

STATE OF WEST VIRGINIA

AUDIT REPORT

OF

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

REHABILITATION CENTER SPECIAL ACCOUNT FUND

FOR THE PERIOD

JULY 1, 2000 – JUNE 30, 2002



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

REHABILITATION CENTER SPECIAL ACCOUNT FUND

FOR THE PERIOD

JULY 1, 2000 - JUNE 30, 2002

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., E.
Charleston, WV 25305-0610



Area Code (304)
Phone: 347-4880
Fax: 347-4889

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined special revenue accounts of the West Virginia Division of Rehabilitation Services.

Our examination covers the period July 1, 2000 through June 30, 2002. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Theford L. Shanklin".

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

MAH/ela, gkc

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

TABLE OF CONTENTS

Exit Conference 1

Introduction..... 2

Administrative Officers and Staff.....4

Summary of Findings, Recommendations and Responses5

General Remarks.....19

Independent Auditors’ Opinion73

Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....74

Notes to Financial Statement75

Supplemental Information76

Certificate of Director,
Legislative Post Audit Division81

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

EXIT CONFERENCE

We held an exit conference on November 20, 2003 with the Interim Director and other representatives of the West Virginia Division of Rehabilitation Services and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

INTRODUCTION

The West Virginia Division of Rehabilitation Services (known formerly as the West Virginia State Board of Rehabilitation, Division of Rehabilitation Services) was established by the 1945 Legislature. The Division is governed by Chapter 18, Article 10A of the West Virginia Code. As such it is authorized and directed to cooperate with the Federal Rehabilitation Services Administration to provide rehabilitation services to West Virginians with disabilities.

The Governor appoints the Director of the Division, who recommends necessary personnel and establishes appropriate administrative units throughout the State. In order to observe the spirit and intent of the Federal Rehabilitation Act of 1973 and its amendments, the Director makes regulations, submits an annual report to governing bodies, and ensures disbursements of rehabilitation funds comply with the Federal act, governing State laws, and other rules and regulations.

Under the oversight of the Secretary of Education, the Director operates the Division under State plans approved by the Rehabilitation Services Administration and the Social Security Administration through its two primary services units: the Client Services Section and the Disability Determination Service Section. The Director is authorized by law to receive gifts, determine eligibility for services, operate rehabilitation centers and workshops, promulgate rules for operation of such facilities in the State by public or voluntary agencies; to certify workshops as eligible to sell products to the State; and to receive Federal vocational rehabilitation aid.

The wide variety of rehabilitation services provided by the Division can be grouped into one of four categories: (1) Medical; (2) Evaluative; (3) Independent Living, and (4) Vocational. The rehabilitative services offered by the Division requires a coordinated effort of numerous professional and support personnel including physicians, psychologists, therapists, social workers, counselors, teachers and aids.

In addition to its headquarters located in Institute, West Virginia, the Division has 31 field offices throughout the State. The field offices are divided into seven districts each having a designated manager and a staff of rehabilitation counselors and support personnel.

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 2002

Janice A. Holland..... Interim Director

Donna Ashworth Interim Assistant Director,
Information Technology Services Senior Manager

Michael K. Meadows Client Services Assistant Director

S. Jane Johnstone..... Disability Determination Services Assistant Director

William L. Tanzey Center Services Assistant Director

Daniel Greene Fiscal Services Senior Manager

Brenda B. King Program and Policy Administration Senior Manager

Charles S. Lovely Field Services Senior Manager

William L. Tanzey Center Services Senior Manager

Charles Farmer Facilities Services Manager

David N. Gardner..... Administrative Services Manager

James P. Quarles Human Resources Manager

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our examination, it became apparent to us, based on observed noncompliance with the West Virginia Code and other applicable rules and regulations, the Division of Rehabilitation Services did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. As a result, we noted the agency to be in non compliance in 16 instances.

Auditor's Recommendation

We recommend the agency comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, and establish a system of internal controls.

Agency's Response

The Division's accounting staff is in the process of reviewing its accounting policy and procedures guidelines and making necessary revisions to comply with State Code and improve accountability. Since internal control is a major part of managing an organization, we will develop the plans, methods and procedures to ensure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. (See pages 19-25)

Circumventing State Accounting System

2. The Division deposited a \$26,739.75 hospital receipt into a non-profit entity's local bank account (the West Virginia Rehabilitation Center Foundation, Inc., also known as the "Foundation") on June 5, 2002. This amount should have been deposited into the Rehabilitation Center Special Account Fund - Fund 8664.

Auditor's Recommendation

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 14, Article 2, Section 12 of the West Virginia Code, as amended.

Agency's Response

The Division will comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 14, Article 2, Section 12 of the West Virginia Code as amended.

(See pages 25-27)

Payment of Personal Services from an Account with No Expenditure Schedule

3. Expenditure schedules for the Rehabilitation Center Special Account Fund - Unclassified - Fund 8664-099 were not prepared by the agency for Personal Services and Employee Benefits expenditures totaling \$2,015,000.00 made from its 2002 and 2001 fiscal year appropriations.

Auditor's Recommendation

We recommend the agency comply with the General Provisions of the State Budget Bill; the Expenditure Schedule Instructions of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code, and Chapter 5A, Article 2, Section 29 of the West Virginia Code.

Agency's Response

The Division was unaware of this provision. We thought that as long as our total personal services expenditures did not exceed the expenditure schedule amount we were in compliance.

The Division will comply with the General Provisions of the State Budget Bill; the Expenditure Schedule Instructions of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code, and Chapter 5A, Article 2, Section 29 of the West Virginia Code. (See pages 27-30)

Inadequate Record Keeping - Hospital Receipts

4. We noted the agency does not reconcile receipts recorded in the accounts receivable ledgers of the West Virginia Rehabilitation Hospital (the hospital) to the deposits of these receipts into the Rehabilitation Center Special Account Fund - Fund 8664. In addition, the agency's record of hospital receipts posted in its accounts receivable system (MEDSYS) during our audit period reflected \$95,253.34 less than the amounts recorded on other hospital revenue ledgers (spread sheets) prepared by the hospital's Business Manager from daily receipt listings for this same period.

