

JOINT COMMITTEE ON GOVERNMENT AND FINANCE
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR

POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

Analysis of the Compliance and Accountability for State Grants Disbursed in FY 2017

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GENERALLY ACCEPTED GOVERNMENT
AUDITING STANDARDS STATEMENT

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (**GAGAS**). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

POST AUDIT DIVISION
Justin Robinson, Director

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*Accountability Gaps Limit The Ability Of State Spending
Units To Ensure That Hundreds Of Millions Of State
Dollars Disbursed As Grants Are Being Properly Spent.*

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State Grants Disbursed by Spending Unit FY 2017

EXECUTIVE SUMMARY

The Legislative Auditor conducted this audit on State Grants in accordance with W. Va. Code §4-2-5. The objective of this review was to determine the number of state grants issued and the level of assurance the State has over the use of those funds. The objective had its primary focuses in the following areas:

1. Determine the total, cumulative amount of all state grants that were disbursed in FY 2017.
2. Determine the extent to which grants in compliance with the reporting requirements found in W. Va. Code §12-4-14, where applicable.
3. For those grants subject to the Code’s reporting requirements, determine the extent to which the accountability reports provide reasonable assurance that grant funds were expended appropriately and in accordance with the purpose of the grants.

Frequently Used Acronyms in This Report

BOSS: Bureau of Senior Services

DOE: Department of Education

CPA: Certified Public Accountant

DOT: Department of Transportation

DEP: Department of Environmental Protection

FY: Fiscal Year

DHHR: Department of Health and Human Resources

PSC: Public Service Commission

SSOE: Sworn Statement of Expenditure

DMAPS: Department of Military Affairs and Public Safety

WDA: Water Development Authority

Report Highlights

Issue 1: Accountability Gaps Limit The Ability Of State Spending Units To Ensure That Hundreds Of Millions Of State Dollars Disbursed As Grants Are Being Properly Spent.

- The Legislative Auditor’s analysis determined that in FY 2017, state spending units disbursed a total of at least 3,430 state grants totaling approximately \$219 million.
- In FY 2017, W.Va. Code §12-4-14 specifically exempted state and local government entities from grant reporting requirements. As such, 2,413 state grants disbursed to state and local governments in FY 2017, totaling more than \$104 million, were not subject to the reporting requirements contained in W.Va. Code to ensure accountability.

- Within the Legislative Auditor’s sample of 346 state grants, 178 grants, totaling approximately \$12.8 million, or 51% were exempt from the statutory reporting requirements.
- Of the 168 grants in the sample that were subject to the reporting requirements in W.Va. Code §12-4-14, the Legislative Auditor determined that only 68 (approximately 40%) were in compliance.
- Only 41% of the grants in the sample have sufficient documentation to provide reasonable assurance that the state grant funds were spent properly and for their granted purpose. In most instances, the expenditure documentation provided by the grantees only provides a broad, general categorization of expenses with no additional supporting documentation (i.e., \$5,000 spent on “contracts”).

Recommendations

1. The Legislative Auditor recommends the Legislature consider modifying the reporting requirements for state grant recipients to require more specific expenditure detail and greater assurance that state funds are properly spent.

Issue 1: Accountability Gaps Limit The Ability Of State Spending Units To Ensure That Hundreds Of Millions Of State Dollars Disbursed As Grants Are Being Properly Spent.

Issue Summary

West Virginia Code §12-4-14 establishes requirements for entities that receive state grants, designed to ensure transparency and accountability in the use of state grant funds. To determine the effectiveness of these requirements in providing accountability for state grant awards that can exceed approximately \$200 million annually, the Legislative Auditor conducted a review of state grants disbursed in Fiscal Year 2017.¹ The purpose of this review was to determine:

- The total number and dollar amount of state grants that were disbursed in FY 2017;
- The extent to which grantees were in compliance with the reporting requirements of W.Va. Code §12-4-14; and
- The extent to which grant recipients provide documentation sufficient to provide reasonable assurance that the grant funds were spent properly and for their intended purpose.

The Legislative Auditor requested data related to all grants of state money disbursed by state spending units in FY 2017. Each spending unit reported on the number and the dollar amounts of grants disbursed that wholly comprised state dollars. The results of the Legislative Auditor's analysis determined that in FY 2017, state spending units disbursed a total of at least 3,430 state grants totaling approximately \$219 million.

