

January 11, 2017

To the Members of the  
Joint Committee on Government and Finance  
West Virginia Legislature

In planning and performing our audit of the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2016, and in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. We considered the Division's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency and other matters that are immaterial instances of noncompliance in accordance with *Government Auditing Standards*. This letter summarizes our comments and suggestions regarding those matters. We previously reported on the Division's internal control in our report dated January 11, 2017. This letter does not affect our audit report dated January 11, 2017, on the financial statements of the Division.

We will review the status of these comments during our next audit engagement. We have discussed many of these comments with various Division personnel, and we will be pleased to discuss them in further detail at your convenience, or to provide further assistance in implementing the recommendations. The comments are as follows:

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## **INFORMATION TECHNOLOGY POLICIES**

Management is responsible for establishing and maintaining effective information technology systems policies which support the financial reporting function. Effective information technology policies mitigate risks related to security and access while helping to safeguard the assets and data of the Division. The Division's information services policies and procedures have not been updated to reflect changes in the operating environment in recent years as efforts to migrate to WVOASIS have been elevated in importance across the Division. A significant change that has not been addressed is the Division's evolving relationship with the West Virginia Office of Technology (WVOT). As a result, the Division may have exposure to certain risks or may gain certain efficiencies through a comprehensive effort to evaluate and update existing technology policies. The Division also does not have an effective or efficient process to manage events on the network. Proper event log management decreases the risk of a security event going unnoticed.



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We recommend that the Division create and update policies and procedures which reflect the current operational processes in place for the Division and its information services function. Topics which should be addressed include security and access, user account management, application development and change control, and system monitoring and maintenance. Particular attention should be paid to integration of controls and procedures with WVOT. A comprehensive vendor management policy should be implemented that addresses DOH's reliance on functions performed by the WVOT. A key part of this policy should include an evaluation of the WVOT's annual SOC 1 report to identify any issues that may affect the Division. Furthermore, event logs for entity specific applications that are not managed by WVOT should be maintained. An outside vendor solution could assist the Division to centrally manage the logs, review reports, and archive events for storage.

#### **INFORMATION TECHNOLOGY - PASSWORDS**

WVOT password standards require that passwords contain at least one alpha character, at least one numeric character, at least one special character, and the most recent 24 passwords cannot be used. The Division's password requirements for Resource Access Control Facility (RACF) require up to eight alpha or numeric characters and the most recent ten passwords cannot be used. The Division should modify their configurations and policies to match the WVOT standards.

#### **INTERNAL AUDIT REVIEW**

While reviewing the work of and inquiring of internal audit personnel, we noted that recommendations made by the American Association of State Highway and Transportation Officials' Standing Committee on Finance and Administration, Administrative Subcommittee on Internal and External Audit in their peer review report dated February 19, 2015 have yet to be implemented. Specifically the performance, documentation and reporting standards of *Government Auditing Standards*, issued by the Comptroller General of the United States should be followed in establishing key internal audit functions, policies and procedures. An effective internal audit function decreases the risk that fraud or errors within the Division may occur and go undetected. We recommend that the Division move to timely implement the recommendations made by the peer review committee.

#### **IMPROPER CUTOFF**

We noted that the Division's controls over the evaluation of the completeness of accounts payable did not detect \$3.3 million of expenditures in the State Road Fund that should have been accrued as liabilities at June 30, 2016. These expenditures were reimbursable under federal aid programs, so the error also caused a grant receivable error in the same amount to go undetected. The Division's accounts payable cutoff procedures should be designed to ensure that all significant liabilities are identified as of the year end and properly reported in the Division's financial statements. We recommend that the Division evaluate and improve the process used to ensure that all significant unpaid expenditures incurred prior to year end are properly identified as a liability.