Auditor's Recommendation

We recommend the agency comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

Agency's Response

The Division will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

To meet the compliance issues addressed by this finding the Division will reconcile the accounts receivable ledger to the receipts deposited into fund 8664. (See pages 30-32)

Improper Reporting of Program Income

5. The program income and program-income disbursements the agency reported on quarterly Financial Status Reports it filed with the federal Department of Education, Division of Rehabilitation Services during our audit period, did not agree with the revenues and expenditures of the Rehabilitation Center Special Account Fund - Fund 8664. Specifically, our audit revealed the reports understated program income by \$131,314 and understated program income disbursements by \$234,221 in our audit period.

Auditor’s Recommendation

We recommend the agency further develop its accounting and reporting procedures for program income to ensure accurate information is reported on the SF-269 forms in accordance with the requirements of Circular A-102, as amended.

Agency’s Response

The Division has begun using a checklist for review of the report and the supporting documentation and has segregated the duties of financial report filing among three employees to ensure that the SF- 269 is filed timely and accurately. (See pages 32-35)

Improper Reporting of “Refunds, Rebates, Etc.”

6. During our audit period, the agency reported \$871,078 in “Refunds, rebates, etc.” on line 10b of its quarterly Financial Status Reports (form SF-269) that it submitted to the Federal Department of Education, Division of Rehabilitation Services. Included in this total, however, is an indeterminable amount of hospital receipts the agency collected and deposited into the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal Fund), which should have been deposited into the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account) as required by WV Code. We determined from random testing hospital receipts totaling \$58,510.54 and ease receipts totaling \$1,963.84 deposited into the Federal Fund should have been deposited into the Special Account.

Auditor’s Recommendation

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 5A, Article 8, Section 9(b) of the West Virginia Code. We also recommend the agency further develop its accounting and reporting procedures in regards to program income to ensure accurate information is reported on the SF-269 forms in accordance with the requirements of Circular A-102, as amended.

Agency's Response

The division will comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

To comply with the issues of this finding the Division has further developed its accounting and reporting procedures in regard to program income by segregating the reporting duties, by using a checklist, and by developing Crystal reports. (See pages 36-40)

Missing and/or Inadequate Documentation

7. We noted several instances of missing and/or inadequate documentation. These instances are detailed below under individual headings.

Auditor's Recommendation

We recommend the Division comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, by further developing its accounting system and maintaining adequate accounting records to adequately support the financial activity of the agency.

Driver Evaluation Receipts

- a. Out of a sample of 15 invoices for Driver Evaluation Services provided to non-agency clients, payments were not documented as being received by the agency on seven of the invoices totaling \$1,706.25 and four of the invoices did not have any notations on them that subsequent collection efforts (re-invoicing) had occurred.

Extended Supported Employment Services

- b. The agency paid 58 hours of Extended Supported Employment Services that were not appropriately authorized. We also noted 18 instances in which Extended Supported Employment Services invoices were paid without being signed by appropriate agency personnel.

Inadequate Monitoring of Outstanding Hospital Accounts Receivable Balances

- c. Hospital accounts receivable balances are not being adequately monitored, which resulted in one receivable in the amount of \$260.00 remaining outstanding for an extended period of time and two receivables totaling \$127.50 to be written off as contractual adjustments without supporting documentation.

Miscellaneous Collections

- d. The agency did not monitor the collection of billings totaling \$30,852.02 for some goods and services provided at the West Virginia Rehabilitation Center.

Shop Fees

- e. The Division has not established a method of documenting monies received for shop fees collected from repair services performed by the agency's Heating, Ventilation, and Air Conditioning (HVAC) vocational class.

Hospital Services

- f. The Division has not developed a system of accounting controls to ensure that all goods and services provided to patients in the agency's hospital are accounted for in the hospital's accounts receivable system (MEDSYS).

Contractual Agreements

- g. The agency could not provide us with contracts/agreements and/or purchase orders approved by the State's Purchasing Division for several contractual arrangements it had with two not-for profit entities it paid a total of \$878,417.95 from the Rehabilitation Center Special Account Fund - Fund 8664 during our audit period.

Missing Invoices

- h. The agency could not provide us with five invoices totaling \$60,527.14 paid from the Rehabilitation Center Special Account Fund - Fund 8664 during our audit period.

Driver Evaluation Billings/Invoices

- i. The agency was unable to provide us documentation to support the accuracy of a \$150.00 invoice the agency billed for Driver Education services provided to a non-agency client. In addition, the agency could not provide us with 21 invoices for driver-evaluation services provided to non agency clients estimated by agency staff to have been approximately \$3,150.

Inadequate Documentation - Support for Hospital Accounts Receivable Entries

- j. We noted discrepancies between some entries in the hospital's accounts receivable system (MEDSYS) and the super bills which supported those entries. We also noted the hospital's billing-office staff could not provide us with adequate documentation to support why it did not bill Medicare \$150.00 for psychotherapy services (CPT 4-Code 90801) provided to a patient on January 11, 2001.

Unwritten Hospital Policy

- k. We noted the agency's hospital follows an *unwritten* policy of not billing Medicare patient's lifetime reserve days.

Agency's Response

The Division will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code. To comply with the issues addressed by this finding the division is developing a checklist to be used when auditing invoices. This checklist will cover all supporting documentation. This checklist will be in use by January 2004. (See pages 41-49)

Inadequate Monitoring of Lease Agreements/Contracts

- 8. The agency did not adequately monitor two lease agreements, one for office space utilized by the West Virginia Association of Rehabilitation Facilities and another for classroom space used by Marshall University College of Graduate Studies at its Institute headquarters resulting in a loss of rental receipts totaling \$7,882.57. We also noted the agency did not adequately monitor

a professional services contract resulting in an estimated \$18,750 overpayment to the West Virginia University Research Corporation.

Auditor's Recommendation

We recommend the agency strengthen its internal controls over the monitoring of lease agreements to ensure that all monies due the agency are collected for the use of the agency's facilities. We also recommend the agency continue its followup efforts with the Research Corporation to obtain a refund for any overpayment.

Agency's Response

The division will begin using an accounts receivable aging report to track all monies due.

