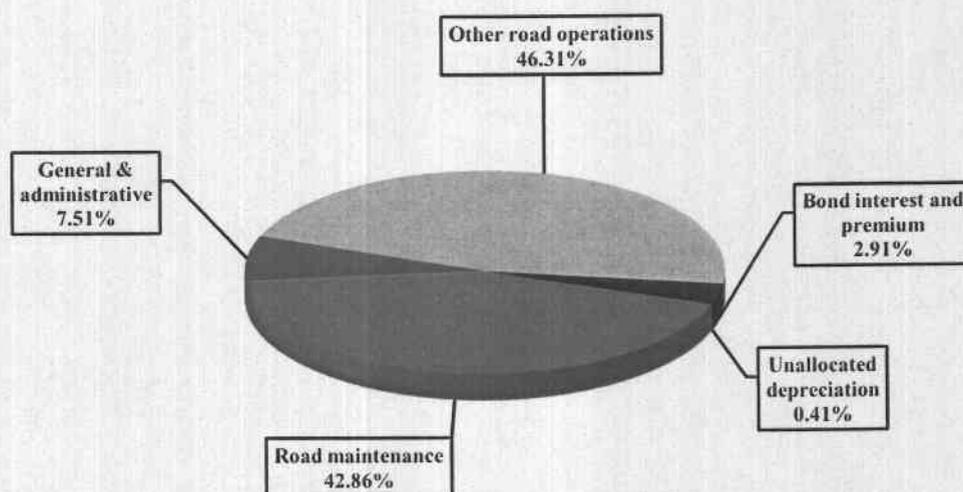
Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2003 through fiscal year 2007, actual cash revenues exceeded estimates by only 1.75%. While those extra dollars allowed the Division to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the agency to adjust its budgets for inflationary increases. In FY 2008, Motor Fuel Tax revenues are projected to be approximately 14% above FY 2007 level due to the increase in the variable component of the tax, but the other revenue sources will remain relatively flat. Although the agency will be able to increase its

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

budgets somewhat, it is anticipated that nondiscretionary costs will continue to rise. Consequently, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future.

The Division also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Division expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2007 were authorized under the new Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

The following chart depicts expenses of the Division for the fiscal year.



Total expenses increased by approximately \$1 million 0.12%. The following summarizes expenditures for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

	2007	2006	Increase (decrease)	% Increase (decrease)
Road maintenance	\$ 338,550	\$ 316,475	\$ 22,075	6.98%
Other road operations	365,796	366,874	(1,078)	(0.29%)
General and administration	59,358	81,349	(21,991)	(27.03%)
Interest on long-term debt	22,977	21,283	1,694	7.96%
Unallocated depreciation	3,251	3,030	221	7.29%
	<u>\$ 789,932</u>	<u>\$ 789,011</u>	<u>\$ 921</u>	<u>0.12%</u>

The maintenance expenses of the Division are comprised primarily of routine maintenance, small bridge repair, and contract paving.

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow and ice removal that is required in a given year.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the Division's Fund Financial Statements below.

**FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS**

At June 30, 2007, the Division reported fund balances of \$388 million. Of this total amount, \$355 million, 91.43%, constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

**State Road Fund**

The State Road Fund is the Division's General Fund. At the end of the 2007 fiscal year, unreserved fund balance of the General Fund was \$273 million and reserved fund balance was \$33 million. The total General Fund balance increased \$74 million during the year primarily due to a combination of reduced expenditures and increased Motor Fuel Tax revenue, resulting from the \$.045 increase in the variable component of the fuel tax rate.

**Capital Projects Fund**

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. The current GARVEE note sales are for the construction of portions of the US 35 corridor. At June 30, 2007 the balance of \$82 represented unexpended note funds associated with the 2006A and 2007A note issues.

**State Road (General) Fund and Budgetary Highlights**

The Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have changed little over the past several years, any improvements in fuel efficiency would have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. For five of the previous six years, tax and fee revenue collections increased over the previous year. Tax and fee revenue collections increased by approximately \$34 million in 2007; they increased \$2 million during the previous year. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%Change</u>
Motor fuel excise and wholesale fuel	\$ 364,550	\$ 330,538	\$ 34,012	10.29%
Motor vehicle registration	86,840	87,534	(694)	(0.79%)
Privilege tax	171,429	170,484	945	0.55%
	<u>\$ 622,819</u>	<u>\$ 588,556</u>	<u>\$ 34,263</u>	5.82%

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. On January 1, 2007, the rate rose from 6.5 cents to 11 cents per invoiced gallon.

Automobile privilege tax collections were positively impacted from 2002 through 2007 by low interest rates and significant incentives offered by automobile manufacturers. The automobile privilege taxes increased \$1 million in 2007.

The Division's federal revenue for budgetary purposes for fiscal year 2007 was \$390 million, to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%Change</u>
Federal reimbursement - budgeted funds	\$ 386,875	\$ 423,979	\$ (37,104)	(8.75%)
Federal Reimbursement - Surface Transportation	1,207		1,207	100.0%
Federal reimbursement - emergency funds	4,451	5,604	(1,153)	(20.57%)
Total federal aid	<u>\$ 392,533</u>	<u>\$ 429,583</u>	<u>\$ (37,050)</u>	<u>(8.62%)</u>

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Division's revenue increases are not projected to keep pace with increases in costs related to retirement, health insurance, and other increases that are non-discretionary in nature. The fiscal 2008 budget reflects a budgeted decrease in fund balance of approximately \$17 million. Management is taking all necessary steps to ensure that the fund balance of the Division is maintained at levels that are adequate to ensure the soundness of the Division and is confident that adequate discretionary items exist to permit the Division to continue to operate in a fiscally sound manner. Under SAFETEA-LU, the Division annually receives an average of \$316 million in federal funding. In order to capture that federal aid the Division needs \$58.2 million annually in state matching funds.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2007, the Division had invested \$7.2 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$278 million.

The \$209 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$257million in depreciation of the infrastructure. The Division expended \$490 million dollars during the year ended June 30, 2007 for additions to capital assets. Of this amount, \$469 million was related to the acquisition of right of way and construction of roads and bridges. Construction costs for completed projects in the amount of \$344 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County, Corridor D in Wood County, upgrade of WV 10 in Logan County, widening of I-64, upgrade of WV Route 9 in the Eastern Panhandle, upgrade of US Route 35 in Putnam County, upgrade of US Route 52 in Mingo County, upgrade of WV 16 in Fayette County and continued environmental studies on various projects in process.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Long-term Debt**

The Division has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2007, the Division had \$430 million in outstanding bonds. The amount outstanding decreased by \$18 million (4.05%) due to net principal payments.

The Division has been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Division issued revenue notes in the amount of \$76 million in October 2006 and \$33 million in April 2007. It is anticipated that another estimated \$91 million will be issued during fiscal year 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue

The following is a summary of the amounts outstanding, including insured status and bond and note ratings:

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	\$ 51,510
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch: AA- Moody's: Aa3 S&P: AA-	4,470
Safe Roads 01A - Bonds maturing between June 1, 2006 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	57,490
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Not Insured	Fitch: AA- Moody's: Aa3 S&P: AA-	860
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	315,515
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1 2007 and Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	75,970
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1 2007 and Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	33,190
			\$ 539,005

More detailed information regarding capital asset and long-term debt activity is included in the notes 7 and 9, respectively to the financial statements.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide an overview of the finances of the Division for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia Department of Transportation, Division of Highways at 1900 Kanawha Boulevard, East, Building 5, Room 220, Charleston, West Virginia 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

(amounts expressed in thousands)

ASSETS	Governmental Activities
<b>Current assets</b>	
Cash and cash equivalents	\$ 271,662
Restricted cash and cash equivalents	50
Accounts receivable, net	86,894
Taxes receivable	74,562
Due from other State of West Virginia agencies	3,143
Inventories	33,259
Total current assets	469,570
<b>Non-current assets</b>	
Capital assets, net of accumulated depreciation	
Land - non-infrastructure	15,403
Land improvements	4,404
Land improvements - work in progress	598
Buildings	65,195
Buildings - work in progress	2,041
Furniture and fixtures	323
Rolling stock	58,860
Scientific equipment	620
Shop equipment	70
Roads	3,608,137
Bridges	1,286,064
Land - infrastructure	844,674
Construction in progress	1,276,279
Total capital assets	7,162,668
Other non-current assets	2,830
Total assets	7,635,068
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	52,862
Retainages payable	9,047
Accrued payroll and related liabilities	16,866
Due to other State of West Virginia agencies	2,782
Accrued interest payable	3,279
Current maturities of long term obligations	61,065
Total current liabilities	145,901
<b>Non-current liabilities</b>	
Claims and judgements	5,420
Compensated absences	51,687
Long - term debt obligations	529,194
Total non-current liabilities	586,301
Total liabilities	732,202
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,592,210
Unrestricted	296,681
Restricted	
Coal Resource	8,417
Waste Tire	3,353
Industrial Access	7,104
Salvage Yards	(2,385)
Outdoor Advertising	(2,514)
Total net assets	\$ 6,902,866

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	\$ 262,684			\$ (262,684)
Contract paving & secondary roads	42,785			(42,785)
Small bridge repair & replacement	14,002			(14,002)
Litter control program	1,663			(1,663)
Depreciation	17,416			(17,416)
Other road operations				
Interstate highways	11,514		\$ 56,801	45,287
Appalachian highways	3,994		93,552	89,558
Other federal aid programs	82,182		242,180	159,998
Non federal aid improvements	9,407			(9,407)
Industrial access roads	1,407		3,126	1,719
Depreciation	257,292			(257,292)
General and administration				
Support and administrative operations	27,108	\$ 5,263		(21,845)
Claims	(3,000)			3,000
Costs associated with DMV	35,250	86,840		51,590
Interest on long-term debt	22,977			(22,977)
Unallocated depreciation	3,251			(3,251)
	<u>\$ 789,932</u>	<u>\$ 92,103</u>	<u>\$ 395,659</u>	<u>(302,170)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				364,550
Automobile privilege				171,429
Investment and interest income				9,652
Miscellaneous revenues				<u>37,459</u>
Total general revenues				<u>583,090</u>
Change in net assets				280,920
Net assets, beginning				<u>6,621,946</u>
Net assets, ending				<u>\$ 6,902,866</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2007**

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
<b>ASSETS</b>			
<i>Assets</i>			
Cash and cash equivalents	\$ 182,292	\$ 89,420	\$ 271,712
Receivables	86,894	-	86,894
Taxes receivable	74,562	-	74,562
Due from other funds	192	-	192
Due from other State of West Virginia agencies	3,143	-	3,143
Inventories	33,259	-	33,259
Total assets	\$ 380,342	\$ 89,420	\$ 469,762
<b>LIABILITIES AND FUND BALANCES</b>			
<i>Liabilities</i>			
Accounts payable	\$ 45,652	\$ 7,210	\$ 52,862
Retainages payable	9,047	-	9,047
Accrued payroll and related liabilities	16,866	-	16,866
Due to other funds	-	192	192
Due to other State of West Virginia agencies	2,782	-	2,782
Total liabilities	74,347	7,402	81,749
<i>Fund balances</i>			
Reserved for inventories	33,259	-	33,259
Unreserved, undesignated	272,736	82,018	354,754
Total fund balances	305,995	82,018	388,013
Total liabilities and fund balances	\$ 380,342	\$ 89,420	\$ 469,762

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND  
 TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

(amounts expressed in thousands)

Total fund balances - governmental funds \$ 388,013

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land - non infrastructure	\$ 15,403	
Land improvements- non infrastructure	4,404	
Land improvements- work in progress	598	
Buildings	65,195	
Buildings - work in progress	2,041	
Furniture and Fixtures	323	
Rolling Stock and Shop Equipment	58,860	
Scientific Equipment	620	
Shop Equipment	70	
Roads	3,608,137	
Bridges	1,286,064	
Infrastructure Land	844,674	
Work in progress	<u>1,276,279</u>	7,162,668

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 2,830

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest payable	(3,279)	
Claims and judgments	(6,050)	
Compensated absences	(70,858)	
General obligation bonds and revenue notes	<u>(570,458)</u>	<u>(650,645)</u>

Net assets of governmental activities \$ 6,902,866

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
<b>Revenues</b>			
<b>Taxes</b>			
Gasoline and motor carrier	\$ 364,550		\$ 364,550
Automobile privilege	171,429		171,429
Industrial access roads	3,126		3,126
<b>License, fees and permits</b>			
Motor vehicle registrations and licenses	86,840		86,840
Special fees and permits	5,263		5,263
<b>Federal aid</b>			
Interstate highways	56,801		56,801
Appalachian highways	93,552		93,552
Other federal aid programs	240,973	\$ 1,207	242,180
Investment and interest income, net of arbitrage rebate	6,879	2,773	9,652
Miscellaneous revenues	37,459		37,459
	<u>1,066,872</u>	<u>3,980</u>	<u>1,070,852</u>
<b>Expenditures</b>			
<b>Current</b>			
<b>Road maintenance</b>			
Expressway, trunkline and feeder, state and local services	258,720	-	258,720
Contract paving and secondary roads	42,785	-	42,785
Small bridge repair and replacement	17,100	-	17,100
Litter control program	1,663	-	1,663
Support and administrative operations	55,911	-	55,911
Division of Motor Vehicles operations	34,754	-	34,754
Claims	144	-	144
<b>Capital outlay and other road operations</b>			
<b>Road construction and other road operations</b>			
Interstate highways	70,926	-	70,926
Appalachian highways	132,747	-	132,747
Other federal aid programs	315,798	32,852	348,650
Nonfederal aid construction and road operations	20,365	-	20,365
Industrial access roads	1,407	-	1,407
<b>Debt service</b>			
Principal	18,150		18,150
Interest	22,235	1,207	23,442
	<u>992,705</u>	<u>34,059</u>	<u>1,026,764</u>
Excess (deficiency) of revenues over expenditures	74,167	(30,079)	44,088
<b>Other financing sources (uses)</b>			
Proceeds from Bond issues	-	112,097	112,097
Net change in fund balances	74,167	82,018	156,185
Fund balances, beginning of year	231,828	-	231,828
Fund balances, end of year	<u>\$ 305,995</u>	<u>\$ 82,018</u>	<u>\$ 388,013</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	156,185
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$ 490,171, exceeded depreciation of (\$277,959) in the current period.		212,212
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In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds. The proceeds from the sale increase financial resources. Thus the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold.		(2,891)
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Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(93,947)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the decrease in compensated absences of \$5,752, accretion of bond premiums of \$2,243, an increase in interest payable of (\$1,427) , exceeded the decrease in claims \$3,144 and amortization of bond issuance costs of (\$351).		9,361
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Change in net assets of governmental activities	\$	280,920
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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 (BUDGETARY BASIS) - STATE ROAD FUND  
 FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>					
<b>Taxes</b>					
Gasoline and motor carrier	\$ 290,000	\$ 25,000	\$ 315,000	\$ 349,172	\$ 34,172
Automobile privilege	175,686	(7,264)	168,422	173,306	4,884
Motor vehicle registrations and licenses	88,008	-	88,008	87,058	(950)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,034)	(34)
Federal aid	485,177	36,112	521,289	389,643	(131,646)
Miscellaneous revenues	10,664	1,285	11,949	14,164	2,215
	<u>1,046,535</u>	<u>55,133</u>	<u>1,101,668</u>	<u>1,010,309</u>	<u>(91,359)</u>
<b>Expenditures</b>					
<b>Road construction and other road operations</b>					
Interstate highways	84,000	(4,000)	80,000	64,077	15,923
Appalachian highways	150,000	-	150,000	120,405	29,595
Other federal aid programs	325,700	50,000	375,700	314,362	61,338
Nonfederal aid construction	25,000	8,000	33,000	19,603	13,397
<b>Road maintenance</b>					
Maintenance	256,700	11,000	267,700	253,868	13,832
Contract paving and secondary roads	37,000	13,000	50,000	43,294	6,706
Small bridge repair and replacement	30,000	(8,000)	22,000	16,790	5,210
Litter control program	1,664	-	1,664	1,664	-
<b>Support and administrative operations</b>					
General operations	42,500	-	42,500	29,652	12,848
Equipment revolving	15,000	-	15,000	5,035	9,965
Inventory revolving	2,000	-	2,000	(1,443)	3,443
Debt service	41,000	-	41,000	39,621	1,379
PSC Weight Enforcement	4,667	-	4,667	4,667	-
Division of Motor Vehicles operations	37,333	-	37,333	33,092	4,241
Claims - DOH and DMV	144	-	144	144	-
	<u>1,052,708</u>	<u>70,000</u>	<u>1,122,708</u>	<u>944,831</u>	<u>177,877</u>
Excess (deficiency) of revenues over expenditures	(6,173)	(14,867)	(21,040)	65,478	86,518
Fund balance, beginning of year	<u>113,598</u>	<u>(14,871)</u>	<u>98,727</u>	<u>100,002</u>	<u>1,275</u>
Fund balance, end of year	<u>\$ 107,425</u>	<u>\$ (29,738)</u>	<u>\$ 77,687</u>	<u>\$ 165,480</u>	<u>\$ 87,793</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION** - The accompanying financial statements of the West Virginia Department of Transportation, Division of Highways (the "Division") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