To analyze compliance with statutory reporting requirements and make a determination regarding assurance, the Legislative Auditor took a sample of 346 state grants and requested supporting documentation from the grantor-spending unit. The results of these analyses identified the following:

- In FY 2017, W.Va. Code §12-4-14 specifically exempted state and local government entities from grant reporting requirements. As such, 2,413 state grants disbursed to state and local governments in FY 2017, totaling more than \$104 million, were not subject to the reporting requirements contained in W.Va. Code to ensure accountability.
 - Within the Legislative Auditor's sample of 346 state grants, 178 grants, totaling approximately \$12.8 million, or 51% were exempt from the statutory reporting requirements.

¹ FY 2017 was chosen for the audit's scope because grant recipients have two years from the end of their fiscal years to file the required reports. Therefore, some grant reports required for grants disbursed by the State in FY2017 would not be due until calendar year 2020.

- Of the 168 grants in the sample that were subject to the reporting requirements in W.Va. Code §12-4-14, the Legislative Auditor determined that only 68 (approximately 40%) were in compliance.

Since the majority of state grants disbursed in FY 2017 were not subject to W.Va. Code's reporting requirements, the Legislative Auditor analyzed the reports and/or supporting documentation provided by the grantees to the grantor-spending unit for each grant in the sample to determine the level of assurance that the funds were properly spent. For this analysis, the Legislative Auditor reviewed the grant documentation to determine whether it was sufficient to provide reasonable assurance to the grantor as to how the State's money was spent.

Based on this analysis, the Legislative Auditor determined that only 41% of the grants in the sample have sufficient documentation to provide reasonable assurance that the state grant funds were spent properly and for their granted purpose. In most instances, the expenditure documentation provided by the grantees only provides a broad, general categorization of expenses with no additional supporting documentation (i.e., \$5,000 spent on "contracts"). **Therefore, the State is often relying entirely on the assertion of the grantee that the money was properly spent.**

As a result, the Legislative Auditor makes the following recommendation:

1. The Legislative Auditor recommends the Legislature consider modifying the reporting requirements for state grant recipients to require more specific expenditure detail and greater assurance that state funds are properly spent.

Background

West Virginia Code §12-4-14 establishes the accountability requirements for grantees receiving state grant funds. Further, Title 148, Series 18 of the Code of State Rules contains additional details and requirements with respect to grant reporting. During Fiscal Year 2017, W.Va. Code required any "person" who received one or more grants in the fiscal year to file certain reports with the grantor. However, the Legislative Auditor notes that until the Legislature changed the statute in 2019, W.Va. Code §12-4-14 defined "person" to specifically exclude state and local government entities.

Prior to 2019, W.Va. Code 12-4-14(a)(2) stated:

"Person" includes any corporation, partnership, association, individual or other legal entity. The term "person" does not include a state spending unit or a local government as defined in section one-a, article nine, chapter six of this code (Emphasis added).

As a result, all grants disbursed to state or local government entities in FY 2017 were exempt from providing the accountability reports established in W.Va. Code §12-4-14 and 148 C.S.R. 18.

The reporting requirements for state grant recipients varies based on the annual aggregate amount of state grants received by the entity. If the total annual amount of grants received from state spending units was less than \$50,000 in the aggregate, the "person" receiving the grant(s) is required to file a Sworn Statement of Expenditures (SSOE). For grants with an aggregate value of

\$50,000 or more, grantees are required to submit a report conducted by an independent certified public accountant (CPA). These accountability reports filed by grantees are required to be submitted to the grantor within two years of the end of the grantee's fiscal year in which the grant was made.

SSOEs are designed to provide line-item expenditure detail for various categories of spending such as personnel and fringe benefits costs, supplies, and contractual costs, among other things. In addition, SSOEs require a representative of the grant recipient to swear or affirm to the truthfulness and completeness of the information presented, and all SSOEs must be notarized. While the SSOE requires an attestation to the line-item classification of grant expenditures, there is no supporting documentation required to be submitted to substantiate the claimed expenditures. Further, the categories of expenditures on the SSOE are broad, and are often submitted listing a significant portion of grant expenditures as "other" expenses, absent any additional supporting documentation.

Grantees receiving \$50,000 or more may comply with the provisions of W.Va. Code §12-4-14 by providing a "report," defined as an agreed-upon procedures engagement, or other attestation engagement, whereby an independent CPA tests whether state grants were spent as intended. Of all the requirements established in W.Va. Code, this provides the greatest degree of accountability and assurance as the engagement is conducted specific to the expenditure of state grant funds under the terms of the grant agreement conducted by an independent certified public accountant².