We will pursue the collection of outstanding balances. The aging report will be distributed to the chief financial officer and the executive management group. This will begin in January 2004. (See pages 49-53)

Late Deposits

9. We noted 14 hospital receipts totaling \$45,851.25 and eight driver-evaluation receipts totaling \$1,131.25 were not deposited by the agency within twenty-four hours of receipt. We also noted 13 instances where payments totaling \$16,892.64 were received but the agency did not document the date it had received the monies. In addition to the above receipts, a cash count of monies on hand at the agency on September 2, 2003 revealed; **(a)** three checks/state warrants totaling \$4,490.14 in the fiscal office were not deposited until on or after September 8, 2003; **(b)** thirteen checks/warrants totaling \$1,398.43 were deposited the day after our cash count; however, the documentation supporting these receipts did not indicate when the agency had received the monies; **(c)** three stale-dated State warrants totaling \$170 in the fiscal office made payable to agency clients were remitted to the Unclaimed Property Division of the State Treasurer's Office after our cash count; however, the agency did not have any documentation to indicate how long the these warrants had been in its possession; and **(d)** one stale check in the

amount of \$120.89 that could not be deposited by the agency and the agency did not know how long it had been holding the check.

Auditor's Recommendation

We recommend the agency comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Agency's Response

The Division will comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

To comply with the issues addressed in this finding the Division will require that the employee opening the mail date stamp all checks, make two copies of each check and carry the original check to the cashier's office for immediate deposit into the state treasurer.

The checks received will be reconciled with the Cashier's deposits on a monthly basis. (See pages 53-55)

Management Override of Internal Controls

10. We noted the agency paid 12 invoices totaling \$329,079.10 directly through WVFIMS rather than processing the invoices first through its internal accounting system.

Auditor's Recommendation

We recommend the Division follow the accounting routine described to us in our documentation of the agency's accounting procedures.

Agency's Response

The Division is reviewing its accounting policies and rewriting and updating needed policies and procedures. We will ensure that the procedures are followed by reviewing transactions on a quarterly basis. Any deviation will require disciplinary action. (See pages 55-58)

Late Payments

11. The Division failed to make contract payments totaling \$730,411.50; vendor invoices totaling \$3,093.38; and Extended Supported Employment Workshop payments totaling \$8,825.00 within 60 days of receiving the applicable invoices. Consequently, the Division could be liable for up to \$26,294.33 in late payment interest.

Auditor's Recommendation

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

Agency's Response

The Division will comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code

To comply with this issue the Division is developing an invoice tracking system. This system requires that a checklist be attached to each invoice. On that check list will be space to document any problems in payment.

Management will generate a quarterly report form WVFIMS using Crystal to monitor the time between when an invoice is received and paid. Any payment over sixty days will be investigated. (See pages 58-60)

Estimated Rather Than Actual Amounts Used To Prepare Tax Returns

12. The accounting system of the agency's Rehabilitation Hospital cannot generate information the agency needs to accurately prepare its annual Broad Based Health Care Related Tax returns required under Chapter 11, Article 27 of the West Virginia Code.

Auditor's Recommendation

We recommend the agency comply with Chapter 11, Article 27, Section 9; Chapter 11, Article 27, Section 15; and Chapter 11, Article 27, Section 16 of the West Virginia Code.

Agency's Response

The Division will comply with Chapter 11, Article 27, Section 9; Chapter 11, Article 27, Section 15; and Chapter 11, Article 27, Section 16 of the West Virginia Code.

The estimates used to calculate the contractual allowances were based on a formula developed by Arnett and Foster, a certified public accounting firm. Arnett and Foster is an expert in hospital financial matters. Therefore, we feel that the estimates derived from the formula were accurate but we will have Arnett and Foster review the formula for correctness and take appropriate action. (See pages 61-64)

Improper use of Object of Expenditure and Revenue Source Codes

13. The agency improperly classified 21 Extended Supported Employment payments totaling \$24,628.75 as “Case Services” (object code 084) instead of processing these “Grant” payments under object code 083 (Grants, Awards, Scholarships, and Loans). We also noted four lease receipts totaling \$5,891.52 and seven driver education receipts totaling \$981.25 the agency received during our audit period were improperly classified as “Hospital Patient Care Collections” (revenue source code 687). These receipts should have been classified as “Other Collections, Fees, Licenses and Income” (revenue source code 696).

Auditor’s Recommendation

We recommend the agency comply with the Department of Administration’s Expenditure Schedule Instructions, as amended.

Agency’s Response

The Division will comply with the Department of Administration’s Expenditure Schedule Instructions, as amended.

To comply with the issue addressed in this finding, the division will educate its accounting staff on the proper use of expenditure objects and revenue codes. This training will be completed by the end of January 2004. (See pages 64-66)

Two Purchases Not Approved by the Agency’s Procurement Unit

14. We noted two instances where the agency’s procurement unit did not approve purchase requisitions or increases to purchase requisitions totaling \$1,013.38 in accordance with the agency’s Administrative Manual.

Auditor’s Recommendation

We recommend the agency comply with Section 702 of its own Administrative Manual.

Agency's Response

The division will comply with Section 702 of its own Administrative Manual.

The division will educate its staff about the responsibility for procurement and tell staff that and deviations from policy could result in loss of procurement authority and/or being personally responsible for paying for the goods or services procured incorrectly. (See pages 66 and 67)

Revenue Refunds Paid from Wrong Account

15. We noted four revenue refunds totaling \$14,566.71 had been issued from the Rehabilitation Center Special Account Fund - Fund 8664, which should have been refunded from the Consolidated Federal Funds General Administrative Fund - Fund 8734.

Auditor's Recommendation

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended.

Agency's Response

The written procedures for making revenue refunds will require that no refund be approved without the supporting documentation. The employee approving the transaction will be required to check the supporting documentation to ensure that the refund is being paid from the correct fund. A check list will be attached to the refund to show that the documentation was checked. (See pages 67-69)

Improper Use of Funds

16. During our review of transactions processed by the agency after the end of our audit period (subsequent events), we noted 15 instances totaling \$38,281.12 in which the agency paid utility invoices of the agency out of its 2003 fiscal year appropriation for the Rehabilitation Center Special Account Fund - Workshop Development - Fund 8664-163.

Auditor's Recommendation

We recommend the agency use the above appropriations only for work shops as defined in Chapter 18, Article 10B, Section 1(2) of the West Virginia Code, as amended.