**REPORTING ENTITY** - The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the State Legislature. The Division is considered a component unit of the State and its financial statements are blended with the financial statements of the primary government in the State's comprehensive annual financial report.

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2007 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation, which collects certain revenues for expenditure by the Division. The expenditures related to the collection of these revenues are recorded in the State Road Fund of the Division.

The Public Service Commission collects revenues from coal companies that are operating trucks with excessive weights. These revenues are deposited into the Coal Resource fund, which is controlled by the Division.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. The government-wide statement of net assets reports \$14,085 restricted assets, of which all is restricted by enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units, if applicable. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS** - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting for the governmental fund financial statements include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2007, has been reported only in the government-wide financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, an employee may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium or to increase service credits for retirement purposes. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.
- The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate prior to July 1, 2001. The liability for accumulated post-employment health insurance has been reported only in the government-wide financial statements.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

**FUND ACCOUNTING** - The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The following summarizes the major governmental funds that are presented in the accompanying financial statements:

- State Road (General) Fund - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- The Capital Projects Fund - This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code

**INTERFUND ACTIVITY** - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2007 are a result of these routine payments and transfers.

**BUDGETING AND BUDGETARY CONTROL** - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 45 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 45 days after the end of the fiscal year, are incorporated into the Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as special items. Any revisions that alter overall budgeted expenditures for an expenditure category must be approved by the State Legislature.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2007  
 (amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the coal resource fund, industrial access fund and certain monies reported within the State Road Fund for accounting principles generally accepted in the United States of America purposes, are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2007, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$	65,478
Basis of accounting differences (budgetary to GAAP)		6,454
Unbudgeted funds		2,235
 Excess of revenues over expenditures - GAAP basis	 \$	 74,167

**CASH AND CASH EQUIVALENTS** - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and Cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Division at rates specified by the BTI based on the balance of the Division's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the BTI.

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the BTI for investment in accordance with the West Virginia Code, policies set by the BTI, and provisions of bond indentures and trust agreements when applicable. The West Virginia Legislature, effective July 8, 2005, established the BTI to manage the short-term operating funds of the State. Prior to this date, the West Virginia Investment Management Board (the "IMB") was responsible for investment of both the short-term and long-term funds. The Legislature declared this transfer to ensure direct governmental oversight of state general and special revenue funds. The IMB continues to manage the retirement funds, the employment security funds, and other assets with longer time horizons.

**INVENTORIES** - Inventories are stated at weighted average cost generally using the "consumption method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserve for inventories" in the Government Fund Financial Statements.

**CAPITAL ASSETS** - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the Division, such as roads, bridges, and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Division as follows:

- Non-infrastructure assets with a useful life of at least three years and:
  - A cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; or
  - An acquisition cost of twenty-five thousand dollars or more for buildings at the date of acquisition; and
- Infrastructure assets with a cost in excess of one million dollars.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at their fair market value at the date of donation.

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Building and non-infrastructure land have been recorded at cost since 1983. Infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the West Virginia Department of Transportation in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Division has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

- Machinery and equipment: 5 - 20 years
- Buildings: 40 years
- Furniture and fixtures: 3 - 20 years
- Rolling stock: 1 - 20 years
- Scientific equipment: 2 - 25 years
- Infrastructure: roads - 30 years
- Infrastructure: bridges - 50 years

**ACCOUNTS AND TAXES RECEIVABLE** - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily gasoline and wholesale fuel taxes and automobile privilege taxes, which are collected within forty-five days after year end. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

**OTHER ASSETS** - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

**CLAIMS** - Claims awarded against the Division in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures in the fund financial statements for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature. A liability for unfunded claims is recorded in the government-wide financial statements when management and the Division's legal section determine that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. Expenditures for compensated absences are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

POSTEMPLOYMENT BENEFITS - The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Division's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the postemployment benefits. Employees hired subsequent to July 1, 2001 are not eligible for these benefits. Expenditures for postemployment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-employment health insurance as a liability.

RETIREMENT BENEFITS - The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division, with employer contributions prescribed by the State Legislature as a percentage of covered payroll.

PREMIUMS, DISCOUNTS AND ISSUANCE COSTS - In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental activities. Where material, bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

RECENT STATEMENTS ISSUED BY THE GASB - The following statements were adopted by the Division during the fiscal year ended June 30, 2007:

- The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2007, the Division is required to participate in this multiple employer cost sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia, 25305-0710 or <http://www.wvpeia.com>. No liability related to this plan exists for the Division at June 30, 2007. The impact on the Division's financial statements in subsequent years has not yet been determined, but such amount may be significant.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2007  
 (amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The GASB has issued Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.
- The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.
- The GASB has issued Statement No. 50, *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The Division has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.
- The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Division has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	\$ 18,413	\$ 18,413
Cash on deposit with State Treasurer invested in BTI cash liquidity pool	163,177	163,177
Cash on deposit with State Treasurer invested in BTI money market pool - (Garvee 2007A)	31,958	31,958
Cash on deposit with Huntington Bank	50	50
Cash on Deposit with BTI - (Garvee 2006A)	57,005	57,005
Cash in transit	<u>1,109</u>	<u>1,109</u>
	<u>\$ 271,712</u>	<u>\$ 271,712</u>

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

**West Virginia Board of Treasury Investments (BTI) Cash Liquidity Pool, Government Money Market Pool, and Division of Highways Account**

Cash on deposit with the State Treasurer is a non-safeguarded deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*. Additionally, such deposits are subject to the following BTI policies and procedures.

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the Authority may invest in three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The Pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

Security Type	Credit Rating *		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
Total corporate bonds and notes			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Total investments			2,027,831	97.59
Deposits:				
Nonnegotiable certificates of deposit	NR*	NR*	50,000	2.41
			\$ 2,077,831	100.00%

\* NR = Not Rated

The Division's ownership represents 7.85% of these amounts held by BTI.

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
U.S. agency bonds	Aaa	AAA	\$ 67,620	29.46%
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	-
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	51,400	22.39
			<u>\$ 229,551</u>	<u>100.00%</u>

The Division's ownership represents 13.92% of these amounts held by BTI.

The Division of Highways Account provides for the investment of proceeds from the issuance and sale of \$90 million Surface Transportation Improvements Special Obligation Notes (Garvee 2006A). The BTI does not have a policy specifically addressing credit risk in the Division of Highways Account. The following table provides information on the credit ratings of the Division of Highways Account investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Money market funds	Aaa	AAA	\$ 11	0.02%
Repurchase agreements (underlying securities):				
U.S. agency mortgage backed securities	Aaa	AAA	56,994	99.98
			<u>\$ 57,005</u>	<u>100.00%</u>

The Division's ownership represents 100% of these amounts held by BTI.

**Interest Rate Risk**

Interest rate risk is the risk that change in interest rates will adversely affect the fair value of an investment. All BTI's Consolidated Fund Pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Security Type	Carrying Value	WAM (Days)
Repurchase agreements	\$ 246,821	2
U.S. Treasury bills	358,725	30
Commercial paper	1,015,926	52
Certificates of deposit	126,500	76
U.S. agency discount notes	21,655	113
Corporate notes	261,025	58
U.S. agency bonds/notes	46,994	156
Money market fund	<u>185</u>	1
	<u>\$ 2,077,831</u>	48

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 51,400	2
U.S. Treasury bills	36,379	29
U.S. agency discount notes	74,143	106
U.S. agency bonds/notes	67,620	60
Money market funds	<u>9</u>	1
	<u>\$ 229,551</u>	49

The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Division of Highways Account arising from increasing interest rates. The following table provides information on the weighted average maturities for the various asset types in the Division of Highways Account:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 56,994	610
Money market funds	<u>11</u>	1
	<u>\$ 57,005</u>	610

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

**Other Investment Risks**

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of a BTI Consolidated Fund Pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those Pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name of one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in the leading agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

**Restricted Cash and Cash Equivalents for Debt Service Repayment**

**Credit Risk**

The Division limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the note trust indenture that investments in money market funds be rated AAAM or AAAM-G or better by S&P. At June 30, 2007 these funds were invested with Huntington Bank in the Huntington Treasury Money Market IV. The following table provides information on the credit ratings of this investment.

<u>Security Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percentage of Assets</u>
Huntington Treasury Money Market IV	Aaa	AAA	\$ 50	100%

**Concentration of Credit Risk**

The Division note trust indenture places no limit on the amount the Authority may invest in any one Issuer. All of the investments for debt service repayment are in the Huntington Treasury Money Market IV.

**Custodial Credit Risk**

Custodial Credit Risk is the risk that in the event of a failure of the counterparty, the Division will not be able to recover the value of the investment that is in the possession of an outside party. The Division does not have a policy for custodial credit risk. As of June 30, 2007, \$50 thousand of the Division's investments were invested in the Huntington Treasury Money Market IV.

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NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

**Interest rate risk**

The weighted average maturity of the Huntington Treasury Money Market Fund IV is less than one year. The funds are invested in money market funds that do not have a maturity date.

Security Type	Carrying Value	Investment Maturity in Years			
		Less than 1	1-5	6-10	More than 10
Huntington Treasury Money Market IV	\$ 50	\$50	-	-	-

**Foreign Currency Risk**

The investments for debt service repayment have no securities that are subject to foreign currency risk.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 consisted of the following:

Federal aid billed and not paid	\$ 17,578
Federal aid earned but not billed	<u>57,718</u>
Total federal aid receivable	75,296
Other receivables	<u>12,003</u>
Combined total receivables	87,299
Less: allowance for uncollectibles	<u>(405)</u>
Net accounts receivable	<u>\$ 86,894</u>

Accounts receivable representing federal aid earned but not billed relate principally to the Federal Highway Administration's (FHWA) participating share of expenditures on highway projects.

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NOTE 4 - TAXES RECEIVABLE

Taxes receivable at June 30, 2007 consisted of the following:

Automobile privilege taxes	\$ 25,713
Motor fuel excise taxes	45,448
Registration fees	<u>3,401</u>
	<u>\$ 74,562</u>

NOTE 5 - DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES

Amounts due from other State of West Virginia agencies at June 30, 2007 consisted of the following:

The Department of Motor Vehicles	\$ 2,986
Other agencies	<u>157</u>
	<u>\$ 3,143</u>

Amounts due to other State of West Virginia agencies at June 30, 2007 consisted of the following:

Public Employees Insurance Agency	\$ 1,193
Public Employee's Retirement	982
Department of Administration	243
Other agencies	<u>364</u>
	<u>\$ 2,782</u>

NOTE 6 - INVENTORIES

Inventories at June 30, 2007 consisted of the following:

Materials and supplies	\$ 21,204
Equipment repair parts	9,190
Gas and lubrication supplies	<u>2,865</u>
	<u>\$ 33,259</u>

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land - non infrastructure	\$ 15,403	\$ -	\$ -	\$ 15,403
Land - infrastructure	806,875	37,878	79	844,674
Construction-in-progress - buildings	1,270	2,066	1,295	2,041
Construction-in-progress - land improvements	437	648	487	598
Construction-in-progress - roads	799,284	261,418	249,959	810,743
Construction-in-progress - bridges	<u>389,022</u>	<u>170,098</u>	<u>93,584</u>	<u>465,536</u>
Total capital assets not being depreciated	<u>2,012,291</u>	<u>472,108</u>	<u>345,404</u>	<u>2,138,995</u>
Capital assets being depreciated:				
Buildings	98,561	1,288	218	99,631
Furniture and fixtures	3,747	175	177	3,745
Land improvements - non infrastructure	6,480	245	-	6,725
Rolling stock	199,537	16,274	15,423	200,388
Shop equipment	3,040	0	-	3,040
Scientific equipment	2,308	81	7	2,382
Infrastructure - roads	6,624,223	249,959	-	6,874,182
Infrastructure - bridges	<u>1,518,716</u>	<u>93,584</u>	<u>-</u>	<u>1,612,300</u>
Total capital assets being depreciated	<u>8,456,612</u>	<u>361,606</u>	<u>15,825</u>	<u>8,802,393</u>
Less accumulated depreciation:				
Buildings	31,924	2,730	218	34,436
Furniture and fixtures	3,386	197	161	3,422
Land improvements - non infrastructure	1,997	324	-	2,321
Rolling stock	138,634	17,303	14,409	141,528
Shop equipment	2,954	16	-	2,970
Scientific equipment	1,672	97	7	1,762
Infrastructure - roads	3,041,128	224,917	-	3,266,045
Infrastructure - bridges	<u>293,861</u>	<u>32,375</u>	<u>-</u>	<u>326,236</u>
Total accumulated depreciation	<u>3,515,556</u>	<u>277,959</u>	<u>14,795</u>	<u>3,778,720</u>
Total capital assets being depreciated, net	<u>4,941,056</u>	<u>83,647</u>	<u>1,030</u>	<u>5,023,673</u>
Governmental activities capital assets, net	<u>\$ 6,953,347</u>	<u>\$ 555,755</u>	<u>\$ 346,434</u>	<u>\$ 7,162,668</u>

Current year depreciation totaling \$274,708 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$3,251 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

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NOTE 7 - CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Buildings and improvements	\$ 2,730
Furniture and fixtures	197
Land improvements	324
Total unallocated	<u>3,251</u>
Rolling stock	17,303
Shop equipment	16
Scientific equipment	97
Total road maintenance	<u>17,416</u>
Infrastructure - roads	224,917
Infrastructure - bridges	32,375
Total other road operations	<u>257,292</u>
Total depreciation expense	<u>\$ 277,959</u>

NOTE 8 - RETAINAGES PAYABLE

The Division has entered into an arrangement with the BTI whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2007, retainages payable on contracts had been reduced by these amounts on deposit in such accounts to approximately \$572.