In addition to an agreed-upon procedures engagement, a grantee may also comply with the statute by submitting either of the following types of reports, as stipulated in legislative rule 148 C.S.R. 18³:

- An audit performed by an independent CPA which complies with 2 C.F.R. 200 and includes a schedule of state grant receipts and expenditures and the auditor's opinion on whether the schedule is stated fairly in relation to the financial statements taken as a whole; or
- A financial audit performed by an independent CPA which complies with Government Auditing Standards and includes a schedule of state grant receipts and expenditures and the auditor's opinion on whether the schedule is stated fairly in relation to the financial statements taken as a whole.

While these two reports are produced by independent CPAs as well, they are not designed to give specific assurance regarding the expenditure of state grant funds. Both audits described above only provide assurance that the schedule of state grant receipts and expenditures contained in the overall financial statements for the entity are "stated fairly in relation to the financial statements taken as a whole". These reports do not provide specific assurance regarding how the state grant funds were spent or if they were spent in accordance with the terms of the grant agreement. In many cases, the materiality of state grant awards and expenditures do not rise to the level of concern to cause the auditors to review these expenditures in any detail beyond confirming

² It should be noted that during Legislative Auditor's review of 346 state grants disbursed in FY 2017, only two grantees submitted an agreed-upon procedures engagement report.

³ 148 C.S.R 18 also states that any independent audit report which was submitted prior to the effective date of the rule, and which complies with Government Auditing Standards or 2 C.F.R. 200 would satisfy as an appropriate substitute for the required report. Given the scope of the current audit, this section of the rule would not be applicable.

the total amount of grant awards and expenditures are accurately listed in the schedule contained in the financial statements.

The accountability for the use of grant funds through any of the previously described methods is only required to be submitted within two years of the grantee's fiscal year end of the year in which grant funds were received. Depending on the timing of the grant disbursement, almost three calendar years could pass before the grantor is provided an accountability report from the grantee. Any issues concerning the improper use of those funds could potentially go undetected over that time while the State may continue issuing grants to the entity.

During Fiscal Year 2017, State Spending Units Disbursed At Least 3,430 State Grants Totaling Nearly \$219 Million.

In attempting to ascertain the number and dollar amount of state grants disbursed in FY 2017, the Legislative Auditor sent a request to each non-higher education⁴ spending unit of state government and requested that it provide information on each state grant it disbursed during FY 2017. For purposes of this review, the Legislative Auditor defined "state grant" to mean any disbursement of funds wholly comprised from a state revenue source or sources (i.e., General Revenue, Special Revenue, Lottery Accounts, etc.) made by a state spending unit to a grantee, upon application, for a specific purpose. In addition, the Legislative Auditor instructed state spending units to exclude federal funds from their list of grants, even if those funds were disbursed on a pass-through basis.

Each spending unit responded by providing data on grants disbursed in FY 2017 which met the definition of "state grant." The sum of the responses received indicate that in FY 2017 state spending units disbursed more than 3,400 state grants totaling approximately \$219 million in state funds. It should be noted that these data represent only that information which was reported by state spending units to the Legislative Auditor, and therefore other state grants may have been disbursed by spending units that were not identified in this review.

Figure 1 provides a department-level breakdown of the total number and dollar amount of state grants disbursed in FY 2017. In addition, Appendix B provides a detailed breakdown at the agency-level.

⁴ Given the nature of higher education expenditures and the fact that many grants of state funds take the form of scholarships/financial aid, the Legislative Auditor decided to exclude higher education from the audit's scope.

Figure 1
State Grants Disbursed by Department
Fiscal Year 2017

Department/Agency	Total Grants	Total Dollar Amount	Grants More Than \$50,000	Grants Less Than \$50,000
Agriculture	26	\$458,725.51	1	25
Bureau of Senior Services (BOSS)	78	\$22,920,943.95	67	11
Commerce	92	\$6,825,366.83	49	43
Education (DOE)	1,982	\$62,668,498.71	312	1,670
Education and the Arts	669	\$14,982,644.14	70	599
Environmental Protection (DEP)	42	\$3,943,534.30	24	18
Health and Human Resources (DHHR)	319	\$73,634,933.47	253	66
Military Affairs and Public Safety (DMAPS)	110	\$14,531,326.32	65	45
Public Service Commission (PSC)	1	\$678,000	1	0
Transportation (DOT)	57	\$3,983,402.00	12	45
Water Development Authority (WDA)	54	\$14,114,766.55	21	33
Total	3,430	\$218,742,141.78	875	2,555
<i>Source: Unaudited grants data provided by state spending units in response to the Legislative Auditor's request.</i>				

As the data in Figure 1 show, the amount of grant activity varied considerably across the various departments of state government. The West Virginia Public Service Commission (PSC) disbursed only one grant in FY 2017, while the Department of Education (DOE) disbursed nearly 2,000 grants in the same year. Similarly, the total dollar amount disbursed ranged from as low as \$678,000 for the fiscal year (PSC), to nearly \$74 million disbursed by the Department of Health and Human Resources (DHHR).