Agency's Response

The Division will only use Fund 8664 -163 for workshops. The utility bills were paid from this account because of a coding error on the commitment. The commitment should have been paid from 8664-099. (See pages 69 and70)

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the West Virginia Division of Rehabilitation Services' Rehabilitation Center Special Account Fund - Fund 8664. The examination covers the period July 1, 2000 through June 30, 2002.

COMPLIANCE MATTERS

We tested applicable sections of the West Virginia Code, plus the Division's legislatively approved rules and regulations, as well as, other rules, regulations, policies, and procedures as they pertain to fiscal matters. Our findings are discussed below.

Lack of Effective System of Internal Controls

During the course of our examination, it became apparent to us, based on observed noncompliance with the West Virginia Code and other applicable rules and regulations, the Division of Rehabilitation Services did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, states in part,

“The head of each agency shall:...

(b) 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....”

This law requires the head of each agency to have in place an effective system of internal controls in the form of policies and procedures to ensure the agency is in compliance with the laws, rules and regulations which govern it.

During the post audit of the Division of Rehabilitation Services, we found the following noncompliance with State laws and other rules and regulations: (1) The Division deposited a \$26,739.75 hospital receipt into a non-profit entity's local bank account (the West Virginia Rehabilitation Center Foundation, Inc., also known as the "Foundation") on June 5, 2002. This amount should have been deposited into the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account). (2) Expenditure schedules for the Special Account were not prepared by the agency for Personal Services and Employee Benefits expenditures totaling \$2,015,000.00 made from its 2002 and 2001 fiscal year appropriations. (3) The agency does not reconcile receipts recorded in the accounts receivable ledgers of the West Virginia Rehabilitation Hospital (the hospital) to the deposits of these receipts into the Special Account. In addition, the agency's record of hospital receipts posted in its accounts receivable system (MEDSYS) during our audit period were \$95,253.34 less than the amounts recorded on other hospital revenue ledgers (spread sheets) for this same period. (4) The program income and program-income disbursements the agency reported on quarterly Financial Status Reports filed with the Federal Department of Education, Division of Rehabilitation Services during our audit period, did not agree with the revenues and expenditures of the Special Account. Specifically, our audit revealed the agency understated program income by \$131,314 and understated program income disbursements by \$234,221. (5) During our audit period, the agency reported \$871,078 in "Refunds, rebates, etc." on line 10b of its quarterly Financial Status Reports (form SF-269) that it submitted to the Federal Department of Education, Division of Rehabilitation Services. Included in this total, however, is an indeterminable amount of hospital receipts the agency collected and deposited into the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the

Federal Fund), which should have been deposited into the Special Account as required by WV Code. We determined from random testing of 21 hospital receipts and testing of 22 lease receipts the agency improperly deposited hospital receipts totaling \$58,510.54 and lease receipts totaling \$1,963.84 into the Federal Fund, which should have been deposited into the Special Account. **(6)** We noted several instances of missing and/or inadequate documentation: **(a)** Out of a sample of 15 invoices for Driver Evaluation Services provided to non-agency clients, payments were not documented as being received by the agency on seven of the invoices totaling \$1,706.25 and four of the invoices did not have any notations on them that subsequent collection efforts (re-invoicing) had occurred. **(b)** The agency paid 58 hours of Extended Supported Employment Services that were not appropriately authorized. We also noted 18 instances in which Extended Supported Employment Services invoices were paid without being signed by appropriate agency personnel. **(c)** Hospital accounts receivable balances are not being adequately monitored, which resulted in one receivable in the amount of \$260.00 remaining outstanding for an extended period of time and two receivables totaling \$127.50 to be written off as contractual adjustments without supporting documentation. **(d)** The agency did not monitor the collection of billings totaling \$30,852.02 for some goods and services provided at the West Virginia Rehabilitation Center. **(e)** The Division has not established a method of documenting monies received for shop fees collected from repair services performed by the agency's Heating, Ventilation, and Air Conditioning (HVAC) vocational class. **(f)** The Division has not developed a system of accounting controls to ensure that all goods and services provided to patients in the agency's hospital are accounted for in the hospital's accounts receivable system (MEDSYS). **(g)** The agency could not provide us with contracts/agreements and/or purchase orders approved by

the State's Purchasing Division for several contractual arrangements it had with two not-for-profit entities it paid a total of \$878,417.95 from the Special Account during our audit period.

(h) The agency could not provide us with five invoices totaling \$60,527.14 paid from the Special Account during our audit period. **(i)** The agency was unable to provide us documentation to support the accuracy of a \$150.00 invoice the agency billed for Driver Education services provided to a non-agency client. In addition, the agency could not provide us with 21 invoices for driver-evaluation services provided to non agency clients estimated by agency staff to have been approximately \$3,150. **(j)** We noted discrepancies between some entries in the hospital's accounts receivable system (MEDSYS) and the superbills which supported those entries. We also noted the hospital's billing-office staff could not provide us with adequate documentation to support why it did not bill Medicare \$150.00 for psychotherapy services (CPT 4-Code 90801) provided to a patient on January 11, 2001. **(k)** We noted the agency's hospital follows an *unwritten* policy of not billing Medicare patient's lifetime reserve days. **(7)** The agency did not adequately monitor two lease agreements for office space utilized by the West Virginia Association of Rehabilitation Facilities and classroom space used by Marshall University College of Graduate Studies at its Institute headquarters resulting in a loss of rental receipts totaling \$7,882.57. We also noted the agency did not adequately monitor a professional services contract resulting in an estimated \$18,750 overpayment to the West Virginia University Research Corporation. **(8)** We noted 14 hospital receipts totaling \$45,851.25 and eight driver-evaluation receipts totaling \$1,131.25 were not deposited by the agency within 24 hours of receipt. We also noted 13 instances where the agency had received payments totaling \$16,892.64 during our audit period but did not document the date it had received the monies. In