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NOTE 9 - LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30%-5.25%	06/01/2023	\$ 56,755		\$ 5,245	\$ 51,510
Safe road bonds	1999	4.30%-5.75%	06/01/2017	6,560		2,090	4,470
Safe road bonds	2001	3.50%-5.50%	06/01/2013	67,120		9,630	57,490
Safe road bonds	2006	3.00%-5.00%	06/01/2025	<u>317,560</u>		<u>1,185</u>	<u>316,375</u>
Total general obligation bonds				447,995		18,150	429,845
Bond premium				<u>30,014</u>		<u>2,000</u>	<u>28,014</u>
Total general obligation bonds payable net of premium				<u>478,009</u>		<u>20,150</u>	<u>457,859</u>
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75%-5.00%	06/01/2016	\$ -	\$ 75,970	\$ -	\$ 75,970
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00%-5.00%	06/01/2016		<u>33,190</u>		<u>33,190</u>
Total revenue notes payable					<u>109,160</u>		<u>109,160</u>
Premium					<u>3,683</u>	<u>244</u>	<u>3,439</u>
Total revenue notes payable net of premium					112,843	244	112,599
Claims and judgments				9,194	630	3,774	6,050
Compensated absences				<u>76,609</u>	<u>945</u>	<u>6,696</u>	<u>70,858</u>
Total long-term obligations				<u>\$ 563,812</u>	<u>\$ 114,418</u>	<u>\$ 30,864</u>	<u>\$ 647,366</u>

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments require that debt service on the bonds be paid from the State Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding above.

Surface Transportation Improvement Special Obligation Notes are authorized under Chapter 17, Article 17A of the Code of West Virginia, 1931, as amended. The Code provides for the issuance of special obligation notes to facilitate the construction of highways, secondary roads and bridges to be funded wholly or in part by federal dollars and in anticipation of reimbursement from such sources. The federal legislation that enables reimbursement of such costs is included in Title 23, Section 122. The Memorandum of Agreement executed between the Federal Highway Administration and the Division of Highways documents the procedures for managing the stewardship and oversight of highway projects that are financed with the proceeds of these notes.

Debt service expenditures for debt service funds included interest of \$23,437 for the year ended June 30, 2007. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and liquidated through debt service funds, are as follows:

	2008	2009	2010	2011	2012	2013- 2017	2018- 2022	2023- 2027	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	\$ 49,993	\$ 49,996	\$ 49,995	\$ 49,993	\$ 49,995	\$ 173,069	\$ 117,578	\$ 70,545	\$ 611,164
Total general obligation bonds	49,993	49,996	49,995	49,993	49,995	173,069	117,578	70,545	611,164
Less: interest	21,338	19,911	18,405	16,828	15,130	54,214	29,023	6,470	181,319
Total principal	28,655	30,085	31,590	33,165	34,865	118,855	88,555	64,075	429,845
Bond Premium	1,941	1,886	1,633	1,586	1,546	7,470	7,470	4,482	28,014
Total principal and bond premium	<u>\$ 30,596</u>	<u>\$ 31,971</u>	<u>\$ 33,223</u>	<u>\$ 34,751</u>	<u>\$ 36,411</u>	<u>\$ 126,325</u>	<u>\$ 96,025</u>	<u>\$ 68,557</u>	<u>\$ 457,859</u>
Revenue notes payable from federal aid revenue:									
Surface transportation special obligation notes	\$ 14,744	\$ 14,749	\$ 14,745	\$ 14,749	\$ 14,750	\$ 58,981			\$ 132,718
Total surface transportation special obligation notes	14,744	14,749	14,745	14,749	14,750	58,981			132,718
Less: interest	4,459	4,199	3,740	3,244	2,750	5,166			23,558
Total principal	10,285	10,550	11,005	11,505	12,000	53,815			109,160
Premium	383	382	382	382	382	1,528			3,439
Total principal and note premium	<u>\$ 10,668</u>	<u>\$ 10,932</u>	<u>\$ 11,387</u>	<u>\$ 11,887</u>	<u>\$ 12,382</u>	<u>\$ 55,343</u>			<u>\$ 112,599</u>

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The portion of long-term and short-term compensated absences, claims payable, and general obligation bonds are as follows:

	<u>Compensated Absences</u>	<u>Claims and Judgments</u>	<u>General Obligation Bonds, Revenue Notes and Premium</u>	<u>Total</u>
Short-term liability	\$ 19,171	\$ 630	\$ 41,264	\$ 61,065
Long-term liability	<u>51,687</u>	<u>5,420</u>	<u>529,194</u>	<u>586,301</u>
	<u>\$ 70,858</u>	<u>\$ 6,050</u>	<u>\$ 570,458</u>	<u>\$ 647,366</u>

During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue \$550,000 of general obligation bonds to fund highway and road construction projects known as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of \$220,000 were issued during July 1998; \$110,000 were issued during July 1999; \$110,000 were issued during July 2000; and an additional \$110,000 were issued during July 2001.

In 2005, the State refinanced part of the above mentioned bonds in the amount of \$321,405. These bonds will be repaid from revenues of the State Road Fund through the year 2025.

During the year ended June 30, 2007, The State was authorized by constitutional amendment to issue \$200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of \$76,000 were issued during October 2006 and \$33,000 were issued during April 2007. It is anticipated that approximately \$91,000 of additional Garvee notes will be issued during the fiscal year ending June 30, 2008.

In 2005, the State refinanced \$321,405 in general obligation bonds to advance-refund \$319,860 of outstanding 1998, 1999 and 2000 Series bonds. The net proceeds of \$351,405 (after payment of \$1,606 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government State and Local Government Series securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refinanced portions of the 1998, 1999, and 2000 Series bonds. As a result, the refinanced portion of the 1998 and 1999 Series bonds along with all 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,545. This amount is being netted against the new debt and amortized over the remaining useful life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by \$19,689 and resulted in an economic gain of \$18,821.

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The following summarizes the estimated claims liability for the current year and that of the preceding two years.

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>	<u>Year Ended</u> <u>June 30, 2005</u>
Estimated claims liability, July 1	\$ 9,194	\$ 6,197	\$ 8,700
Additions for claims incurred during the year	630	3,094	1,200
Changes in estimates for claims of prior periods	(3,630)	300	(3,287)
Payments on claims	<u>(144)</u>	<u>(397)</u>	<u>(416)</u>
Estimated claims liability, June 30	<u>\$ 6,050</u>	<u>\$ 9,194</u>	<u>\$ 6,197</u>

At June 30, 2007, approximately \$14,032 of tort claims and \$18,774 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$6,050, recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$630. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Division's unfunded obligation of approximately \$8,558 arising in connection with legislation to fund portions of employee postemployment health insurance costs for retired employees. These liabilities are generally liquidated by the State Road Fund.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under the West Virginia Public Employees Retirement System. These liabilities are generally liquidated by the State Road Fund. Expenditures during the year ended June 30, 2007 for health care premiums for 509 retirees were approximately \$2,038.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
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NOTE 10 - RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Division enters into certain transactions with various agencies of the State of West Virginia. The following summarizes the nature and terms of the most significant transactions:

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire December 31, 2007 for rental payments of approximately \$2.0 million annually. Management expects the leases to be renewed upon expiration.
- The Division's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2007 the Division incurred payroll related expenditures of approximately \$30,976 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$16,653 in employer matching contributions to the State Public Retirement System.
- The Division was insured under the West Virginia Workers' Compensation Division until January 1, 2006. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process. During the year ended June 30, 2007 the Division paid approximately \$9,431 to BrickStreet Insurance Company for coverage.
- The Division made payments to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately \$5,481 during the year ended June 30, 2007.
- The Division made payments to the Public Service Commission for weight enforcement duties. These expenditures, which were authorized by the Legislature, amounted to approximately \$4,667 during the year ended June 30, 2007.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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NOTE 11 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$655,316 at June 30, 2007.

The Division participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal awarding agency cannot be determined at this time. The Division expects such amounts, if any, to be immaterial to the financial position of the Division. The Division records these disallowed audit adjustments for questioned costs in the period the audit is finalized.

Based on the Division's Inspection Program the Division has reviewed the information on obsolete and deficient bridges. The Division is concerned about safety and tries to prioritize bridges for repair and replacement based on engineering assessments. The Division's long range plans to address this issue will be impacted by actions that may be taken by both the federal and state government, including funding levels provided for this purpose.

NOTE 12 - RETIREMENT PLAN

**PLAN DESCRIPTION** - The Division contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 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. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

**FUNDING POLICY** - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Division's contribution of 10.5% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were \$16,653, \$16,559, and \$17,450, respectively, equal to the required contributions for each year.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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NOTE 13 - RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA), to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. BrickStreet Insurance, a private mutual insurance company, provided coverage for work related accidents. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 9, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 9.

Through its participation in the PEIA, the Division has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Division has transferred its risks related to health coverage. PEIA issues publicly available financial reports that include financial statements and required supplementary information, these reports may be obtained by writing to PEIA.

NOTE 14 - SUBSEQUENT EVENTS

The Division of Highways is expected to issue revenue notes in the amount of \$91 million in February 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue and are the third issue of the Surface Transportation Improvements Special Obligation Notes.

COMPLIANCE AND INTERNAL CONTROL REPORT

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Joint Committee on Government and Finance  
West Virginia Legislature

We have audited the financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation, Division of Highways basic financial statements and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2007-1 through 2007-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as items 2007-1 through 2007-4.

This report is intended for the information of the audit committee, management of the West Virginia Department of Transportation, Division of Highways and the Joint Committee on Government and Finance and is not intended to be and should not be used by anyone other than those specified parties.

*Kayla & Stine, CPAs, PLLC*

November 16, 2007

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2007

2007-1

Information Systems Controls

Criteria:

The management of the Division is responsible for establishing and maintaining adequate information systems internal controls over financial reporting. Furthermore, an integral part of an entity's internal control structure is the effective segregation of duties, which involves assigning responsibilities for authorizing transactions, recording transactions and maintaining custody of assets to different individuals, thus reducing the risk of errors or fraud occurring and not being detected. Additionally, the Division entered into an agreement with the West Virginia Office of Technology (OT) dated February 1, 2007, pursuant to West Virginia Code Article 6 Chapter 5A, OT is to provide the Division with an standardized technology infrastructure from a centrally-managed technology infrastructure support organization. The expected benefit is a decline in technology cost, network and system availability is expected to improve, and security risks to diminish. Although the Division and West Virginia Code outsourced the technology infrastructure of the Division to OT the Division retains the final responsibility for establishing and maintaining adequate information systems internal controls over financial reporting.

Condition:

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:

- Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Division had a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Division's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Division. By completing this review, the Division will have assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Division has not had a code review on all online/e-commerce applications utilized by the Division. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Division. (Noted in prior year)
- Programmers in the Division's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Noted in the prior year)
- The Division's Information Services Department is not notified immediately upon the termination of employees. Lack of notification to the Information Services Department in a timely basis increases the risk of unauthorized access to the information systems and data. Furthermore, the Division maintains several user accounts which are not for specific employees of the Division. (Noted in the prior year)

Context:

Information systems controls potentially can affect all federal and state programs and are critical to the daily operations of the Division.

Cause:

Policies and procedures have not been adequately updated and information system controls may have not been monitored by the Division.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2007

2007-1

Information Systems Controls (Continued)

Effect:

Unauthorized use and/or access to critical information systems may occur and not be detected.

Recommendation:

We recommend the following:

- The Division should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Division complete a code review on all online/e-commerce applications. Both of these reviews could be conducted under a statewide contract that is currently in place with IS&C. Furthermore, we recommend that the Division develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Division.
- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. The policies and procedures should address controls over development, testing, security, compiling, or moving of programs to the production environment. The Division should institute a formal programming policy, procedure, and project management process that provides controls that cover the necessary review of all aspects of the programming function both internally and at vendors used to develop programs and web based applications. If access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.
- The Division should establish policies and procedures to ensure that the Information Services Department is notified immediately of all employee terminations. The Division should also identify and document user accounts not utilized by employees but need within the servers, such as application and system accounts. User accounts deemed as unnecessary should be disabled or removed.

Management Response:

*Agree: The internal network is undergoing a multitude of changes including migration from the legacy DOT Microsoft Domain to the consolidated Executive Domain, network backbone infrastructure upgrades and upgrades to the Wide Area Network. The migration to the Executive Domain is expected to be completed by the second quarter 2008. Once the new infrastructure is in place, a vulnerability assessment will be conducted. DOT and Office of Technology (OT) will work together to determine if the assessment can be accommodated through OT or whether a third party will be engaged.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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2007 - 2

Land and Leases

Criteria:

Section 157-2-8 of the West Virginia Code sets forth various requirements regarding land and lease issues. West Virginia Code sections 17-2A-19, 5A-8-9, and 12-2-2 also address various criteria to be followed by the State regarding land and lease issues.

Condition:

We noted several issues relating to land and leases, including the following:

- There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further, although the Division has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances.
- There is no system to readily track leases or other property maintained by the Division.
- We noted that the one right of way auction there was no indication the sale was properly recorded in accounting due to the Right of Way division controlling the accounting instead of finance.
- We noted that the one right of way auction had not been removed from the records in a timely fashion due to a conflict as to where the sales proceeds should be applied.

Context:

The total land and land improvements on the financial statement is approximately \$20.4 million as of June 30, 2007.

Cause:

Management of the Division has extended authority to the districts and has not maintained controls of the record keeping within the division or at the district locations.

Effect:

The lack of controls and poor record keeping could result in errors, irregularities or abuses that are not detected.

Recommendation:

We recommend that the Division develop policies and procedure to establish sound record keeping and internal controls to address the issues noted above.

Management Response:

**Agree:** *The Division had two presentations by outside vendors for a right of way tracking system during the past six months. The systems presented would allow for a complete tracking of the right of way process per parcel, project, and even individuals assigned. The Right of Way Division's proposed budget for FY 2008 included a line item for a similar system. Should this be approved a request for proposal and bidding process would be started.*

*Districts are now submitting quarterly reports to allow central office to track acquisitions, sales and leases. The Division is currently working on developing our own system to track leases.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2007

2007 - 2

Land and Leases (Continued)

*The subject property and structure were acquired for Highway Project APD-0484(115), Parcel 28 - Hardy County. The property was purchased as an uneconomic remnant from the owners. Being the property and structure were not needed for highway purposes, the district requested a Property Management authorization to auction the property and structure. Therefore, the Chief of Federal Aid (Right of Way) asked FHWA whether the sale should be credited to the statewide sale of federal-aid excess property or the APD project. The property was removed from the records as soon as response was given.*

*The Division will review its' current policies and procedures and make recommendations to establish sound record keeping and internal controls.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2007

2007 - 3

Notice to Proceed - Utility Delays

Criteria:

The management of the Division is responsible for establishing and maintaining adequate controls related to issuing a formal "notice to proceed" stipulating the date on which it is expected that a contractor should begin work on an awarded contract.