The Legislative Auditor categorized each reported grant as either a large grant or a small grant based on the \$50,000 threshold used in the reporting requirements in W.Va. Code §12-4-14. Statewide, spending units in FY 2017 disbursed 2,555 small grants (under \$50,000) compared to 875 large grants (\$50,000+), a nearly 3-to-1 ratio of small grants to large grants. Despite the exponentially larger number of small grants disbursed, the Legislative Auditor calculates that the 875 large grants disbursed in FY 2017 accounted for over \$193 million, or 88% of the total amount of state money granted.

In addition, the total number of grants disbursed were broken up by recipient type. Figure 2 provides a detailed breakdown.

Figure 2
Grants by Recipient Type
Fiscal Year 2017

Recipient Type	Number	Total	Percent of \$ Total
Non-Profits	844	\$104,356,436.04	47.7%
Local Government	2,361	\$98,288,367.77	44.9%
For-Profit/Commercial Org.	97	\$8,539,460.54	3.9%
State Government	52	\$6,187,303.29	2.8%
Other/Blank*	76	\$1,370,574.14	0.6%
Total	3,430	\$218,742,141.78	100%

Source: Legislative Auditor's calculations sourced from the unaudited grants data provided by state spending units.
*Recipient type reported by the state spending unit.

Thus, while the majority of total grants disbursed were received by state and local government units, the majority of state dollars were granted to private entities (nonprofits and commercial organizations) who would be subject to the statutory reporting requirements.

The Majority of State Grants Disbursed in Fiscal Year 2017 Were Not Subject to Any Statutory Reporting Requirements. Moreover, Only 40% of Grantees Who Were Subject to Statutory Reporting Requirements Complied.

As stated above, the requirement that grantees file accountability reports with the grantors, established in W.Va. Code §12-4-14, did not apply to state and local government entities in FY 2017. Therefore, the Legislative Auditor concludes that of the 3,430 state grants disbursed in Fiscal Year 2017, **at least 2,413 of those grants, or approximately 70%, were not subject to any statutory reporting requirements.** As noted, the Legislature amended the Code during the 2019 Regular Session to include state and local governments in the definition of “grantee” to ensure that all entities receiving and spending state grant funds are required to submit accountability reports.

The Legislative Auditor sought to determine compliance with the statutory reporting requirements and to determine the extent to which grantees submitted sufficient documentation to provide reasonable assurance that grant funds were properly spent. A sample of 346 grants was taken from the 3,430 grants disbursed in FY 2017 for review, and to ensure that the sample comprised an appropriate cross-section of grants from all spending units, the audit team randomly selected a number of grants from each department-level that corresponds to the number of grants disbursed by each department and the total dollar value of grants disbursed. Figure 3 provides a detailed breakdown of the statistical sample.

Figure 3 Legislative Audit Sample of Grants Fiscal Year 2017		
Department/Agency	Number of Grants	\$ Amount in Sample
DHHR	65	\$18,646,366.89
Dept of Education	65	\$2,085,714.19
Arts	45	\$894,712.00
Bureau Senior	35	\$13,581,042.15
DMAPS	35	\$3,484,622.55
DOC	30	\$2,102,084.22
Water Dev. Auth	25	\$3,309,047.68
DOT	20	\$1,619,392.00
DEP	15	\$1,136,171.75
Agriculture	10	\$165,503.20
PSC	1	\$678,000.00
Total	346	\$47,702,656.63
<i>Source:</i> Legislative Auditor's statistically significant audit sample of state grants disbursed in FY 2017.		

The Legislative Auditor then reached out to each grantor-spending unit and requested documentation related to each grant in the audit's sample. Spending units were asked to provide copies of the grant agreement along with any and all accountability reports or other documentation collected from the grantee showing how the grant funds were spent.

The Legislative Auditor reviewed the grant documentation provided by state spending units to determine the applicability of W.Va. Code §12-4-14 and to assess compliance with the reporting requirements. Figure 4 below provides a breakdown of those grants not subject to W.Va. Code §12-4-14 and the observed compliance from the audit sample of those subject to the requirements.