addition to the above receipts, a cash count of monies on hand at the agency on September 2, 2003 revealed: **(a)** three checks/state warrants totaling \$4,490.14 were not deposited until on or after September 8, 2003; **(b)** thirteen checks/warrants totaling \$1,398.43 were deposited the day after our cash count; however, the documentation supporting these receipts did not indicate when the agency had received the monies; **(c)** three stale-dated State warrants totaling \$170, made payable to agency clients were remitted to the Unclaimed Property Division of the State Treasurer's Office after our cash count; however, the agency did not have any documentation to indicate how long the these warrants had been in its possession; and **(d)** one stale check in the amount of \$120.89 that could not be deposited by the agency and the agency did not know how long it had been holding the check. **(9)** We noted the agency paid 12 invoices totaling \$329,079.10 directly through WVFIMS rather than processing the invoices first through its internal accounting system. **(10)** The Division did not make contract payments totaling \$730,411.50; vendor invoices totaling \$3,093.38; and Extended Supported Employment Workshop payments totaling \$8,825.00 within 60 days of receiving the applicable invoices. Consequently, the Division could have been liable for up to \$26,294.33 in late payment interest. **(11)** The accounting system of the agency's Rehabilitation Hospital (the hospital) cannot generate information the agency needs to accurately prepare its annual Broad Based Health Care Related Tax returns required under Chapter 11, Article 27 of the West Virginia Code. **(12)** We noted 21 Extended Supported Employment payments totaling \$24,628.75 were improperly classified as "Case Services" (object code 084). We believe these "Grant" payments should have been charged to object code 083 (Grants, Awards, Scholarships, and Loans). We also noted four lease receipts totaling \$5,891.52 and seven driver education receipts totaling \$981.25 the

agency received during our audit period were improperly classified as “Hospital Patient Care Collections” (revenue source code 687). These receipts should have been classified as “Other Collections, Fees, Licenses and Income” (revenue source code 696). (13) We noted two instances where the agency’s procurement unit did not approve purchase requisitions or increases to purchases requisitions totaling \$1,013.38 in accordance with the agency’s Administrative Manual. (14) We noted four revenue refunds totaling \$14,566.71 had been issued from the Special Account, which should have been refunded from the Consolidated Federal Funds General Administrative Fund - Fund 8734. (15) During our review of transactions processed by the agency after the end of our audit period (subsequent events), we noted 15 instances totaling \$38,281.12 in which the agency paid utility invoices of the agency out of its 2003 fiscal year appropriation for the Rehabilitation Center Special Account Fund - Workshop Development - Fund 8664-163.

We recommend the Division of Rehabilitation Services comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, and establish a system of internal controls.

Agency’s Response

The Division’s accounting staff is in the process of reviewing its accounting policy and procedures guidelines and making necessary revisions to comply with State Code and improve accountability. Since internal control is a major part of managing an organization, we will develop the plans, methods and procedures to ensure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. We will address each area of accounting and place the control mechanisms and activities in place and will continuously monitor and evaluate the

control. Internal control will be an integral part of the system used to regulate and guide operations. All accounting staff will be thoroughly trained on each procedure and its written internal control guideline.

Annually the audit committee will review the internal controls to ensure that they are working. They will also make recommendations for changing or adding new controls.

Any deviations from the internal controls will not be tolerated. Progressive disciplinary action will result from circumventing the controls.

Circumventing State Accounting System

The agency deposited a \$26,739.75 hospital receipt into a non-profit entity's local bank account (the West Virginia Rehabilitation Center Foundation, Inc., also known as the "Foundation") on June 5, 2002. The monies were deposited into the Foundation's account instead of the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account) as required by WV Code. The agency's Senior Fiscal Services Manager stated the receipt was deposited into the Foundation Account to partially fund a \$54,575.00 invoice the agency had received from Tri State Mobility Equipment Company Inc. The invoice was for modifications the company made to a van belonging to a client of the agency's field services program. Originally, the agency attempted to pay the invoice through the State's accounting system via WVFIMS Document I004369893 on July 14, 2000, but the State Auditor's Office would not approve the invoice for payment because the agency did not process the transaction through the State Purchasing Division as required by purchasing rules and regulations. Consequently, the agency made arrangements for the Foundation to pay the invoice.

The Senior Fiscal Services Manager for the agency, who also was the Treasurer for the Foundation during our audit period, stated there were other hospital receipts deposited into the Foundation's account to cover the remaining \$27,835.25 needed to pay the vendor invoice. As of November 20, 2003, the agency has not been able to provide us with documentation to show any other agency receipts that had been deposited into the Foundation's account to fund the payment of the vendor invoice.

Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, states in part:

“There is hereby established in the state treasury a separate account which shall be designated the “West Virginia rehabilitation services special account”. The director of rehabilitation services shall deposit promptly into the account all fees received for services provided by the West Virginia rehabilitation center from whatever source, including the federal government, state government, or from other third-party payers or personal payments.”

Those doing business with the State have the right to seek payment for any services they provide through the normal payment processing channels of the State agency. If these claims cannot be paid through the State agency, the vendor can seek payment for their services through the Court of Claims.

Chapter 14, Article 2, Section 12 of the West Virginia Code as amended, states in part:

“The court shall, in accordance with this article, consider claims... a claim shall be instituted by the filing of notice with the clerk... if, after consideration, the court finds that a claim is just and proper, it shall so determine and shall file with the clerk a brief statement of its reasons. A claim so filed shall be an approved claim. . . .”

We believe the agency should have referred the vendor to the Court of Claims for payment and deposited the above receipts into the Special Account. By depositing the monies into the Foundation's account, the agency did not comply with the West Virginia Code and additionally circumvented the Purchasing Rules and Regulations. The agency's deposit of the \$26,739.75 hospital receipt into the Foundation's account made this money available for immediate expenditure whereas deposits into the Special Account are subject to Legislative appropriation and expenditures are subject to all applicable rules and regulations.

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 14, Article 2, Section 12 of the West Virginia Code, as amended.

Agency's Response

The Division will comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 14, Article 2, Section 12 of the West Virginia Code as amended.

To meet the compliance issue of this finding the senior manager, fiscal services will resign as treasurer. Beginning with November 2003, we will reconcile all deposits to cash receipts on a monthly basis to ensure that all money received is deposited. These reconciliations will be kept on file for review by the executive management group and auditors.

We will also implement an invoice tracking system to ensure that all invoices are paid through the state system. All invoices will be received by one person who will open

the invoices, date stamp them, attach an auditing checklist, and route them to the appropriate person. This procedure will be in place by January 2004.