Condition:

We reviewed contract jobs awarded during the fiscal year ended June 30, 2007 and noted the following:

- There were fifteen instances identified where contractors were provided with a formal notice to proceed prior to securing proper authorizations to proceed from utility companies resulting in idle equipment rental charges from the contractors.

Context:

The total amount of contracted awards for the year ended June 30, 2007 was approximately \$713.3 million.

Cause:

Utility companies failed to relocate utilities in accordance with dates prescribed in awarded contracts.

Effect:

The lack of controls could result in significant idle equipment rental charges.

Recommendation:

We recommend that the Division develop policies and procedures to eliminate its possible exposure to idle equipment rental charges.

Management Response:

*Agree: The projects in question were designed and programmed prior to the acceptance of the compromise bill. A delay in the advertisement of these projects placed them in lettings after agreements had been made. The DOH failed to follow policies and procedures by not reviewing the Utility Status Dates in the contracts and by not requesting the Utilities to review and revise the dates they provided. By following the current policies and procedures, the DOH should eliminate its exposure to idle equipment charges due to Utility Delays.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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YEAR ENDED JUNE 30, 2007

2007 - 4	Payroll Authorization Procedures
Criteria:	The management of the Division is responsible for establishing and maintaining adequate controls related to the approval of payroll for employees of the Division.
Condition:	<p>We reviewed individual employee payroll cash disbursements during the fiscal year ended June 30, 2007 and noted the following:</p> <ul style="list-style-type: none"><li>• There were 16 instances identified in which there was no approval of the daily time sheet.</li><li>• There were 4 instances in which the annual leave form was not approved by a supervisor.</li></ul>
Context:	Total payroll expense for fiscal year ended June 30, 2007 was approximately \$164 million.
Cause:	The Division appears to have sound policies and procedures in place for the approval of individual employee pay but has failed to actively enforce the procedures.
Effect:	Amounts claimed as compensation may not be indicative of the actual hours worked.
Recommendation:	We recommend that the Division enforce and monitor existing payroll authorization procedures.
Management Response:	<i>Agree: The Division's managerial staff will stress to our supervisory staff the importance of this functional control. It is certainly management intent to have all employees accountable for all payroll related matters.</i>

Tape: November 28, 2007

President: Speaker moves the approval of the October 9 Committee minutes. All those in favor will say I.

Committee: I

President: Oppose no. The I's have it. I declare the minutes adopted. The first item on the agenda today, Senator Hunter will be reporting from the Veterans' Issues Committee. Senator Hunter.

Senator Hunter: Thank you Mr. Chairman, Mr. President, Co-chairs, Members of the Committee. I got a couple of items here. The first one is that previously you approved the estimate for the Veterans' survey at \$21,000 some dollars and we now have the firm figure, the survey is ready to go out and it is actually going to cost \$25,000 so I would recommend to the Committee that we approve increasing the 21 to the \$25,000 for the Veterans' survey.

President: Mr. Speaker

Speaker: I move that the increase the amount of contract, not to exceed \$25,000.

President: Speaker moves that the valid contract to go, not to exceed \$25,000. All those in favor will say I.

Committee: I

President: Oppose no. The I's have it. I declare the motion adopted. Senator Hunter.

Hunter: Ok, the Select Committee on Veterans' Issues has also working on its recommendations. Two of the recommendations would require the Governor or the Legislature to put in line items. So we had recommend sending a letter to the Governor recommending that he consider putting into his budget the following: First is \$25,000 that would help pay for the gurneys to be used at the new Veterans' nursing home and these are gurneys that would be used to evacuate the residents in case of a fire or an emergency. The second one is a recommendation that asked the Governor to put into his budget \$100,000 for stipens for mental health professionals who complete a rural rotation and a portion of their training and work would be with returning Veterans' and rural veterans'. We do that currently for nurses and doctors and such, this would add the mental health professionals that we need out there to work with the veterans' who are returning with PTSD and such. So we would recommend that you authorize us to send those letters to the Governor.

President: Mr. Speaker.

Speaker: President and I move the Select Committee B dealing with Veterans' Issues be authorized to send the letters to the Governor.

President: Heard the motion by the Speaker, all those in favor will say I.

Committee: I

President: Oppose no. The I's have it. I declare the motion adopted.

Hunter: We thank you.

President: Thank you sir. In your booklets you have monthly/quarterly reports from the Lottery Commission, General Revenue Fund and Unemployment Compensation Fund. Next on the agenda is Commissioner Jane Cline with a monthly report on Workers' Compensation. Commissioner.

Commissioner: Thank you Mr. President. For the initial report since we were asked very late to come and present we have provided you some general information and will be working with your staff to put together a permanent type report to provide to you on a monthly basis as it relates to the Workers' Compensation changes the old fund, what not. But for today, what I have provided to you is the most recent update from the Offices of Judges and that is the appellate piece where claimants file their initial protest and the information that we are providing you shows that over the course of recent times the self insured protest have been relatively consistent but what we are seeing is an increase in....

President: We don't have a copy of that.

Commissioner: It was sent to you last night, yesterday. I apologize we will get this to you. I do apologize. If you would like, we were asked to provide an update on rules so let me have Mary Jane Pickens, our General Counsel do the update on rules while they make copies on this information.

President: That will be fine.

Pickens: Mary Jane Pickens, General Counsel for the Insurance Commissioner. I wasn't sure exactly what, in terms of an update on rules and how much time you wanted to devote to this. Currently there is one open rule before the Industrial Council as the Joint Committee knows the Industrial Council is the body that provides the public forum for Workers' Compensation rules which are all found in title 85 of the code of state rules. Tomorrow afternoon, the Industrial Council will meet and at that point it will be the third and perhaps the final presentation of this particular rule to the Industrial Council and it will be offered to them in a version that they can vote whether or not to final file it with the Secretary of State and given an effective date. The rule that we will present tomorrow is the claims index rule and in Chapter 23 when Senate Bill 1004 was enacted a provision was put in there that says that the Industrial Council should make a claims index or a forum of indexing claims available that is intended to provide information to insurance companies about claims that have been adjusted by other insurance companies. It's based on our research kind of an unusual statutory requirement because as we all know insurance companies are adjusting Workers' Comp claims everyday in every state and without the benefit

of going to a state agency to tell them what every claim has been filed by a particular claimant but in any event it is a statutory requirement and we are gonna put forth a rule to put some parameters around it. Basically the way the rule is drafted is there is a requirement anyway of self insured employers and now carriers to report basic claims data in a first report of injury and then some updated information about claims to the state and that is very common. A lot of states require this type of electronic data transmission for regulatory purposes. What we are doing with the claims index in order to not create another burdensome reporting requirement on the industry is to simply pull from that data transmission that companies and self insured employers are already doing and pull certain data elements out and put this in this claims index. So it is a way for a carrier or a self insured employer when they get a claim from an employee to go into this index and they can find out the claimants name, social security number, body part that could have been the subject of a previous injury or previous claim rather and basic contact information where they can go to another carrier or another self insured employer and get and ask for copies of previous claims files that would enable, I guess benefit them in adjusting their own claim. That's basically it.

President: Did everybody understand that one? Does anyone have any questions about that proposed rule?

Pickens: I can go through again, depending on your time and what you expected, I've got a list of the other rules that we have done so far in 2006 and 2007 I could run through but if that is not what you all wanted to hear I'll step aside.

President: I got from my perspective in the calls that I received is about reducing or eliminating mileage for claimants out there. When did that happen and what is the story with that one.

Pickens: Well we have looked at the code back to 1925 and the code itself, the actual statutes have never authorized, I mean it has just been silent on medical on treatment on reimbursement for travel related to normal medical treatment attending your, or going to see your treating physician for treatment. Our code simply has never said anything about that. Through the years a rule has been passed and it was the way it came to us from Workers' Comp that a claimant could receive reimbursement for travel related not to just ordered exams by the Commission or the employer but related to regular treatment type travel. We looked at that and determined, it was our legal interpretation that, that went beyond the statutory authority and so when we took this rule for a final time to the Industrial Council and its rule 1, we suggested that they take out the provision relating to reimbursement for travel related to regular treatment in the claim. We just felt that was the best interpretation of the law. What happened is that, that was questioned at the meeting. We think the processed worked. It ended up not being enacted or not being authorized by the Industrial Council in the manner that we had finally presented it to them so there is still today travel, you know a claimant can receive reimbursement for travel related to just the medical treatment as opposed to the order type of travel. We have looked at other states and it appears to be almost evenly split virtually every jurisdiction in the United States has something either on the books or through case law or through insurance bulletin or informational letter relating to reimbursement for travel in the Workers' Comp context. I think slightly more than half it appears that it's the broader reimbursement where its related to all travel. Maybe 23

or so states appear to limit it to the travel just for an ordered type of exam.

President: I assume you do that to save money?

Pickens: Well no we did honestly because we didn't think it was the best legal interpretation of the statutory authority. I mean it is a money issue obviously.

President: How much money did it save?

Pickens: I don't have that type of analysis. I know that when the rule was going through the Industrial Council, Brickstreet submitted comments, written comments, and basically based upon an analysis of the entire reimbursement that had been going on I think for the previous few years that actually it was a study they had done while they were the Workers' Comp commission and I can't remember but it was a substantial amount of money that was used for reimbursement on travel but it wasn't broken down as I recall between treatment related and ordered travel.

President: Just for my own purposes because I'm really not familiar with how the old fund and how Brickstreet works. When the Industrial Council passes a rule or approves a rule, does that affect both the old fund as well as Brickstreet too?

Pickens: Yes, there rules for Workers' Compensation generally. So the old rules as they existed before the transition, the code the legislature made that very clear that those rules are inherited by the Insurance Commissioner, she has got the authority to enforce them and then she's got the obligation to keep them updated and promulgate new rules as needed.

President: So it is not just for the fund. It has to apply to Brickstreet also.

Pickens: Correct.

President: Questions? Delegate Caputo.

Caputo: I have some general questions Mr. President thank you. I have some general questions for the Commissioner if I might. Thank you Madaam Commissioner I have been looking at the code and it is my understanding in statute that you are supposed to report on issues such as claims and injuries and efforts to eliminate fraud and abuse and coal workers pneumonocosis fund and several other things assessments and rates quarterly to this Committee and I have been on this Committee this whole year and unless I have missed it I haven't seen a Workers' Comp report yet this year. Is that correct? Is this the first time you have made a report to this Committee?

Commissioner: This is the first time we have been asked to make a report to this Committee.

Caputo: But I think the statute's clear.

Commissioner: The statute refers to the old Workers' Comp commission.

Caputo: But doesn't the statute also say that the duties of the old Workers' Comp Commission is turned over to the Insurance Commission?

Commissioner: There are areas in the statute that provide that the responsibility of the Workers' Comp Commission transfers to the Insurance Commissioner but I mean it was not my legal counsel's interpretation that, that particular...it was their interpretation that, that was an antiquated section. And actually some of the requirements and there are antiquated in it when you talk about putting forward a plan for improving the system it would be our thought that, that's the plan you put in place was the privatization process and how we move forward with respect to preparing for privatization.

Caputo: So it is the interpretation of the Insurance Commission's office that you do not have to report to this Committee quarterly? Am I hearing you correctly?

Commissioner: No, I think that our interpretation is that anytime this Committee wants us to report to them we will be reporting to them and be happy to report to you.

Caputo: Good answer Jane.

Commissioner: Again, when you start at the top of that section of the code that refers to the Board of Managers. I mean most of the language in that section of the code is antiquated because there is no longer a Board of Managers.

Caputo: Workers' Comp is exempt from Legislative Rule Making Review, is that correct?

Commissioner: Yes.

Caputo: So when there was a move, and I don't remember all the details to do away with the surviving spouse or widows benefits, that was done internally by Brickstreet, that was an internal we had a little rucus over that.

Commissioner: That was an internal policy that was made by the old Workers' Compensation Commission.

Caputo: And how was that turned around?

Commissioner: After that responsibility transitioned to us and my staff and along with the Governor's staff the analysis of it and believed that the Legislature's intent was not to change that.

Caputo: But the initiation of it came internally is the point I am trying to...

Commissioner: From the old Workers' Comp Commission.

Caputo: How many other insurances in this state are exempt from Legislative Rule Making

Review?

Commissioner: Under Chapter 33 we are not exempt from Rule Making Review. We go through the normal Rule Making Review process. But when you transition the responsibility for Workers' Compensation to us you continued the exempt Rule Making process through the Industrial Council.

Caputo: But every other, the point I am trying to make cause I am not sure if I understand you correctly, like auto, health that all is subject to Legislative Rule Making Review, right? Workers' Comp is not, it goes through the Industrial Council.

Commissioner: That is correct

Caputo: Thank you. Thank you Mr. President.