Figure 4 W.Va. Code §12-4-14 Compliance With in Audit Sample		
Not Subject to Code	Compliant	Noncompliant
178	68	100
<i>Source:</i> Legislative Auditor's analysis of grant documentation provided by state spending units.		

As in the total population of grants disbursed in FY 2017, a majority of grants in the audit sample (51%) were not subject to the reporting requirements of W.Va. Code §12-4-14. These exempt grants accounted for approximately \$12.8 million of the total amount audited, or 27%.

For the remaining 168 grants in the audit's sample, representing a total of \$34.8 million, the **Legislative Auditor determined that only 68, or 40%, totaling \$16.2 million were in full compliance with the law.** The grants deemed to be in noncompliance were deemed so either because of missing accountability reports, incomplete reports, or because the wrong kind of report

was filed by the grantee. The 100 non-compliant grants comprise approximately \$18.7 million of state funds and encompass 8 of the 11 department-level entities included in the sample⁵.

Most Grant Recipients Did Not Submit Sufficient Documentation to Provide Reasonable Assurance That State Grant Funds Were Spent Properly. Often, Grantees Provide Documentation That Only Includes a Broad Categorization of Expenditures With Very Little Detail.

Given that the majority of grants in FY 2017 were not subject to statutory reporting requirements, and the low level of compliance among those grants that were subject to W.Va. Code, the Legislative Auditor requested that state spending units submit all accountability or expenditure reports received for the 346 grants in the sample.

The documentation and reports received were analyzed to determine whether there was sufficient detail included to provide reasonable assurance that state grant funds were spent properly. Reasonable assurance refers to a high, but not absolute, level of certainty. The Legislative Auditor’s review of grant documentation sought to determine whether state spending units could reasonably discern from those documents what the state funds were spent on and whether those purchases were acceptable within the terms of the grant agreement.

Within the audit sample of 346 state grants, the Legislative Auditor determined that only 141 (41%) state grants included documentation that provided reasonable assurance that funds were spent properly. In contrast, 197 grants, or 57%, did not include documentation with enough detail to ascertain how the State’s funds were spent. These 197 grants accounted for just over \$20 million in state funds. Figure 5 provides a breakdown.

Figure 5 Breakdown of Assurance Documentation For State Grants in FY 2017		
Documentation Provides Assurance?	Percent of Total	Total Amount
Yes	141 (41%)	\$27,337,366.82
No*	197 (57%)	\$20,368,289.81

Source: Legislative Auditor’s analysis of grant documentation submitted for audit sample.
 *The WDA included 8 grants in its list of state grants for FY 2017 that were awarded, but for which no funds had been spent. As such, those 8 grants are not reflected in this figure.

A contributing factor to the lack of assurance for most state grants is the type and content of the accountability reports filed by grantees. The Legislative Auditor notes that most of the grants reviewed in the sample, whether subject to W.Va. Code §12-4-14 or not, contained one of the types of reports described in the statute and underlying legislative rule. However, while the inclusion of these reports may bring a grantee into compliance, they seldom provide actual assurance over how State funds were spent. Figure 6 below encompasses two separate sworn statements of expenditure (frequently used for grants less than \$50,000) for grant awards in FY 2017.

⁵ Grants disbursed by the PSC, BOSS, and WDA were all granted to public bodies that were not required to file reports under W.Va. Code §12-4-14.

Figure 6.

Grant Revenues (received and anticipated)		
Revenue Categories	Comments	Amount
Amount Received		\$13,644.14
Amount Anticipated		
Total Grant Revenues		\$13,644.14

Grant Expenditures (allowable costs expended by the grantee)		
Expenditure Categories	Comments	Amount
Personnel		\$10,000.00
Fringe Benefits		
Equipment		
Supplies		\$2,183.74
Contractual Costs		\$1,460.40
Construction		
Other		
Indirect Cost		

Total Grant Expenditures \$13,644.14

Ending Grant Balance (Revenues – Expenditures) \$0.00

Grant Funds Returned to the DHHR \$0.00

By signing this report, I certify to the best of my knowledge and belief that the report is true, complete and accurate, and that the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal (and/or State) award. I am aware that any false, fictitious or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729–3730 and 3801–3812).

Grant Revenues (received and anticipated)		
Revenue Categories	Comments	Amount
Amount Received		\$16,078.62
Amount Anticipated		
Total Grant Revenues		\$16,078.62

Grant Expenditures (allowable costs expended by the grantee)		
Expenditure Categories	Comments	Amount
Personnel		
Fringe Benefits		
Equipment		
Supplies		
Contractual Costs		
Construction		
Other		\$16,078.62
Indirect Cost		

Total Grant Expenditures \$16,078.62

Ending Grant Balance (Revenues – Expenditures) \$0.00

Grant Funds Returned to the DHHR \$0.00

By signing this report, I certify to the best of my knowledge and belief that the report is true, complete and accurate, and that the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal (and/or State) award. I am aware that any false, fictitious or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18,

Source: Grant documentation provided to the Legislative Auditor for grants disbursed in FY 2017.