Quarterly an audit committee of three will review a sampling of the invoices to ensure that procedures are followed. Any deviations will be addressed by education, discipline or possibly a modification of the system. The first review will occur in April 2004.

**Payment of Personal Services from an Account
with No Expenditure Schedule**

We noted the agency did not prepare expenditure schedules for the Rehabilitation Center Unclassified - Fund 8664-099 (the Special Account) for Personal Services and Employee Benefits expenditures totaling \$2,015,000.00 made from its 2002 and 2001 fiscal year appropriations. Specifically, during the 2002 fiscal year the agency disbursed \$1,000,000.00 for Personal Services and \$250,000 for Employee Benefits from the Special Account. In the 2001 fiscal year, the agency disbursed \$765,000 in Personal Services from the account.

Title 1, "General Provisions" of the State's Budget Bill (Senate Bill Number 81) for the 2002 fiscal year, which authorized spending of public money out of the treasury states in part:

“. . . If there is no appropriation for "employee benefits," such costs shall be paid by each spending unit from its "personal services" line item, its "unclassified" line item or other appropriate line item. . . . the secretary of each department and the director, commissioner, executive secretary, superintendent, chairman or any other agency head not governed by a departmental secretary as established by chapter five-f of the code shall have the authority to transfer funds appropriated to "personal services" and "employee benefits" to other lines within the same account and no funds from other lines shall be transferred to the "personal services" line. . . .”

The Expenditure Schedule Instructions of the State Budget Office in reference to

Transfer Intra-Agency Fund (Form ES-6), as amended, state in part:

“ . . . This form can only be used to 1.) transfer Personal Services and Employee Benefits to other lines of appropriations within the same WVFIMS account, or 2.) transfer Personal Services or Unclassified to Employee Benefits. **Funds may not be transferred to Personal Services. . . .**” (Emphasis Added).

Chapter 5A, Article 2, Section 12 of the West Virginia Code, states in part:

“Prior to the beginning of each fiscal year, the spending officer of a spending unit shall submit to the secretary detailed expenditure schedule for the ensuing fiscal year. The schedule shall be submitted in such form and at such time as the secretary may require.

The schedule shall show:

- (1) A proposed monthly rate of expenditure for amounts appropriated for personal services;
- (2) Each and every position budgeted under personal services for the next ensuing fiscal year, with the monthly salary or compensation of each such position; . . .”

Chapter 5A, Article 2, Section 29 of the West Virginia Code, states:

“A requisition for the payment of personal services shall upon receipt by the director be checked against the personnel schedule of the spending unit making the requisition. The director shall approve a requisition for personal services only if the amounts requested are in accordance with the personnel schedule of the spending unit.”

The agency had only filed expenditure schedules for Personal Services and Employee Benefits to be paid from the following appropriated funds: the General Administrative Fund - Fund 0310; and the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal Fund 8734). Because the Division did not use authorized funding sources to process its Personal Services and Employee Benefits’ transactions, monies that were reserved for

these expenditures in the agency's Federal Fund 8734 may have been used for purposes other than those intended.

We recommend the agency comply with the General Provisions of the State Budget Bill; the Expenditure Schedule Instructions of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code, and Chapter 5A, Article 2, Section 29 of the West Virginia Code.

Agency's Response

The Division was unaware of this provision. We thought that as long as our total personal services expenditures did not exceed the expenditure schedule amount we were in compliance. During FY 2001 the Division's expenditure schedule shows \$22,916,252 for personal services but our expenditures were only \$21,651, 325. During FY 2002 our expenditure schedule amount for personal services was \$23,388,347 and our expenditures were \$22,144,288. Both years our personal services expenditures were less than the amount in our expenditure schedule.

These expenditures were done by transferring funds to reimburse our federal expenditures. These transactions were approved by the budget office and the auditor. Therefore, we were not aware that we were in violation.

The Division will comply with the General Provisions of the State Budget Bill; the Expenditure Schedule Instructions of the State Budget Office, as amended; and Chapter 5A, Article 2, Section 12 of the West Virginia Code, and Chapter 5A, Article 2, Section 29 of the West Virginia Code

To meet the compliance issue of this finding all personal service and employee benefit expenditures will only be approved by the Division's director. A copy of the expenditure schedule showing the personal services and employee benefits appropriation will be attached to each expenditure for the director's review. This will ensure that personal service and employee benefit expenditures only come from funds with properly prepared expenditure schedules.

Inadequate Record Keeping - Hospital Receipts

We noted the agency does not reconcile receipts recorded in the accounts receivable ledgers of the West Virginia Rehabilitation Hospital (the hospital) to the deposits of these receipts into the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account). In addition, the receipts recorded in MEDSYS (the hospital's accounts receivable system) are not reconciled to other hospital revenue ledgers (spread sheets) prepared by the hospital's Business Manager from the receipt ledgers. According to our calculation, the hospital's billing-office staff posted receipts into MEDSYS totaling \$346,262.70 for the 2002 fiscal year and \$892,334.14 for the 2001 fiscal year. The spread sheets, which are prepared from receipt ledgers in the hospital's accounting office, showed the hospital received \$95,253.34 more than the amount posted in MEDSYS for the same period. Details of the \$95,253.34 difference are reflected below:

<u>Fiscal Year</u>	<u>Receipts per Business Manager's Spread Sheets</u>	<u>Receipts per MEDSYS</u>	<u>Differences</u>
<u>2001</u>	<u>\$ 965,537.57</u>	<u>\$ 892,334.17</u>	<u>\$73,203.40</u>
<u>2002</u>	<u>368,312.64</u>	<u>346,262.70</u>	<u>22,049.94</u>
Totals	<u>\$1,333,850.21</u>	<u>\$1,238,596.87</u>	<u>\$95,253.34</u>

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code states in part:

“The head of each agency shall:

. . . (b) 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....”

The Business Manager could not provide us with an explanation for the differences in MEDSYS and the Excel spread sheets he maintains; however, he stated the spread sheets are probably the most accurate record of hospital receipts during our audit period. We believe if the agency reconciled the WVFIMS deposits to MEDSYS and/or the spread sheets, the Business Manager may have been able to determine the reason for the \$95,253.34 difference.