Commissioner: And again I apologize but we had emailed yesterday and in the future we will have a set report for you based upon the feedback we have from you today and the information that you request so that it is consistent and we know what you want and what to expect. But we have provided you the latest update from the Office of Judges and again the Office of Judges are aware of the initial protest over Workers' Comp claim would go. As you can tell over the course of the last year you see that the number of protest on the part of a private carrier increasing which would be anticipated as the private carriers obtain more of the claims and the protest involving the old fund are trending down. Self insured has remained somewhat consistent. We also provided you on the second page of that you see the information that shows that in 2003 there was a spike in the protest and there were 26,000 protest before the Office of Judges. Year to date projection for 2007 is a little over 12,000 and then also on that same chart we have provided you information on a monthly basis on the number of protests. On the second page we have also have a page that gives you the Board of Review protests and the Board of Review is where somebody appealing the Office of Judges Review will go to the Board of Review and then the Board of Reviews challenge would go on to the Supreme Court but generally speaking the Board of Review did have for a while a significant backlog but they have been able to work through that. The other information we have been generally asked about is surplus note agreement and the payment from Brickstreet on that. We have provided you a summary of the terms of when the principle is to be paid back on the surplus note. They have their, they didn't make a payment in June and there was a settling up provision for some money transactions and refunds to employers from the old Workers' Comp Commission that Brickstreet actually did so there was a settling up and the but the total amount of the surplus note has been reduced by \$15 million. I also have a page in here that provides you year to date through October information on revenue collections and then information on expenditures through October in the first 4 months we have collected close to \$68 million in revenue and expended \$101 million in benefits and other contractual obligations for third party administrators, things of that nature. We also have provided you old fund claims payments by type through October which provides you the information on how much of those claims have been paid out have been medical, how much were permanent total disability, permanent partial disability, settlement agreements, fatals you know the various types of claims that we are paying out. Just some general information to give

you an update on where we are. In the past two years we have had a lot of activity going on in the area of Workers' Compensation. Initially Brickstreet was required to be our third party administrator and they were originally going to be required to be our third party administrator until 2012. During the last session in Senate Bill 595 you gave us the ability to contract that out earlier but early on in the phase Brickstreet did come to us and ask if we would consider allowing them to contract that services out because they were in the process trying to get all their people trained and get prepared to be an insurance company being able to operate and compete by July 1, 08. So working with us they did contract with Cambridge but when they contracted with Cambridge we told Cambridge all along that we would be bidding those, we would be bidding the claims out and looking to try and improve the overall claims management for claimants and the old fund. So where we are today is that we have awarded contracts to three different CPAs: Sedgewick will be the third party administrator for the majority of the old fund claims. They would began administering on December 1 36,000 of the claims. Then approximately 3,000 claims are going to transition to American Mining and another 3,000 will be transitioning to Wells Fargo. That 6,000 group of claims are the occupational disease claims and those are the claimants that really need more specialized and improved claims handling services that is the pneumoconiosis claims those that are highly technical and specialized. American Mining and Wells Fargo have a long history in being able to manage those claims so we are confident that as we do this transition and we move forward we will begin to see improved, continued and improved service on the part of the claimants. Because we can tell you, I mean we know in the past where there have been mistakes made by Cambridge where we have had to intervene on the part of the claimant and say you need to reinstate this benefit but by the same token we also know there have been inappropriate payments out of the system. But we want to make sure that any claimant is getting the appropriate care and treatment up front be it from a private carrier or a self insured CPA. But in particular on the old fund you know we are working very diligently to improve that process as for those claimants we have also notified each had each one of those claimants notified about the change and provided them general information and their individual claims adjuster will be in contact with them to provide them all their personal information. The benefit is we are gonna go from approximately a little over 60 claims adjusters to have twice that many managing these claims. So where you had claims adjuster managing upwards to 1500 claims sometimes, the max they will have is 200. That and itself with the training that the claims adjusters have been receiving should significantly help improve that process. We are also in the process of getting our audited financial statements and we will continue to work with you to provide you general updates on where we are with respect to the unfunded liability on an ongoing basis. So that is kind of a brief summary of where we are. This particular juncture and I think between Mary Jane, Bill and myself we'd be happy to answer any questions you might have.

President: Senator Kessler

Kessler: Just a couple to follow up on Delegate Caputo's question. Workers' Comp is the only line of insurance presently that is exempt from Rule Making. All others, homeowners, auto, fire, marine, life everything else is subject to rule making that comes before the Legislature. Correct?

Commissioner: Yes

Kessler: Once this transition is complete and the market is now open. It is going to be purely a private carrier funded except for those self insureds. Is there any reason or rationale what so ever to maintain that exemption any longer?

Commissioner: We would think that at a point and time that we could work with the system in the normal rule making process I mean we've worked with it you know for everything else. It is just that right now as the rules are transitioning and some of the rules are still written more towards a monopolistic system than they are towards the open market concept and some of the changes there are still some rules that we believe need to be addressed and need to be able to address quickly.

Kessler: And I understand there is a little skiddishness about making sure that the market is fully open when it is a lot of competition to enter the market and certainly expect at some point and time in the not too distant future that there wouldn't be a separate car vout treating Workers' Comp which is a separate line of insurance any different from any other line and they should be certainly under your perview but also under the rule making authority of the legislature.

Commissioner: And we would not disagree with that. It is just you know we right now have some growing pains that we have to get through and need to continue to be able to work with you but I would like to point out that we have taken a very open process in the rule making. One of our attorneys presents the rule to the industrial council and then upon their approval it gets publicly noticed for 30 days. We also have a significant state (?) List of a couple hundred people that rule gets emailed to and then after those comments come in our staff does the analysis and then presents back to the industrial council and I mean there is a public hearing before the industrial council and then it is a 90 day process, we are not just doing it in the dark.

Kessler: Well I know there has been much discussion or at least in the media or whatever in (?) Concern about you know the judiciary committee's interim study and looking at the rule making process in trying to create a mechanism where by at least the members of the legislature, although we are not going to approve the rules, at least know what they are so we're not blind sided but just so that you and everybody in the room understands there is no intention from this legislature in anyway shape or form to unwind, undo or step back in any way from the privatization that we got in place.

Commissioner: And what we have also done is you know Mary Jane has written to each member of the legislature to see if you would be like to added to our state quarter list and what email address or how you would like to be notified and we have also committed to putting any of your stabs on that distribution list as well so that we attempt to keep you fully informed and then by coming and presenting to you once a month here we can keep you apprised of any rules that we are considering changing. You know again, it is not our attempt to not be open. Our intent is to be open and work with you in making this whole process work to the best of our ability but in the best interest of the employer community and the claimants.

Kessler: And I think that is probably all I have for you.

President: Mr. Speaker.

Speaker: Thank you Mr. President. Commissioner, has your office changed a lot since you got all this Workers' Compensation work?

Commissioner: Our office has changed significantly.

Speaker: I know we discussed this when these changes were occurring. What percentage of the time would you say your office is dealing with workers compensation as opposed to other insurance matters.

Commissioner: Well we have our staff that is still fully committed to dealing with the regulatory piece. You know that was their job function before and that is what they are doing but I would suggest right now with respect to Mary Jane and our members of our legal team that much, much of it is spent on workers' comp as is much of my deputies of mine.

Speaker: Do you anticipate that lightening up a little bit when we go to completely private as opposed to monopolistic?

Commissioner: I do hope that it begins to even out and believe it will begin to even out as we move forward but we have ended up with a lot of additional responsibilities that were not normally insurance regulatory functions. Like the employer compliance piece, the revenue recovery going out after the old managing the old fund portfolio claims that are in it. That, we have really focused a lot of our time in getting an improvement in the claims management area because that is significant for the claimant and that is also where we can really begin to get the cost savings because if your getting the claimant the best treatment up front then you are not spending the money on the backend trying to get them cured from something that never should have occurred.

Speaker: I have couple questions here and you probably do not have this information but if you wouldn't mind I would like to have this information, actually one of the delegates asked me the question and I didn't know the answer. The total amount brought in revenues and what was the total amount spent out by workers' compensation of last year it existed. I don't need adjusted figures just a total figure and then the second what was the total amounts brought in and spent out by Brickstreet during it's first year of existence again, unadjusted figure I just need those two amounts if you could have that for us I'd appreciate it.

Commissioner: Yeh we can have that for you during the next interims and one thing I did fail to mention with respect to something that Senator Kessler mentioned about opening the market is the one thing we had is have a lot of positive feedback from insurers around the country about expressing interest in coming into our market place. We held a meeting on September 5 and had 40 plus entities actually represented here working with us and we are going to do another follow up meeting. We have actually licensed 13 new companies. Several of which are mono lined. Workers' Comp carriers, one that does nursing homes when the focus is on small businesses. That is positive and some of the larger carriers have been into meet with us and we continue to

meet with the major trade associations on this issue as well.

Speaker: Thank you Commissioner, Thank you Mr. President.

President: Senator Deem

Deem: Yes, Jane I am interested in the what is happening to the appeal process for Workers' Comp Claims. It is my understanding that at one time there was a Council of Judges to which appeals were made and then further appeal to the Supreme Court on claims. How is that progressed? Are there less appeals, are there more appeals going to the Supreme Court or less?

Commissioner: The number of appeals before the Office of Judges is trending down so then that means that over time those that go to the Board Review should continue to trend down and then ultimately those that go to the Supreme Court would be on that same process. This chart shows you a bit about how the Office of Judges have trended down and we also have the sheet in there from the Board of Review that provides you information on theirs.

Deem: Is there a back log is my understanding at one time there was a long back log of appeal cases before the court, is that changed?

Commissioner: I am not sure what's actually in the Supreme Court but I know the Board of Review has worked through theirs and as Senator Helmick can attest to. So with respect to those that are housed within the offices of the Insurance Commissioner through the OOJ and the Board of Review we are seeing a trend down and back logs have been improved.

Deem: Significantly?

Commissioner: yes. The Board of Review doesn't have a back log.

Deem: Thank you.

Commissioner: We have statistics and information that shows you the timeliness of the Office of Judges and I can get that for you during the next meeting as well.

President: Delegate DeLong.

DeLong: Thank you Mr. Chairman. Madaam Commissioner just switching gears slightly here for a moment. I have a physician in my district who had contacted me. He had been denied for, I am not certain all the reasons of being a provider for Workers' Comp. I am certain they went through the process and he received a denial as being a provider. He was trying to get through the appeals process and at least he felt he was having trouble getting a hearing date set up and that is when he asked me to intervene. I was kind of surprised to learn when I called the Office of Judges, initially they gave me a time frame when they were going to do the hearings and I asked if I could be notified and they informed me that the hearings were a private hearing a closed hearing and I couldn't come which was certainly understandable. I then followed up and

asked if I could still be notified of the date so that I could make sure that he got the notice, that I wouldn't hear that you know something was sent to him in the mail and he said he didn't receive it. That was when I was further informed that he couldn't even go and testify on his own behalf. I am just curious as to where this policy came from if it is something in code if it is something in rule, I have never heard of an appeals process where the person filing the appeal was not allowed to attend the hearing. So I was wondering if you could give me some information on that.

Commissioner: I know there we have a credentialing process and we do have a medical director on staff that works with us but I am going to defer it to Mary Jane since.....

Mary Jane: I don't know if this is a place where you want to talk, I mean I am happy to talk to you afterwards or at your convenience, but I am not sure, I am not familiar with your .....

DeLong: I think it is simple I am just confused to how a person can file an appeal and isn't allowed to attend their own appeal.

Mary Jane: I don't think I understand what the underlying problem is. Why is he before the Office of Judges?

DeLong: He was denied the ability to be a Workers' Comp provider.

Mary Jane: And your sure it was before the Office of Judges?

DeLong: Yes, that is where his appeal was going before, I am not sure of the exact stage but it was going before an Office of Judges and they had informed us that it was a private hearing that he could not even attend the hearing that he had to submit his reasons for filing the appeal and that they would review those reasons and contact him when they made a decision but he could not, no one could attend the hearing including that physician.

Mary Jane: I think, I am just guessing, it sounds like it is a peer review type of hearing that would not be before what I am thinking of is the Insurance Commissioners Office of Judges with Chief Judge Leach and his cadre of judges. I believe it is a peer review hearing before the network that to which he has applied to become a member. But again it sounds like I probably need to talk to you and get a little bit more information. I am happy to go back to the network and find out all about their processes and respond to you.

DeLong: Ok, I mean I did send, I wish I would have brought the letter, cause I did send a letter to the Commission and to the Governor's Office explaining the circumstances in further detail, this has been a while ago now and the answer I got back was that Brickstreet could do this because Brickstreet was not a governmental agency so they had the control over determining whether or not he could attend those hearings. That is the only answer that I had received.

Mary Jane: Well, and I think I had worked on that letter that is why I am thinking I am kind of familiar with the matter your asking about. It, Brickstreet has contracted for a network. Its tradename if you will I guess is Street Select but it is CompNet which is a Wells Fargo network.

It is not Brickstreet, I mean Brickstreet isn't taking that action. It is Wells Fargo and CompNet that is making the decision about that provider and it is their decision about that provider and of course we want to make sure that people treating providing treatment to Workers' Comp claimants meet national standards and that type of thing. So but again it maybe something we probably need to talk about and I am happy to talk to you about it at your convenience.

DeLong: Certainly, I mean I would love to discuss it further cause I am just a little confused how someone who is a practicing physician in good standing with the State of WV who wants to take Workers' Comp patients, I understand the process that he could be denied but I still don't understand the further process to where he can't attend his own appeal. So if we could discuss that further I would like to get to the bottom of that cause I think it is awful strange.

Mary Jane: I can certainly find out more about that appeal process and address the issue of his attendance at the appeal.

DeLong: Thank you.

President: Delegate Armstead.

Armstead: Thank you Mr. President. Commissioner Cline just on this first page of the handout that we got with the surplus note agreement from Brickstreet payments. I know you touched on this but I just wondered if you could kind of elaborate on the portion 10 point for \$10,551 thousand ten dollar principle adjustment. Is that an amount that was paid back or was that, it says adjustment I just wondered what does that entail?

Commissioner: That is amount that Brickstreet refunded to employers for premiums that they had paid that were not going....with the old Workers' Comp system they paid in arrears and there was a settling up provision and this was the settling up time at the transition and we didn't know what that might be and it turned out through the audited financial statements to be that figure.

Armstead: So this was something that instead of paying back the state on this they were giving a credit basically cause they paid it back?

Commissioner: They were given a credit because they paid the employer/community that much money.

Armstead: Was that the way the statute was set up that, that would be done that way or was that a decision made after....

Commissioner: It was the way the surplus note was written. When we determined that part of their capitalization was gonna be in the form of a surplus note that they would pay back to the state that provision is in the surplus note.

Armstead: Ok, alright, thank you.

President: Delegate Webster.

Webster: Thank you. Madam Commissioner, I um want to touch a little bit more on this mileage reimbursement issue that most people here know that has greatly concerned me. Just for the Committee's record, I am one of the new Legislative designees on the Industrial Council. Mary Jane may, you can let me know what you want her to answer versus you. The Industry Council is a 9 member board is it not that is appointed by the Governor, correct?

Commissioner: There are five members that are appointed by the Governor that represent certain Industry, there is one labor rep, one attorney, one insurance rep, one accountant and one academia. And then there are two ex officio members from the house and two from the senate.

Webster: Ok, um with respect to the issue raised about the exemptions. By the exemption, no legislator or legislative committee ever is involved in the Rule Making process and it has the affective law unless we'd later come back and change it, correct?

Commissioner: But you have four ex officio that got the information as well.

Webster: That is not my question. We are non-voting members. I am just saying, the Legislature does not.

Commissioner: No you did not vote on the rule.

Webster: Ok, now with respect to this mileage reimbursement rate, it is my understanding that prior to the 2005 reforms it was 30 cents per mile, is that correct?

Commissioner: We have done that analysis, I think...it was at a point higher than 15%.

Webster: I am not so interested in precise numbers I am just basing it on my information. Now, there is a case law out there that says reasonable expenses are contemplated when a claimant is seeking medical treatment. That's always been case law, mileage reimbursement has always been part of that.

Commissioner: The mileage reimbursement and I don't want to try to practice law without a degree.

Webster: Well I said you know you can absolutely bring Mary Jane up here.

Mary Jane: I am not sure you finished your question.

Webster: Oh ok no, I was just saying that I looked at case law after my first committee meeting and reasonable expenses, it is in statute are obviously required in that medical expenses have always not only been mileage for medical treatments, always in the history of comp, unless you tell me otherwise, been provided, correct?

Mary Jane: Um, It has been in rule since the early 70's.

Webster: Ok, so there has never been a point that you know in Workers' Comp history that we have not, if somebody is traveling from Logan to Charleston to get treatment because they were ordered to go there that they can get reasonable reimbursement for the mileage, correct?

Mary Jane: I don't know that I personally know the answer to that.

Webster: Well if I represented to you that unanimously I have been told that, that is the case.