Grantees who submit SSOEs provide line-item expenditures for personnel, fringe benefits, equipment, supplies, contractual costs, construction, indirect costs, and “other” costs. However, the State does not require actual documentation to support these reported expenditures. Therefore, the State often receives only a broad categorization of how funds were spent with little to no detail and no documentation that supports the funds were spent as claimed. As a result, the State relies entirely on the grantee’s assertion that the funds were properly spent in accordance with the grant agreement. **In the review, the Legislative Auditor observed many examples of sworn statements of expenditures wherein a grantee attributed all or a majority of a state grant award to “Other” costs, with no additional detail.**

In contrast, recipients of larger state grants (typically with an award amount of \$50,000 or more) often submitted audits that complied with Government Auditing Standards and were conducted by independent CPAs. The Legislative Auditor notes that more than 60 grants in the audit sample included an independent CPA report, typically a financial statements audit.

These audits provide information on the grantees’ financial operations, cash flows, and financial position, among other things, but the final reports **do not provide detail on categories of expenditure at the grant-award level or express an opinion on whether grant funds were spent in accordance with their grant agreements.** These audited financial statements only provide assurance that the schedule contained in the financial statements listing the total amount of state grant awards and expenditures are “stated fairly in relation to the financial statements taken as a whole.” Therefore, although an audit provides assurance that an independent entity has reviewed the grantee’s financial statements, **they do not provide enough information to determine how the grantee actually spent the funds for each grant, or if the expenditures were in accordance with the terms of the grant agreement.**

Additionally, and in accordance with 148 C.S.R. 18, many of the financial statement audits also included in their scope of work a “*schedule of state grant receipts and expenditures*”. However, these schedules only provide top-level data regarding the amount of funds received under each grant award and the total amount expended. Figure 7 provide an example of a schedule of receipts and expenditures from a state grant within the audit sample that was deemed in compliance with the accountability requirements of W.Va. Code §12-4-14.

Figure 7.

MOUNTAINEER FOOD BANK, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended December 31, 2017

STATE GRANTOR / PROGRAM TITLE	Prior Year (Deferred Revenue)	Award Amount	Expenditures	Receipts	Receivable (Deferred Revenue)
West Virginia Department of Agriculture:					
State of West Virginia- The Emergency Food Assistance Program	\$ -	\$ 69,695	\$ 69,695	\$ 69,695	\$ -

Paradoxically, the Legislative Auditor notes that grantees receiving larger sums of state money (\$50,000 or more) **often provide less detailed financial information at the grant level resulting in lower levels of assurance that the grant funds were spent in accordance with the terms of the grant agreement.** While the sworn statements of expenditure reviewed by the Legislative Auditor often only allocated the expenditure of grant funds into broad categories, these reports provided much more information about how the state grant funds were actually spent than the schedule of expenditure of state grant awards included in the audited financial statements.

While reviewing grant documentation for the audit sample, the Legislative Auditor noted several spending units that required their grantees to submit sufficient grant documentation to provide assurance. Grantees of the Water Development Authority, Aeronautics Commission, and the Division of Justice and Community Services were all required to submit full supporting documentation for purchases made with grant funds. For many of these grants, the purchasing documentation comprised hundreds of thousands of dollars of expenditures and included receipts, invoices, contracts, and timesheet records. In addition, many grants disbursed by the Department of Health and Human Resources also had sufficient documentation to provide assurance, relying on a combination of invoice review prior to disbursement and stringent monthly reporting requirements for grantees.

In addition, the Legislative Auditor noted two grants from DHHR in the audit sample that included agreed-upon procedures engagement reports from an independent CPA. These reports provide reasonable assurance that grant funds were properly spent because they represent an independent entity reviewing grant-expenditure documentation and checking those purchases (or a sample of those purchases) for compliance with the grant agreement. While several issues have been noted concerning the accountability reports received and compliance with the requirements of W.Va. Code §12-4-14, it does appear some state spending units are seeking the assurance necessary to ensure state grant funds are properly spent, even for large grants exceeding \$50,000.