Because of the discrepancy, it is possible that receipts totaling \$95,253.34 were either not posted or improperly posted in the accounts receivable ledgers (MEDSYS) or the totals on the spread sheets posted from the receipt ledgers could be inaccurately stated. As a result of the discrepancy and since the agency has not designed its accounting routine to ensure that all monies recorded on its hospital receipt and/or accounts receivable ledgers are reconciled to the deposits of that money into the Special Account as required by law, we believe hospital receipts could be lost or misappropriated or possibly used for other than intended purposes without management becoming aware.

We recommend the agency comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

Agency’s Response

The Division will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

To meet the compliance issues addressed by this finding the Division will reconcile the accounts receivable ledger to the receipts deposited into fund 8664. Any discrepancies will be noted and sent to the chief financial officer with an FYI to the executive management group for their review and plan of action. These reconciliations will begin with the November 2003 receipts. All reconciliations will be kept on file for review by the auditors.

Management is aware that the Medsys software program is out dated and susceptible to reporting errors. The hospital is actively seeking updated software to include a seamless program, to include electronic billing, accounts receivable and pharmacy billing.

Improper Reporting of Program Income

The program income and program-income disbursements the agency reported on quarterly Financial Status Reports it filed with the Federal Department of Education, Division of Rehabilitation Services during our audit period, did not agree with the revenues and expenditures of the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account) as recorded in FIMS. In accordance with the Office of Management and Budget Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," the agency files the quarterly Financial Status Reports (Form SF-269) to detail the financial activity of the agency's "basic support" grants (CFDA 84.126). In addition to documenting the expenditure of the Federal grant monies and State matching monies, the agency is required to report "Program Income" received and spent during the grant periods. The agency's Senior Fiscal Services Manager stated the following WVFIMS activity is considered program income to be reported on the SF-269: **1)** all net deposits/transfers into the Rehabilitation Center Special Account Fund - Fund 8664; **2)** all net deposits/transfers into the Rehabilitation Student Union Fund - Fund 8656;

and 3) any deposits allocated in FIMS as “revenues” of the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal Fund). The differences we noted between what was reported on the SF-269 forms and what was reflected as WVFIMS deposit activity are shown in the following table:

<u>Reporting Period</u>	<u>Grant Ending Date</u>	<u>Reported Program Income</u>	<u>WVFIMS Program Income</u>	<u>Difference</u>
07/01/2000 - 09/30/2000	09/30/01	\$ 274,677.00	\$ 273,548.00	\$ 1,129.00
04/01/2001 - 06/30/2001	09/30/02	\$ 288,220.00	\$ 433,712.00	(\$145,492.00)
07/01/2001 - 09/30/2001	09/30/02	\$1,893,046.00	\$1,888,620.00	\$ 4,426.00
01/01/2002 - 03/31/2002	09/30/03	<u>\$ 414,695.00</u>	<u>\$ 406,072.00</u>	<u>\$ 8,623.00</u>
Net Reporting Differences				<u>(\$131,314.00)</u>

The agency breaks down the reported program income into “disbursed program income” and “undisbursed program income.” To determine the amount of program income disbursed during a particular quarter, the Senior Fiscal Services Manager stated the agency simply totals the following expenditures in WVFIMS: 1) all expenditures of the Rehabilitation Center Special Account Fund - Fund 8664; 2) all expenditures of the Rehabilitation Student Union Fund - Fund 8656; and 3) the entire amount of all deposits allocated as *revenues* in the Federal Fund. We were unable to reconcile the reported disbursements of program income to WVFIMS as shown below.

<u>Reporting Period</u>	<u>Grant Ending Date</u>	<u>Reported Program Income Disbursements</u>	<u>WVFIMS Program Income Disbursements</u>	<u>Difference</u>
07/01/2000 - 09/30/2000	09/30/01	\$ 256,562.00	\$ 278,038.00	(\$ 21,476.00)
04/01/2001 - 06/30/2001	09/30/01	\$ 18,115.00	\$ 0.00	\$ 18,115.00
10/01/2001- 12/31/2001*	09/30/01	\$3,343,519.00	\$3,446,160.00	(\$102,641.00)
04/01/2001 - 06/30/2001	09/30/02	\$ 467,616.00	\$ 28,367.00	\$439,249.00

<u>Reporting Period</u>	<u>Grant Ending Date</u>	<u>Reported Program Income Disbursements</u>	<u>WVFIMS Program Income Disbursements</u>	<u>Difference</u>
07/01/2001 - 09/30/2001	09/30/02	\$1,893,046.00	\$1,861,539.00	\$ 31,507.00
10/01/2001 - 12/30/2001	09/30/03	\$ 184,621.00	\$ 185,466.00	(\$ 845.00)
01/01/2002 - 03/31/2002	09/30/03	\$ 479,680.00	\$ 631,807.00	(\$152,127.00)
04/01/2002 - 06/30/2002	09/30/03	\$ 589,227.00	\$ 435,230.00	<u>\$153,997.00</u>
Net Reporting Differences				<u>\$408,731.00</u>

*** A final report is filed for the 1st quarter following the end of a grant. The purpose of the final report is to reflect the disbursements of program income received in the grant period. Agency personnel stated that all program income received during a grant period must be spent by the end of the 90th day following the end of a grant. The cumulative program income reported on the last quarter of a grant should not change on the final report unless the agency is correcting previous reporting errors.**

34CFR, Part 80, Subpart C, Section 80.25 defines program income as:

“gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. . . .”

Circular A-102, Section 2 “Post-award Policies,” as amended, states in part:

“. . . Federal agencies shall require grantees to use the SF-269, Financial Status Report-Long Form, or SF-269a, Financial Status Report-Short Form, to report the status of funds for all non-construction projects or programs. . . .
Agencies shall encourage grantees to generate program income to help defray program costs. . . .”

Circular A-102, Section 3 “After-the-grant Policies,” as amended, states in part:

“. . . Federal agencies shall reconcile continuing awards at least annually and evaluate program performance and financial reports. Items to be reviewed include: . . . (2) the Financial Status Report (SF-269) . . .”