Mary Jane: All I know is that for many many many many years it was never, it was silent in the code and from the 70's on it was allowed in rule.

Webster: Ok, and I am using this as an example of how I am concerned our legislature is not making law and we are the elected people to do so and I used this example because it was my experience in my first committee meeting and soo... The Industrial Council though, the bill that was, the rule rather that was proposed by you all, we originally had 30 cents and then after 2005 somehow it went to 15 cents. Gas goes up reimbursement goes down. The proposal to the Industry Council was to eliminate, and you correct me if I am getting this wrong, all reimbursement, hold on, for medical treatment unless it was ordered by the employer, like an independent medical examination or from, I dunno if it was the commission as well but there was just that distinction based on what you believe, and I know you still stand by it, an interpretation of our statute that was apparently silent that we did not intend to provide mileage reimbursement except in those limited cases, is that right?

Mary Jane: Correct that was the way it was presented to the Industrial Council in the final version.

Webster: So even though we have always had mileage reimbursement and you all presented it to the Industry Council as if it was our legislative intent. So Senator Kessler, Speaker Thompson, President you know Tomblin, myself...I am using us as examples um were we ever called or just asked you know we are getting ready to construe it this way did you all mean to completely eliminate mileage reimbursement? That never occurred did it?

Mary Jane: No, we did it the way as lawyers, you read the law, you interpret what you think the legislative intent was, no we didn't call particular people and ask. It was what we thought as a group in our legal department was a good interpretation.

Webster: But given that the Governor had to resend a policy that took widow benefits away a year before that, given that in Senate Bill 595 we had to come back after the Industry Council did it that basically stayed Workers' Compensation awards because it had been construed that way, I mean by the Council they had adopted the rule, we came back and fixed it. Was there any concern at all that we may if you all had adopted that rule and that may be a question for the Commissioner that we would come back next year and add it back in. I mean

Mary Jane: That possibility always exists.

Webster: Wouldn't it have been better for us to have that dialogue before the rule?

Mary Jane: We were simply doing what we thought our job was, you know. We were given these rules. We had clear statutory authority to go through.....(TAPE CHANGED SIDES)

Webster: (Part missed due to tape changing sides) ordered the independent medical benefit. Even though it is the most undisputed, particularly with old claims, that people are getting um having to go to treatment from Martinsburg to Morgantown from Logan and Mingo to Charleston. Why then in two drafts before that did you have a mileage reimbursement for that? How do you get from proposing a mileage reimbursement for that area and then two drafts later its been construed that the legislature did not want to pro...did not intend for there to be any reimbursement.

Mary Jane: I guess I would take responsibility for that because it happened in the legal department. When we first heard about this issue there were comments coming to us that 15 cents is too low and you know, 15 cents sounds kind of low, sounded low to us.

Webster: Right in fact I think Delegate Caputo had asked during the last session for you all to look into about increasing it. Was that not somebody that had talked to you all about increasing it?

Mary Jane: Yes, but what we were not told is that we were talking about treatment related travel and when we went to the code to look for our statutory authority, which actually came about based upon comments we received in response to proposing the rule and publishing it for public comment. We did go back, we looked at the code section and we said yeah we think we agree with this comment, its not supported by the code. The legislature didn't intend to expand it beyond that.

Webster: Ok so had I who was only familiar with this because my colleague had raised it in the session prior to this meeting. Had I not voiced concerns, and I know your alls position is that makes the process open, had that been adopted and not you know tabled, layed over, that would have become the effective law and then between the time that occurred in July or August or whenever to January unless we all agree that we shouldn't get any reimbursement at all, unless we came back and changed it six months later, the affect would have been, we were that close we would have eliminated mileage reimbursement for the claims, excuse me the reimbursement for medical treatment except otherwise included you know as the 44 cents, is that right?

Mary Jane: That would have been the effect of the rule.

Webster: Um, given the experience that you all had prior to you, prior to when you all have assumed the responsibility, given that we had such a controversy over that widow benefit that the Governor resended and that the appeals process that we came back and fixed um, and this Madam Commissioner really is probably more in your jurisdiction, would it not have been more

helpful to have our input then before you prosed(?) It than after it, coming back and having to fix it.

Commissioner: You know hind sight is always 20/20 and you know we have made mistakes through this transition but if you really came down and lived in our shoes and dealt with what we have been dealing with every day for the last two years, you know ok we may have made a mistake, you caught it, you know we are dealing with it we are doing the additional research you asked and we are human beings too.

Webster: Listen, my point is not you made a mistake, I am just saying as an elected official that is charged to make the laws in this state, I don't think we the law making body have the luxury for the series of errors that occurred because we are not making the law, that is all. I am not, absolutely being critical to you. I am saying that.....

Commissioner: I guess my point is everyday we have to make interpretations.

Webster: Well that was a pretty big one, wouldn't you say? That is a pretty big interpretation if you didn't look at the historical context perhaps you know maybe some you know input would have....anyway it is mute we got a lot to do. I wanted to make sure that the significance of this in terms of me as one of the members, not seeking to eliminate the exemption that currently Workers' Comp has and that no other insurance component has, that if we were included just along the way and maybe this Committee although I don't think you know is probably equipped to handle a rule making procedure given you know we make other Committee's coming after you is that I would think that would be a helpful dialogue if we do not take away the exemption, we do not try to prove modify, would it not be in the best interest of the law making that both of us assume for us to be involved before you all make those changes, in terms of just giving our input?

Commissioner: And we have committed to notify you of any rule we are proposing. We have committed to come on a monthly basis and give you an update and Mary Jane will give an update on any rules that are in the process so that you know what we are looking at and what we are dealing with. I mean we have committed to that.

Webster: Well you committed to that but the bottom line is even though Workers' Comp enjoys this exemption that nobody is wanting to take away at this time, you prefer it to not be in writing, basically, correct? You do not want to be required to come to us to tell us (?)

Commissioner: I think we prefer to let the system work the way it is. I mean you have any ability anytime you want to have us come here and talk with you and present information to you. I mean we have never, we have never not done that at your request and I mean and we....

Webster: I know I am just concerned the mileage reimbursement will happen again if it has happened every year.

Commissioner: And I think mileage reimbursement has taught all of us a lesson.

Webster: I know, I know. I mean had I not been there we would have a legislative interpretation, a interpretation that I really don't believe this body intended but anyway, I just wanted the Committee to be aware of that and why I have been so concerned.

Commissioner: I mean its

President: Further questions? Commissioner, we would appreciate if she could get us those proposed rules, get it to Aaron before the next interim meeting.

Commissioner: Certainly

President: If there is no further questions, thank you. The next item on the agenda is the Division of Highways Audit, if you could give us a brief overview of that we would appreciate it. We did the full Audit with the Post Audits Committee already.

Fuller: Good afternoon Mr. President, Mr. Speaker, members of the Committee. Once again I would like to thank you again for giving me the opportunity to present at this forum. Yesterday afternoon, back up my name is Rob Fuller, I am with the audit firm of Hayflich and Steinberg in Huntington, WV. We were engaged to perform the audit of the Division of Highways on June 30, 2007. Yesterday, I delivered our presentation on the Division's audit of the financial statements that June 30, 2007 and also in great detail we discussed the management letter report that identified certain significant deficiencies, internal controls and Mr. Allred asked that I returned today and address any additional questions or comments that you may have.

President: Any questions about the audit any particular questions anyone would have? Delegate DeLong.

DeLong: Just one question Mr. Chairman, I'm not certain that this falls in the same lines or not but um, I am hearing more and more from different businesses across the state who as a result um, of things that came out in the audit following federal law had been forced to take down or move their signs advertising their businesses because they were outside of the parameters of where federal law allowed signage for advertising. I was just wondering and maybe it is included in here, obviously I haven't had a chance to read it but do you have any numbers as to how often that you saw that circumstance in the audit, I mean it's, I thought maybe it was a rare case at first but now there has been several more who have made comments to me about that potentially hurting their business. I know that is not something you did, I was just wondering how often a frequent occurrence that, that was.

Fuller: It is nothing that occurred during our audit that would have brought that to our attention.

DeLong: Oh there was nothing that came out in the audit that brought that to light?

Fuller: No sir.

DeLong: Ok thank you.

President: If there is no further questions, Delegate you may want to address that question to Marvin back there.

DeLong: I am just trying to figure out how many more of these calls are gonna come, more than anything else.

Marvin: We have a requirement by the federal highway administration, the federal government to enforce the outdoor advertising signs. I will be frank that some of that has been lax in the past and we have changed steps in that division to increase the enforcement and make conformity there. We have also worked with the outdoor advertising people in regards as to what rules and things that we all put in place and that is what we are doing. We have had a few instances where we have had some signs up for a number of years that has been overlooked and we have been required, or by the law we're required to take action on those and we have done that. I don't think it will be a great number but there has been a few that there and correctly saying they are some of it been there significant number of years. But at the same time we've enforced it on our neighbors and others and with compliance without really any quams and we have worked on some of those with given them options but they had their sign there for years and that is what they wanted, they didn't want to listen to any options and so forth.

DeLong: Well you answered my next question. That is what I was gonna ask if you at least attempted when other options were available to provide them with, a lot of these folks I would think, I am just assuming maybe didn't know after they had to take them down what they could do but your saying that you've tried to work with them the best you can to give them.....

Marvin: We have tried. It did not, in one particular instance they just didn't have any desire to go any place else or to put a sign up anywhere but at the same time we had enforced the rule and about 5 or 6 of their neighbors along a corridor highway and we just felt we had to enforce it on that one and that is going to court now.

DeLong: Appreciate it thank you.....you can keep your political signs up..your alright. Thank you.

President: Thank you sir. The next item on the agenda is the report of PEIA, BRIM, CHIP and lease reports. Secretary Ferguson.

Ferguson: Mr. President, Mr. Speaker, members of the Committee. You should have the reports in front of you. First report is PEIA. We've had, we have completed the public hearings in the financial plan is now complete. We have a board meeting on Thursday, tomorrow, to vote on that plan. I am going to ask that the board not vote on any changes to the plan till we discuss some options based on some of the feedback we got from the public hearing comment to see if there is any way to mitigate some of the concerns that the retirees have. The trust has completed it's first fiscal year in an independent audit received unqualified opinions in pretty good shape. They are also available for your review. You have any questions on PEIA?

President: Any questions? Delegate Caputo.

Caputo: One very brief one Mr. Speaker you know we are catching a lot of questions right now about the medicare/advantra freedom and I know some members of the retired community state employees were put back into PEIA and the last number that was reported to the Committee Mr. Cheatham we discussed this a couple of weeks ago was 68 and I am sure that number has increased since that. Could you give us the number and where you think that (?).

Cheatham: Yeah, I don't have the exact number with me today but it is a little over 200 now.

Caputo: A littl over 200.

Cheatham: Yes.

Caputo: And that is because they are in states that's not accepting, is there anybody in WV that was put back into PEIA?

Cheatham: We have brought probably 1 or 2 people from WV back in because of specific medical conditions and access to ongoing treatment to a facility somewhere.

Caputo: (?) Out of state?

Cheatham: Yes.

Caputo: Thank you Mr. Cheatham, Thank you Mr. President.

President: Mr. Speaker.

Mr. Speaker: Mr. Cheatham I have a question for you also.

Cheatham: Yes sir.

Mr. Speaker: This relates to my son has brought this to my attention, it on an allergy medicine called Zyrtec. Got it refilled the other day and I think \$59 a bottle and the co-pay was \$50, I wondered why I had the insurance to be honest with you. Is there some particular reason that is that a bad drug or something?

Cheatham: The answer is there, every individual is different and has a different body chemistry. But my recommendation is have your son talk with his physician because there is a first tier \$5 co-pay drug that is available probably generically equivalent to Zyrtec.

Mr. Speaker: Claritin?

Cheatham: That may be one of them.

Mr. Speaker: Well I know he had to try that first and it didn't work, before they put him on the Zyrtec and so he has been on the Zyrtec for quite some time. The co-pay had not been that high

before.

Cheatham: That is correct sir, we changed

Mr. Speaker: It just seemed all of a sudden it was \$50.

Cheatham: Yeah, on July 1<sup>st</sup> we changed the third tier co-pay for pharmacy for all plan beneficiaries, active and retired from \$30 to \$50. Because those third tier drugs typically are costing anywhere from \$150-\$300 a prescription whereas the generic side is probably in the \$20-\$30 range.

Mr. Speaker: How many drugs are in that third tier?

Cheatham: I don't have that number, I can get it for you.

Mr. Speaker: I appreciate that and what they are.

Cheatham: I can do that.

Mr. Speaker: Thank you.

President: Further questions of Mr. Cheatham? If not, thank you. Secretary Ferguson.

Ferguson: CHIP is the next report. We are, open enrollment we've got October's enrollment we have 25,000 a little over 25,000 it is down actually 2% from a year ago. Our medical claims are also down about 6%. Varying reasons for that. Administrative costs are up 16%. We had some start up costs with a home administrative that was about \$40,000 a rational drug therapy was \$17,000. Questions on CHIP?

President: Mr. Speaker

Mr. Speaker: I have inquired several times about Wayne County's participation in the CHIP program. Has there been any improvement for Wayne County?

Sharon Carte: Um, no sir, not noticeable improvement. We did place some ads in your local Wayne County paper back in September because school enrollment is starting up and that is heavy time for enrollment.

Mr. Speaker: Do you know why, did you find an explanation for it?

Sharon Carte: You know I really don't have a lot of enrollment or outreach data available on a County basis but I am still committed to getting out to the Counties that are in that last tier and putting together a plan to try to do something different in outreach for them. One of the things Mr. Speaker is you know the DHHR has the electronic application process and I just like to see electronic application used a lot more so I am going to be exploring some of that but I'll need to

go to those locals and really see what people think works and another staff person and myself were there in Wayne County and did speak with a number of local children's, we went to the school nurses, we spoke with the preschool programs and just to get their thoughts and ideas so we still want to see what we can do to help out.

Speaker: Thank you.

President: Delegate Webster.

Webster: Yeah um while you're here it spurred my interest. I actually have a client whose in his, the Speaker's district, in Wayne County. What I want to know I am sure it would be through you all but they had a daughter or do have a daughter, very young that's severely ill and they maxed out of their insurance, they have a million dollar limit at Cabell Huntington Hospital. They applied at CHIPS at some point, she has no insurance.

Sharon: They maxed out of commercial?

Webster: Commercial yeah at a million dollars. She was at Cleveland Children's Clinic for months. Anyway, um what I guess I am trying to find is CHIPS said at that time that they made too much money. But, where you have a situation and the family by no means is wealthy but I know you know there is scales and the fact that is there no provision or ability through CHIPS is when you have a young child that has maxed out of insurance that there is not some provided exception that would put the person back under some form of insurance?

Sharon: Um, they would have two alternatives. One would be to apply to access WV which they would be asked to pay a higher premium but that is for people who have been turned down from their insurance, the other would be...CHIP can make an exception in some circumstances I am not sure if the income is one of them but if since it sounds like that child has had such high medical expenses, if their insurance premium now exceeds more than 10 percent of their income we could take a look at that.