Conclusion

As with many of the issues faced by state governments across the country, the Legislative Auditor notes that issues regarding adequate grant accountability is not unique to West Virginia. The North Carolina Program Evaluation Division of the North Carolina General Assembly identified nearly identical issues in a 2009 audit report on state grants, reporting that the accountability reports required under North Carolina law did not require sufficient or timely documentation on the expenditure of grant funds.

It is the opinion of the Legislative Auditor that with any public expenditure, accountability information should document how—and how well—state funds are spent. By design, the grants mechanism distributes state funding, and responsibility for that funding, across multiple state spending units resulting in decentralization of the State’s control and influence over those state funds. This decentralization increases the importance of adequate oversight and assurance over how those funds are spent.

To that end, the Legislature has established reporting requirements in W.Va. Code §12-4-14 for entities that receive state grants, and, since the 2019 Regular Session, has closed the gap that led to the majority of state grants being exempt from statutory reporting in FY 2017. However, the results of the Legislative Auditor’s analyses highlight statewide issues in obtaining reasonable assurance that state grant funds are properly spent.

The results of the Legislative Auditor’s analysis indicate a significant weakness in the assurance and accountability over the expenditure of state grant funds. Moreover, while the analysis of grants within the audit sample identified at least \$27.3 million of state funds with limited or no assurance, projecting the results from that sample to the total population indicates that as much as \$124 million in state grants disbursed in FY 2017 could have similar issues with assurance.

While many of these grantees submitted reports that brought them into compliance (or would have made them compliant had they been subject to the reporting requirements), the contents of these reports often provided so little expenditure-level detail that it is not possible to ascertain how the state grant funds were truly spent. The Legislative Auditor notes that this is not to suggest any issue with the quality or competence of the independent CPAs and CPA firms that prepared these reports; there is no evidence to suggest that these professionals provided inadequate or poor-quality work. It is simply that the nature of the accountability reports under W.Va. Code §12-4-14 conducted by CPAs do not provide for any assurance specific to how grant funds were spent or if they were spent in accordance with the terms of the grant agreement, other than the agreed-upon procedures report.

The Legislative Auditor concludes that the statutory requirements for grant accountability reporting could be modified to provide assurance that state funds are properly spent. The disbursement of state grants to various entities throughout the State serves to benefit the public and those programs for which the funds are provided. However, a dilemma currently exists between disbursing these funds in a convenient and efficient manner and obtaining the proper assurance and accountability for how those grant funds are ultimately spent. It is the purview of the Legislature to determine the level of accountability and internal controls placed on these grant disbursements versus the convenience in which these funds are disbursed and ultimately spent by the grant recipients. There are several alternative solutions to the reporting requirements under

W.Va. Code §12-4-14 to bolster assurance that grant funds are properly spent, each of which presents its own tradeoffs:

- The Legislature could revise the reporting requirements for state grant disbursements, requiring grant recipients provide the grantor spending unit specific information such as invoices, purchase orders, receiving reports, personnel payroll reports, etc.; to support **all** expenditures made using state grant funds; or
- The Legislature could revise the reporting requirements to require grantees receiving larger state grants provide an attestation or agreed-upon procedures engagement from a CPA firm specific to the state grant receipts and expenditures and compliance with the grant agreement; or
- The Legislature could require all grant transactions to occur within wvOASIS, requiring those grant recipients to process transactions through the system with supporting documentation which would be accessible to the grantor spending unit for the purpose of grant monitoring; or
- The Legislature could make all state grants reimbursement grants, requiring the recipient to spend monies from another source and seek reimbursement with supporting documentation for expenditures allowed under the terms of the grant agreement; or
- The Legislature could revise the reporting requirements to provide grantees the option of submitting all purchasing documentation to support their expenditure of state grant funds or obtaining an agreed-upon procedures engagement; or
- The Legislature could revise the reporting requirements to require grantees to provide more specific reporting of line-item expenditures on sworn statements of expenditure reports.

Regardless of the policy alternative(s) chosen, a balance must be achieved between the desire to increase accountability over state grant funds while also not causing an overly cumbersome process for grantees that would hinder their access to or effective use of state grant funds. As a result of the issues discussed in this report, the Legislative Auditor makes the following recommendations.

Recommendation

1. The Legislative Auditor recommends the Legislature consider modifying the reporting requirements for state grant recipients to require more specific expenditure detail and greater assurance that state funds are properly spent.

Appendix A

Objective, Scope, and Methodology

The Post Audit Division within the Office of the Legislative Auditor conducted this review as pursuant to Chapter 5, Article 2, Section 5 of the *West Virginia Code*, as amended.