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## **PHYSICAL INVENTORY COUNT PROCEDURES**

The following items were noted in detail from the Division's internal audit on the Division's yearend inventory count:

- A physical inventory count conducted for one location within District 1 was not accurately completed by the respective District personnel. Significant unanticipated effort by the Division's internal audit staff was required to complete an accurate count of the location within District 1 to adjust year end inventory balances.
- The Division's inventory procedures for fuel inventory require that a stick measurement be performed for each tank and any variances greater than five percent from the perpetual inventory balances be adjusted in the perpetual inventory system. Various locations within Districts 2 and 11 did not perform stick measurements of tanks as instructed during the physical inventory completed on or near June 30, 2016. Additionally, various locations within Districts 1, 2, 7, and 10 performed routine stick measurements throughout the year, but did not make the necessary adjustments for variances greater than five percent.

## **PURCHASE CARD CONTROLS**

The Division's controls over purchase cards require supervisors to sign and date receipts supporting purchases made using a purchase card to document their approval. Required signatures and dates were not evident on the receipts of three of forty items selected for testing.

The Division's controls over purchase cards require transactions using a purchase card to be properly supported by a valid receipt, invoice, receiving report and a purchase card charge slip. All supporting documents could not be located for two of forty transactions selected for testing.

We recommend management review the purchase card procedures with card users to ensure established controls are followed.

## **ACCOUNTS RECEIVABLE**

The Division inadvertently posted a journal entry twice resulting in the unaudited financial statement balances of amounts due from other state agencies and project expense both being overstated by \$1,668,000. We recommend management monitor and review procedures in place to ensure all journal entries posted to the Division's general ledger are appropriate and only posted once.

## **FINANCIAL STATEMENT SUPERVISORY REVIEW AND APPROVAL**

The Administrative Services Manager, with the assistance of her staff, prepares the Division's internal financial statements. There is no documentation that the financial statements are subject to appropriate supervisory review and approval. We recommend that someone independent of the financial statement preparation process formally review and approve the annual financial statements prior to the financial statements being submitted for audit. The review and approval should be appropriately documented.

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## **IMMATERIAL INSTANCES OF NONCOMPLIANCE**

*Government Auditing Standards* requires communication of immaterial instances of noncompliance to those charged with governance. We noted the following immaterial instances of noncompliance:

### **SCHOLARSHIPS**

From a sample of 25 scholarship files reviewed during the course of the current year audit, we noted the following items that appear to be immaterial instances of noncompliance with the requirements of WV Code § 157-1-4 which were effective through the year ended June 30, 2016. It should be noted that amendments to WV Code § 157-1-4 were made during the conduct of our audit which were effective October 3, 2016. As a result of those amendments, we understand management is in the process of updating policies and procedures for the scholarship program (including procedures related to record keeping completeness) to comply with the updated WV Code § 157-1-4. Our audit procedures did not extend to scholarship transactions after June 30, 2016.

- Subsection 4.3.c states that candidates must “submit an official high school or college transcript.” There was one applicant found during testing who did not submit an official transcript. The submitted transcript was unofficial and was overlooked by the Division during review of the application.
- Subsection 4.7 states “each recipient of a scholarship will be required to execute a negotiable promissory note prior to receiving each quarter or semester stipend.” A promissory note could not be provided for one item selected for testing.
- Subsection 4.5 states “if after receiving the application and other papers required by the preceding sections, the Commissioner feels that the applicant is entitled to further consideration, a personal interview will be arranged and the applicant will be notified of the time and place at least ten days in advance.” The Division does not interview scholarship applicants.

### **STATE WIDE AUCTION**

Code of State Rules Section 157-4-3, subsection 3.2 requires that the Highways Commissioner or his designee shall make a finding that equipment is obsolete or unusable prior to disposal. As a result of testing performed on a sample of 25 items which were part of current year auction items, we noted that the Division does not have an established procedure to ensure that the determination of obsolescence or that the equipment is unusable be documented. We recommend that the Division implement a process that ensures that the determination of equipment as obsolete be documented prior to the disposal.

### **RIGHT OF WAY PROPERTY PURCHASE TESTING**

Supporting documentation could not be provided for six of twenty-five items tested for compliance related to right of ways purchases. It is our understanding that these documents were unavailable due to some data loss in the Division’s document imaging system resulting from a file corruption. We recommend the Division evaluate imaging system back up processes to ensure underlying documentation and information is safeguarded from loss.



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

Sincerely,

*Gibbons & Kawash, A.C.*