Webster: They just can't get insurance. They have it for them but their commercial Blue Cross/Blue Shield. Maybe I could talk to you about that at a later time. So you say there are limited options but there may be....

Sharon: Right and Delegate feel free to give them our office number in Charleston, you know the 558-2732 and I can have a staff person work with them directly to try to help them.

Webster: That would be great I would appreciate that.

Ferguson: Next up is the Board of Risk. We continue to excel in our investments and in our positive cash flow. We have no unfunded liabilities overall in the program. Our Senate Bill 3 continues to improve. Of course we do have almost \$4 million dollars in unfunded liabilities there. Those are the municipal subdivisions, Boards of Education but we are in good shape and we are exercising some aggressive loss control.

President: Questions? If not....

Ferguson: Last up is leasing report. I have my leasing director here if you have specific questions but pretty straight forward...we have had 4 new contracts at least, 3 straight renewals, 3 renewals with some rent increase and one decrease in square footage.

President: Uh, give us the status of where we are today. I see the Lottery Commission has renewed their lease for five years. I understand we have been talking here forever about building a new building for the lottery commission.

Ferguson: Plans are moving forward sir. We have we are working closely with Lottery, we are looking at space on the campus in the adjacent spot on California Avenue. The Leasing Division is up and running and has hit the ground running and we are in great shape. Our first, our primary focus right now quite frankly is on building 3. We have awarded the A&E contracts so I need to find homes for the tenants in building 3. We are actively pursuing that. Concurrently we are working with Lottery to get the ball rolling on the space, the property we own to build the revenue building. But I can have Chuck come on up.

President: Well I mean you don't have to get into that but it just appears to me that in five years they are still going to be across the river over there.

Ferguson: Well sir, I am not sure what the terms of the rent renewal was but I am sure they are playing it safe.

President: Five years.

Ferguson: Yes, sir.

President: that is what it says here on your report.

Ferguson: I will answer that question a little bit later for you sir.

President: Ok. Any further lease questions? If not thank you Secretary Ferguson. We also have Secretary Walker.

Walker: Thank you Mr. Chairman, members of the Committee. You have the Medicaid report in your folder. You will note I hope that we finished fiscal year 2007, \$26 million state dollars carryover. The month of August the claims were down 4% over what we projected which is not a whole lot but I mean \$4 million which is not a whole lot if it continues we could be well within our budget this year too. If all goes well in January we will be rolling out the Medicaid redesign Mountain Health Choices for the whole population which is the children adults with children. About 170,000 on their anniversary date. Every month so many letters go out because they are up for eligibility redetermination so the letters should be going out over the next 12 months of next year. The end of December that population should be all enrolled in Mountain Health Choices.

President: Any questions for the Secretary? If not, thank you Madam Secretary. Next up, we have the Pharmaceutical Cost Management Council, Ms. Phares.

Shana: I am Shana Phares, I am the Governor's Pharmaceutical Advocate and also the designated chair for the Pharmaceutical Cost Management Council. I just have a brief update for you on three issues that we discussed last month. Since I have last talked with you, the Council has met and officially endorsed the federal legislation that is the 340-B Pharmaceutical Integrity Improvement Act. I have talked to you many times about the 340-B program. This federal legislation would extend this Governmental pricing to an additional categories of hospitals in the state of WV. It would also extend it to inpatient drugs. Right now only outpatient drugs are eligible. Most significantly for this state it would include critical access hospitals and as you know we have 16 critical access hospitals in this state. We have worked closely with the hospital association who has done some preliminary estimates and their estimates are that this would save the new category of hospitals \$20 million dollars on an annual basis. I talked to you a bit last month about Pharmaceutical Benefit Managers and that as part of the Council's statutory charge we are to look at legislative issues and make recommendations to the legislature. For the past two sessions PBM transparency legislation has come before this body that would require Pharmaceutical Benefit Managers to file their contracts with the Insurance Commission. The Council during it's meeting heard from the Pharmaceutical Benefit Manager's who as one would expect said, we don't really feel that we need to be regulated and we also heard from Insurer's, Commercial Insurer's who actually purchased services from a Pharmaceutical Benefit Managers. They go to the Managers to obtain, to become part of a buying pool so they can obtain better drug prices. The insurance company said well we are actually the consumers of these goods and we buy from the Pharmaceutical Benefit Managers and as far as we are concerned we have seen the concerns and we do not believe that they should be regulated or should be required to file their contracts. And we also heard from the Insurance Commission at that meeting and even though they are not required to file at this point, some of them have voluntarily registered with the Insurance Commission as third party administrators. Counsel for the Insurance Commission told us that by virtue of them registering then the Insurance Commission has the authority to go in and investigate any complaints and should they find misconduct then they also have the authority to levy administrative and civil monetary penalties. The one piece that we are missing that we are still trying to get a hold of for our next meeting is to hear from a state that has actually enacted this type of legislation. There are two states, South Dakota and Maine that enacted the legislation. South Dakota Insurance Commission has told us well we really don't know what is happening, we haven't heard anything and we don't know how it is affecting insurance availability or affordability. State of Maine has also been very reluctant to come and talk to us about the effects of their legislation on their market. So I am not sure we are going to have a strong recommendation for you, we may just have outlined the pieces of information that I have just told you and leave it at that. The other issue we hope to look at in December are tamper resistant drug pads. We talked last month that the federal government is now going to require that all Medicaid prescriptions be written on tamper resistant drug pads. And as Delegate Border heard yesterday in LOCHHRA, Doctors have some significant concerns about using tamper resistant drug pads because there is a cost difference between the cost of using tamper resistant drug pad versus a conventional drug pad. So we hope to hear from the Pharmacists Association as well as both of the medical associations and probably from a vendor of tamper resistant drug

pads that has worked with two states, there are two states California and New York, that require all their scheduled drugs to be on tamper resistant drug pads so we hope to hear from them as well. And that is it.

President: Any questions? If not, oh Senator Chafin, I am sorry.

Chafin: Since your head of the Pharmaceutical Cost Management Council, do you plan to have any and by the way did you see the CNBC news show the other day about the Pharmaceutical Reps who are now testifying about all the benefits that the Pharmaceutical Companies give to Doctors throughout the different states where it be sporting even tickets, where it be box lunches everyday, lots of times it is reimbursements up to \$200,000 plus per year to push certain drugs. I don't know if you saw that or not.

Shana: No I did not.

Chafin: It is kind of out there. It is interesting. I ordered the book about it. But I think it is incumbent that you all take a look at legislation or maybe recommended this legislation that we have some mechanism to find out what these pharmaceutical companies are giving doctors to push certain drugs because the cost is going through the ceiling and the doctors and the pharmaceuticals are apparently hand in glove sort of in bed together on this.

Shana: There is a very interesting article in New York Times magazine on Sunday about that issue, yes about the Speakers bureau. I think we will be in a better position next year because the first reporting date for the advertising reporting rules on March 1, 2008 and at that point we should have some preliminary data that will show how much money drug companies are giving to doctors and we will see how prevalent it is in this state.

Chafin: well the cost of drugs is directly related that the doctors are receiving, they have these pharmaceutical reps and they testified after they quit the pharmaceutical company that it was their job to push certain drugs through certain doctors and they called it doctor hose. This was quote from ...doctor hose is what they called it...CNBC and they would make tremendous amount of money you know for pushing these drugs and it could be whether it was vioxx or all the dangerous stuff out there. Unless we know what the pharmaceuticals are giving the doctors and what doctors are participating in the reimbursement and what have you. I don't think we can get a handle on some of the cost so I know we fought the battle been down that street but I'll be happy to share the book with you when I get it, pretty interesting. I mean I was sitting on the edge of my chair when you saw these guys that used to work for the drug companies and they say, our job we didn't care if the drug was good for the patients or not, our job was just to push the drug. I mean it was just a money chain, so...

President: Could you see what you think about the Speakers deductible. Are there further questions?

Speaker: No while we are bringing that up because and I probably should have asked Mr. Cheatham not by way of question but by everybody knows on a Delegate's salary of \$15,000 or

\$16,000 a year we can afford to pay those deductibles but I just wonder how many people out there when faced with a \$59 bottle of pills for their child and told there is a \$50 deductible will actually pull the \$50 out of their pocket and I wonder how many kids may have to deal without the medicine. Frankly to me I just soon pay the whole \$59, I know that is not your baby I just thought I'd bring it up, I just am concerned that people wouldn't be able to afford that. I don't think the studies have been made on that but I bring it up for that reason. Thank you.

President: You also have in your booklets the Board of Treasury Investment Report and the Department of DEP Underground Storage Tank Fund Proposal. Other business, Mr. Speaker.

Speaker: Mr. President I move that the Rule Making Review Committee be authorized to meet on the Saturday before the December Interims.

President: Speaker moves that the Rule Making Review Committee be authorized to meet the Saturday, on Saturday before the December Interims. All those in favor of the motion will say I.

Committee: I.

President: Oppose no, the I's have it. I declare the motion adopted. Our next scheduled meeting interim dates are December 9-11 and January 6-8 of 2008. If there is nothing else....Speaker moves we adjourn, all those in favor will say I.

Committee: I

President: Oppose no. The I's have it. I declare the meeting adjourned.



WEST VIRGINIA LEGISLATURE  
STATE CAPITOL  
CHARLESTON, WEST VIRGINIA 25305

Tuesday, November 27, 2007

The Honorable Joe Manchin  
Governor  
Executive Office of the Governor  
Building 1  
1900 Kanawha Blvd East  
Charleston, WV 25305

Dear Governor Manchin,

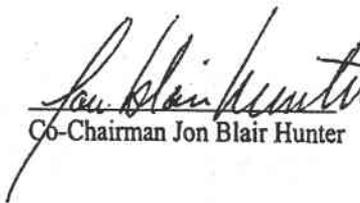
On behalf of Legislative Select Committee B- Veterans' Issues, we are writing to request your consideration of the following:

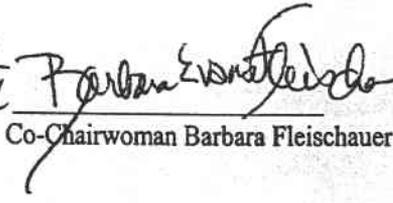
Please increase the appropriations to the Health Sciences Scholarship Program (HSSP) by \$100,000.00 to include stipends for mental health professionals who complete rural rotations that include a portion of their training to work with returning soldiers and rural veterans. Currently, mental health professional students are not included in the HSSP and these funds would cover ten such students in social work and psychology.

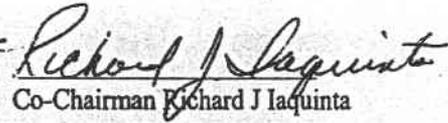
It is recommended that ten stipends of \$10,000.00 each per year be awarded to worthy students and/or graduate trainees who are inclined to practice in a rural setting. The HSSP, since its inception, has worked closely with the West Virginia Rural Health Education Partnership (WVRHEP) and Area Health Education Center (AHEC) to combine financial incentives with rural community based training as an augment to the state's recruitment and retention strategies. WVRHEP/AHEC will work with our existing field preceptors and VA personnel to develop a rural health curriculum for these students that will expose them to the needs of returning soldiers and veterans. In addition, at no increased cost, WVRHEP/AHEC will increase training opportunities for all students in VA facilities, particularly Vet Centers and community based outpatient clinics throughout the state.

We sincerely appreciate your attention to this request as we know that you share our interest and concern for all of our dedicated service personnel and veterans.

Sincerely,

  
Co-Chairman Jon Blair Hunter

  
Co-Chairwoman Barbara Fleischauer

  
Co-Chairman Richard J Laquinta

(President Tomblin presides)

**AGENDA**  
**JOINT COMMITTEE ON GOVERNMENT AND FINANCE**  
**November 28, 2007**

3:00 - 4:00 p.m.

Senate Finance Room

1. Approval of October 9, 2007, minutes

2. Committee Reports/Requests:

Select Committee B - Veterans' Issues (Senator Hunter and Delegate Fleischauer, Chairs) Requests authorization to increase the amount of the contract with WVU from \$21,558 to, not to exceed \$25,000, for WVU to do a survey of returning veterans. - **Aaron Allred**

*5 sheets basis*  
*ASK GOV in*  
*Letter*  
*Speaker*  
*Speaker*  
*3.*  
*2 recommendations - consider*  
*1 25,000 help pay for gurneys @ vet. nurs. home*  
*2 100,000 stipends for mental health prof.*  
MOVE<sup>s</sup> to increase the amount of the contract with WVU from \$21,558 to, not to exceed \$25,000, for WVU to do a survey of returning veterans, be authorized.

Monthly/Quarterly Reports Distribution:

Status Reports on the Lottery Commission, General Revenue Fund and Unemployment Compensation Trust Fund

*Get Proposed Rules to AFA*  
4. Workers' Compensation: Jane Cline, Insurance Commissioner

*many Jane Pickens General Council for Commissioner on Rules*  
*speech lanes 2 amounts for next interim*

5. Division of Highways Audit

*Patrick*  
*Marin*

6. Monthly/Quarterly Reports Distribution:

PEIA, BRIM, CHIP and Lease Report - **Donna Lipseomb, Sec. Ferg.**

7. Monthly/Quarterly Report Distribution from Department of Health and Human Resources:

Medicaid Report - **Martha Walker, Cabinet Secretary, DHHR**  
*26,000,000 state \$ carry over*

8. Monthly Report on the Pharmaceutical Cost Management Council: **Shana Phares, Chair**

9. Board of Treasury Investments Report Distribution

10. Department of Environmental Protection's Underground Storage Tank Fund Proposal Distribution

11. Other Business

*move rule making* *Sat before Dec Int.*

12. Scheduled Interim Dates: December 9 - 11  
January 6 - 8, 2008

13. Adjournment

Under Other Business

The Rule-making Review  
Comm: He wishes to meet  
the Saturday before December  
interviews

Be Authorized to Meet

on Saturday before Dec. Interviews

1           That the Joint Committee on Government and Finance is hereby  
2 requested to study the effects of underground injection of coal  
3 slurry on human health and the environment; and, be it

4           *Further Resolved,* That the Department of Environmental  
5 Protection and the Bureau for Public Health shall jointly design  
6 and conduct, or contract to have conducted, a comprehensive study  
7 on the effects of underground injection of coal slurry, including  
8 the following:

9           (1) An analysis of the chemical composition of coal slurry,  
10 including an inventory of organic and inorganic compounds;

11           (2) A hydrogeological study of the migration of coal slurry  
12 or its constituent contaminants from injection wells into the  
13 ground waters or surface waters of West Virginia;

14           (3) An analysis of the effects of the coal slurry and its  
15 constituent contaminants on human health;

16           (4) A study of the effects of coal slurry and its constituent  
17 contaminants on public health in communities where it is determined  
18 that coal slurry or its constituent contaminants have migrated into  
19 ground waters currently or historically used for domestic purposes;

20           (5) An environmental assessment of the effects on surface  
21 water and aquatic ecosystems of the migration of coal slurry or its  
22 constituent contaminants into surface waters; and

23           (6) Any other considerations that the Department of  
24 Environmental Protection and the Bureau for Public Health deem to

**NOVEMBER INTERIM ATTENDANCE**  
**Legislative Interim Meetings**  
**November 26, 27 and 28, 2007**

**Wednesday, November 28, 2007**

3:00 pm - 4:00 pm

**Joint Committee on Government and Finance**

Senate

Tomblin, Chair	<input checked="" type="checkbox"/>
Chafin	<input checked="" type="checkbox"/>
Helmick	<input checked="" type="checkbox"/>
Kessler	<input checked="" type="checkbox"/>
Sharpe	<input type="checkbox"/>
Caruth	<input type="checkbox"/>
Deem	<input checked="" type="checkbox"/>

House

Thompson, Chair	<input checked="" type="checkbox"/>
Caputo	<input checked="" type="checkbox"/>
DeLong	<input checked="" type="checkbox"/>
Webster	<input checked="" type="checkbox"/>
White	<input checked="" type="checkbox"/>
Armstead	<input checked="" type="checkbox"/>
Border	<input checked="" type="checkbox"/>

I certify that the attendance as noted above  
is correct.