Objectives

The objective of this review was:

“To determine the number of state grants issued and the level of assurance the State has over the use of those funds. The objective had its primary focuses in the following areas:

- 1. Determine the total, cumulative amount of all state grants that were disbursed in FY 2017?*
- 2. To what extent were the grants in compliance with the reporting requirements found in W. Va. Code §12-4-14, where applicable?*
- 3. For those grants subject to the Code’s reporting requirements, to what extent did the accountability reports provide reasonable assurance that grant funds were expended appropriately and in accordance with the purpose of the grants?”*

Scope

The scope of this objective comprises all state grants disbursed in FY 2017 from non-higher education spending units of state government. This scope specifically excludes any federal funds that are disbursed by state spending units. The scope will be limited to those grants that are reported to the audit team by state spending units. In addition, the scope did not include: an analysis of all state grants; rather, statistical sampling methodologies were applied to derive a sample of 346 grants (from a total reported population of 3,430 grants) for analysis. The audit did not seek to make any determinations on appropriateness of any individual grant or the outcomes of the grants.

Methodology

Post Audit staff gathered and analyzed several sources of information and assessed the sufficiency and appropriateness of the information used as evidence. Testimonial evidence was gathered through interviews or email correspondence with various employees at state spending units. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues, to confirm the existence or non-existence of a condition, or to understand the respective agency’s position on an issue. Such testimonial evidence was confirmed by either written statements or the receipt of corroborating or physical evidence.

Data was collected for every spending unit in state government by use of a standardized data collection instrument that was transmitted to the spending units wherein they provided data related to all grants they disbursed in FY 2017. The data reported through the data collection instrument was aggregated into the total population of state grants disbursed in FY 2017 and served as the basis for drawing the audit sample and performing further analysis.

The audit team employed the use of statistical sampling methodologies in order to evaluate compliance with W.Va. Code §12-4-14 and to analyze whether the accountability reports required under the statute provide adequate assurance over how state funds were spent. The sample comprised 346 state grants from a total population of 3,430 that were disbursed in FY 2017 (99% CI; +/- 4%).

Audit staff analyzed various source documents, such as the grant agreements, any policies and procedures related to specific grant programs, and any and all accountability reports or documentation received by the grantor (spending unit) related to how the grant funds were spent.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Appendix B

Appendix B		
State Grants Disbursed by Agency		
Fiscal Year 2017		
Department/Agency	No. of Grants	Total Dollar Amount
Agriculture	26	\$458,725.51
Bureau of Senior Services	78	\$22,920,943.95
Commerce	92	\$6,825,366.83
Tourism	47	\$3,252,128.89
Forestry	3	\$640,111.66
Development Office	11	\$344,993.00
DNR	4	\$25,700.00
DRS	27	\$2,562,433.28
Education	1,982	\$62,668,498.71
Education and the Arts	669	\$14,982,499.14
Historic Preservation	20	\$408,197.00
Arts & Humanities	28	\$337,302.75
Mini Grants	13	\$10,000.00
STEAM Grants	19	\$103,000.00
Cultural Facilities	21	\$952,214.55
Fairs and Festivals	403	\$3,028,890.00
Public Libraries (GIA)	97	\$9,308,026.00
Services to Libraries	13	\$550,000.00
Service Center Enhancement	13	\$87,767.00
Supplemental Grants	31	\$110,093.00
Training and Travel	8	\$2,153.84
VH1 Save the Music	3	\$85,000.00
Environmental Protection	42	\$3,943,534.30
REAP	30	\$2,039,276.51
Special Reclamation	1	\$983,515.00
Stream Partners	4	\$146,265.00

Stream Restoration	4	\$470,000.00
Voluntary Remediation	1	\$16,052.00
Water Pollution	1	\$250,000.00
Water Quality	1	\$38,425.79
Health and Human Resources	319	\$73,634,933.47
BBHMF	161	\$52,254,717.42
BCF	38	\$7,898,536.87
BPH	120	\$13,481,679.18
Military Affairs and Public Safety	110	\$14,531,326.32
DHSEM	1	\$107,748.45
State Police	29	\$3,035,628.00
DJCS	80	\$11,387,949.87
Public Service Commission	1	\$678,000
Transportation	57	\$3,983,402.00
Aeronautics Commission	46	\$914,652.00
Division of Highways	8	\$2,975,000.00
Division of Public Transit	3	\$93,750.00
Water Development Authority	54	\$14,114,766.55
Total	3,430	\$218,741,996.78

Source: Unaudited data reported by state spending units to the Legislative Auditor.



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