  
\_\_\_\_\_  
Staff Person

Anne Landgrebe

**Please return to Brenda in Room 132-E or Fax to 347-4819 ASAP, due to payroll deadline.**

## CURRENT REPORTING REQUIREMENTS OF THE INSURANCE COMMISSIONER

### §23-1-2. Oversight of the workers' compensation commission.

(a) In addition to any other oversight of the commission exercised by the Legislature, the commission shall report at least quarterly to the joint committee on government and finance and the joint commission on economic development. The commission shall collect data and report on claims and injuries and on the costs and outcomes of injuries by standard codes for medical treatment, vocation rehabilitation services, return-to-work services, other benefits payable to or on behalf of employees, efforts to eliminate fraud and abuse and the impact of judicial and quasijudicial rulings on the administration of the workers' compensation system and the solvency of the fund. The workers' compensation commission shall provide to the joint committee on government and finance and the joint commission on economic development an action plan for improving the workers' compensation system. This plan shall include detail on any administrative changes undertaken by the commission, a report on the anticipated outcome of the changes, a cost-benefit analysis of the changes and time frames for commencement and completion of these changes. Subsequent reports to the joint committee on government and finance and the joint commission on economic development shall report on the progress of these changes. The administrative changes shall include, but are not limited to, claims processing, reorganization, staff development and training, return-to-work programs, workplace

alternatives for injured workers, safety programs and medical and vocational services.

(b) The commission shall also report on the current status of the workers' compensation fund and the coal-workers' pneumoconiosis fund. This analysis shall include the current balances in the fund and revenue generated and expended in relationship to the liabilities and assets of the funds and estimates of any debt reduction relative to the fund over the next reporting period.

(c) The commission shall further report on the impact on the workers' compensation system of the amendments to subdivision (2), subsection (n), section six, article four of this chapter enacted during the year two thousand three, including, but not limited to, an analysis of any litigation resulting from the amendments and the availability of health care to injured workers resulting from the amendments.

(d) The commission shall further report on methodologies used to establish all types of assessments and rates.

(e) The commission shall further report on legislative action that may be required to further improve the operation of the commission.

(f) The commission shall further report on efforts to eliminate fraud and abuse including a statistical breakdown of investigations being conducted and their outcomes. The commission shall report to the joint committee on government and finance on a monthly basis until the first day of July, two thousand four, on

Joint Committee on Government and Finance Meeting Checklist

Items for Booklet:

- Minutes (MAKE SURE THEY ARE APPROVED BY HOMBURG & AARON)
- Reports Summary
- Lottery
- General Revenue
- Unemployment Compensation
- PEIA
- BRIM
- CHIP
- Lease Report
- Medicaid Report
- <sup>20</sup> Pharmaceutical Cost Management Council
- Board of Treasury Investments Report
- Detailed Agenda for President, Speaker, Aaron, Homburg and File Copy
- Shortened Agenda for Members 12 Copies
- Shortened Agenda for Public 30 Copies
- Requests from other committees (make sure motion is in detailed agenda and a copy of the request on colored paper is in all booklets)
- Call committee staff to check on reports or requests
- Call offices that distribute monthly reports to determine who will be presenting the report.
- After meeting give Brenda, Donna, Judy Schultz (Senate) and Carolyn Epling (House) a copy of the approved minutes.

# Surplus Note Agreement Payment from BSI

As of 11/27/07

Amount = \$200,000,000

Interest = 1.5%, after Jan 1, 2009 rate changes to Prime

Principal Payment Schedule:

June 30, 2007	\$	15,000,000
June 30, 2008	\$	40,000,000
June 30, 2009	\$	40,000,000
June 30, 2010	\$	15,000,000
June 30, 2011	\$	15,000,000
June 30, 2012	\$	15,000,000
June 30, 2013	\$	15,000,000
June 30, 2014	\$	15,000,000
June 30, 2015	\$	15,000,000
June 30, 2016	\$	15,000,000

BSI has made Principal & interest payment in accordance with the term of the note.  
Current Principal Bal \$185,000,000.

Payments received = \$            2,975,342 interest,  
   10,551,010 principal adjustment  
   4,448,979 principal payment  
   1,416,974 interest

Adjustment was for WCC bills BSI paid on the state's behalf and policy refunds.

## Workers Compensation Board of Review

### Yearly Disposition of Appeals - 2007

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Appeals Rec'd	496	429	418	329	321	243	250	277	288	275			3328
# Docket	502	525	529	530	526	434	374	457	307	311	282	200	4977
Abeyance			1		1	2	2	3	4	1			14
Affirm And Modify	3	1	7	2	4	2	4	8	4	2			37
Affirm And Remand	3	2	2		2	2		1	2	1			15
Affirmed	412	359	397	573	507	321	222	173	336	370			3670
Continued	5	5	1	6	8	5	19	4	16	9			78
Dismiss	5		5	5	1								16
Modify				2	1				1				4
Modify And Remand			1						1				2
Remand	34	18	33	28	51	29	18	9	9	40			269
Reverse	53	28	44	29	54	40	33	10	45	23			359
Reverse And Remand	10	1	6	1	13	6	7	2	4	8			58
Reverse In Part	6	3	5	7	5	1	4	3	4	2			49
Reverse In Part And Remand	5		1		2	1	1						10
Vacate				1				1		3			5
Withdrawal	2	1	6		3								12
Reinstated	52	26	42	44	34	21	16	13	19	16			283
Dismissed Undoc	92	43	99	114	132	58		15	2	7			562
Withdrawn Undoc	58	34	60	62	59	23	35	40	59	42			472
<b>Total Final Dispositions</b>	<b>631</b>	<b>464</b>	<b>624</b>	<b>780</b>	<b>800</b>	<b>462</b>	<b>308</b>	<b>249</b>	<b>448</b>	<b>482</b>			<b>5249</b>

11/14/2007

**Offices of the Insurance Commissioner**  
**OLD FUND**  
**Fiscal Year 2008 Year-To-Date through October**

**Revenue**

Premium/Repayment Agreement Contributions	941,943.72
Personal Income Tax	10,600,000.00
Video Lottery	11,000,000.00
Premium Surcharges	10,610,663.80
Coal Severance Tax	31,643,139.00
Other Collections/Fees/License & Income	496,026.82
SI Bankruptcy Recoveries	42,999.70
Premium Recoveries - NCO Collection Agency	989.75
Revenue Refunds to Employers	(290,624.08)
Investment Earnings	2,906,830.20
<b>Total Revenue</b>	<b><u>\$ 67,951,968.91</u></b>

**Expenditures**

Administrative Expense	67,651.08
Public Employees Insurance	58,683.18
Contractual/Professional/TPA Services	6,950,190.47
Payment of Claims(Net Overpayment Credits)	93,860,055.90
<b>Total Expenses</b>	<b><u>\$ 100,936,580.63</u></b>

Total Revenue less Expenditures	(32,984,611.72)
Fund Transfers	20,265,545.51
Beginning Cash Balance	20,161,821.95
Investment with WVIMB	12,939,169.80
<b>Ending Cash Balance</b>	<b><u><u>\$ 20,381,925.54</u></u></b>

## Old Fund Claims Payments by Type Thru October 2007

<b>Claims benefits paid:</b>	<b>Y-T-D</b>
Medical	20,220,323.85
Permanent Total Disability	51,183,529.25
Permanent Partial Disability	6,672,456.60
Temporary Total Disability	1,379,685.53
Temporary Partial Disability	51,707.91
Settlement Agreements	2,076,291.30
Fatals	11,499,735.62
104 weeks	1,891,923.89
Non-Awarded Partials	50,858.69
<b>Total</b>	<b>95,026,512.64</b>
Less: Claims credits and overpayments	1,166,456.74
<b>Total claims paid</b>	<b>\$ 93,860,055.90</b>

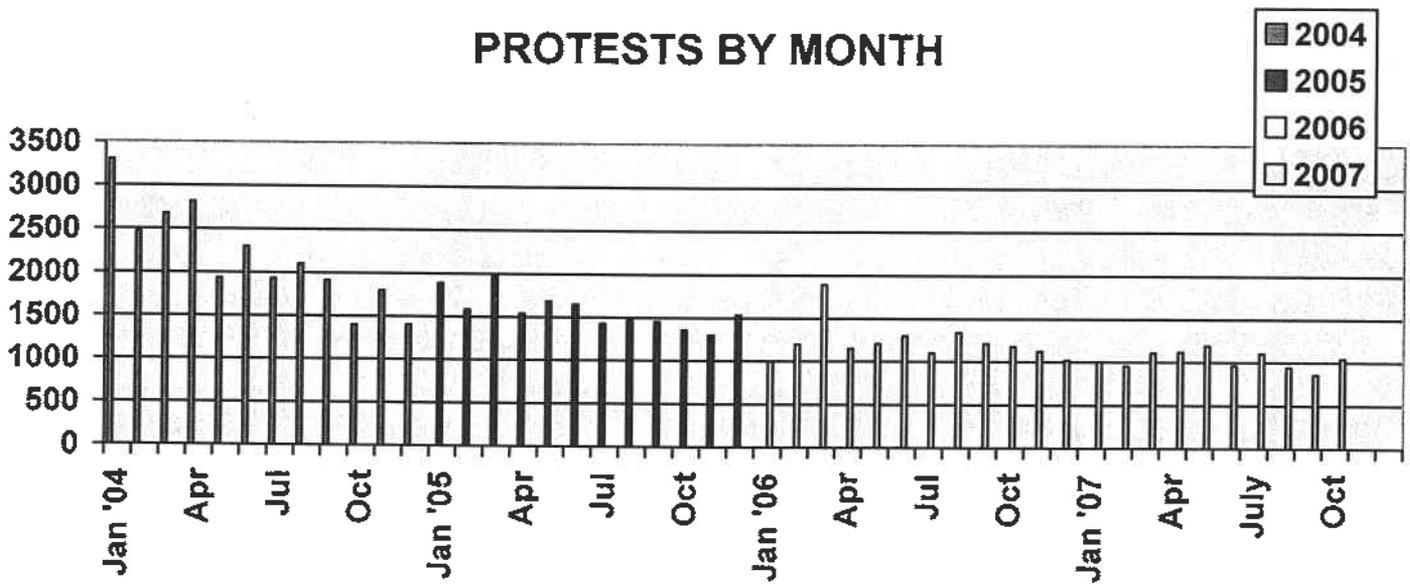
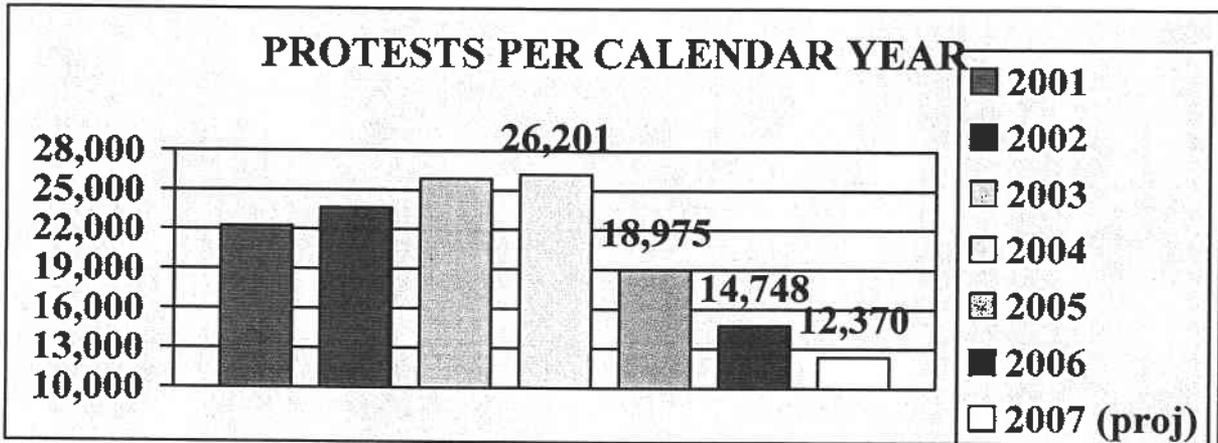
## Legacy Liability

### Annual Dedicated Revenue

Severance Tax	§11-13V-4	\$90,200,000
Personal Income Tax	§11-21-96 and §4-11A-18	\$95,400,000
Video Lottery	§29-22A-10	\$11,000,000
WC Policyholder Surcharge	§23-2C-3(f)(3)	\$45,000,000
Self-insured Employer Surcharge	§23-2C-3(f)(3)	\$9,000,000
<b>Total Annual Revenue</b>		<b>\$250,600,000</b>

- After the sale of the state's share to the Tobacco Settlement Finance Authority, the annual \$30,000,000 previously provided from the Tobacco Settlement funds was replaced with an additional \$50,400,000 annually from personal income tax collections. Resulting in total annual personal income tax contributions of \$95,400,000 for Old Fund liabilities.
- Surplus note repayments are also deposited to the Old Fund.





B. Issues Resolved:                      2006                      OCT                      YTD  
    18,335                      970                      9,993

Wednesday, November 28, 2007

3:00 pm - 4:00 pm

Joint Committee on Government and Finance

(Code §4-3)

Senate Finance Room

Senate

✓ Tomblin, Chair  
✓ Chafin  
✓ Helmick  
✓ Kessler  
Sharpe  
Caruth  
✓ Deem

House

✓ Thompson, Chair  
✓ Caputo  
✓ DeLong  
✓ Webster  
✓ White  
✓ Armstead  
✓ Border

Senator Tomblin calls the meeting to order.

1. Upon motion of Thompson, the 10/19/07 minutes were approved.

2. Breaker so moves.

Sen. Hunter sec. to Gov. put 2 line items in budget

\$25,000 for gurneys for new Veterans Nursing Homes

\$100,000 mental health professionals practice in rural areas

Thompson so moves.

4. Worker's Compensation - Comm. Chair Mayjane Pickins, Gen. Counsel - Update on rules - Industrial Council considering rule on Claims Index

Tomblin asks about eliminating travel expenses for regular examinations for claimants - still allowed

Claims management Ks were awarded to 3 separate parties most to Sedgwick

Thompson asks for total 74 total payout for last yr of Workers