A Senior Fiscal Services Manager for the agency stated the above differences were attributable to reporting errors and that program income disbursements cannot be reported

in excess of the amount of reported program income. Because of the errors, the agency under reported program income received and spent during our audit period to the Federal Department of Education, Division of Rehabilitation Services. Had the agency not spent all of its basic support grant during the periods containing the reporting errors, the agency would have been obligated to return monies to the Federal granting agency.

We recommend the agency further develop its accounting and reporting procedures in regards to program income to ensure accurate information is reported on the SF-269 forms in accordance with the requirements of Circular A-102, as amended.

Agency's Response

The Division has begun using a checklist for review of the report and the supporting documentation and has segregated the duties of financial report filing amount three employees to ensure that the SF- 269 is filed timely and accurately. We are also developing several Crystal reports which will allow us to retrieve the data needed for each section of the report. This will eliminate the need to use spreadsheets to combine data to get the figures for each section of the report. These Crystal reports will be ready when the next SF269 is filed, January 30, 2004.

Program income has nothing to do with the Division's allotment of funds from the basic support grant. The basic support grant allots funds based on per capita income and population.

Improper Reporting of "Refunds, Rebates, Etc."

During our audit period, the agency reported \$871,078 in "Refunds, rebates, etc." on line 10b of its quarterly Financial Status Reports (form SF-269) that it submitted to the Federal Department of Education, Division of Rehabilitation Services. Included in this total,

however, is an indeterminable amount of hospital receipts the agency collected in our audit period that were deposited into the Consolidated Federal Funds General Administrative Fund - Fund 8734 (the Federal Fund) and classified as expenditure reductions. All hospital receipts and certain miscellaneous receipts of the agency are required to be deposited in the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account) and classified as revenues.

Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, states in part:

“There is hereby established in the state treasury a separate account which shall be designated the “West Virginia rehabilitation services special account”. The director of rehabilitation services shall deposit promptly into the account all fees received for services provided by the West Virginia rehabilitation center from whatever source, including the federal government, state government, or from other third-party payers or personal payments.”

The agency’s Senior Fiscal Services Manager (the Manager) stated the amount reported on Line 10b (Refunds, rebates, etc.) of the quarterly SF-269 forms is simply all deposits into the Federal Fund, which the agency classifies as expenditure reductions. In addition, the Manager stated the agency has not established any set criteria for determining which hospital receipts and other miscellaneous receipts will be deposited in the Federal Fund as expenditure reductions versus being deposited into the Special Account and classified as hospital or miscellaneous revenues. He added that some receipts are simply deposited, at his discretion, into the Federal Fund as expenditure reductions to expedite updating the agency’s internal budgets.

34CFR, Part 80, Subpart C, Section 80.25 defines program income as:

“gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. . . .”

Circular A-102, Section 2 “Post-award Policies,” as amended, states in part:

“. . . Federal agencies shall require grantees to use the SF-269, Financial Status Report-Long Form, or SF-269a, Financial Status Report-Short Form, to report the status of funds for all non-construction projects or programs. . . .

Agencies shall encourage grantees to generate program income to help defray program costs. . . .”

Circular A-102, Section 3 “After-the-grant Policies,” as amended, states in part:

“. . . Federal agencies shall reconcile continuing awards at least annually and evaluate program performance and financial reports. Items to be reviewed include: . . . (2) the Financial Status Report (SF-269) . . .”

Although we do not know how much of the “Refunds, rebates, etc.” included in the reported \$871,078 should have been deposited into the Special Account as revenues and reported as “Program Income,” we did determine from random testing of hospital receipts and testing of two lease agreements the agency improperly deposited ten receipts totaling \$60,474.38 into the Federal Fund as expenditure reductions. Details of these deposits are shown below:

<u>FIMS</u> <u>Document No.</u>	<u>Payer</u>	<u>Description</u>	<u>Deposit</u> <u>Date</u>	<u>Amount</u>
D000730620	Blue Cross/Blue Shield	Hospital Receipt	04/17/01	\$ 5,587.20
D000741374	Accordia/PEIA	Hospital Receipt	05/31/01	9,232.59
D000738422	Accordia/PEIA	Hospital Receipt	05/18/01	839.58
D000745473	Accordia/PEIA	Hospital Receipt	06/15/01	1,000.00

FIMS			Deposit	
<u>Document No.</u>	<u>Payor</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
D000743101	Accordia/PEIA	Hospital Receipt	06/07/01	3,476.50
D000728916	Accordia/PEIA	Hospital Receipt	04/11/01	12,358.67
D000829239	Medicare	Hospital Receipt	05/03/02	14,182.00
D000739503	Aetna U.S. Healthcare	Hospital Receipt	05/23/01	11,834.00
D000737764	WV Association of Rehabilitation Facilities	Lease Receipt *	05/16/01	981.92
D000746268	WV Association of Rehabilitation Facilities	Lease Receipt *	06/19/01	<u>981.92</u>
Total				<u>\$60,474.38</u>

*** We noted that other lease receipts were deposited as revenues of the Rehabilitation Center Special Account Fund - Fund 8664.**

In addition to our not being able to determine the portion of the above \$858,860 which should have been deposited into the Special Account, we were unable to reconcile the reported "Refunds, rebates, etc." to WVFIMS Federal Fund activity as detailed below:

<u>Reporting Period</u>	<u>Grant Ending Date</u>	<u>Reported "Refunds, Rebates, etc."</u>	<u>WVFIMS Refunds, Rebates, etc.</u>	<u>Difference</u>
07/01/2000 - 09/30/2000	09/30/01	\$104,549.00	\$120,270.00	(\$15,721.00)
10/01/2000 - 12/31/2000	09/30/01	\$ 66,403.00	\$ 30,925.00	35,478.00
10/01/2000 - 12/31/2000	09/30/02	\$ 5,460.00	\$ 9,657.00	(4,197.00)
01/01/2001 - 03/31/2001	09/30/01	\$ 58,841.00	\$ 58,445.00	396.00
04/01/2001 - 06/30/2001	09/30/01	\$261,286.00	\$261,849.00	(563.00)
07/01/2001 - 09/30/2001	09/30/02	\$ 31,701.00	\$ 32,098.00	(397.00)
10/01/2001 - 12/31/2001	09/30/01*	\$ 13,994.00	\$ 0.00	13,994.00
10/01/2001 - 12/31/2001	09/30/02	\$ 28,644.00	\$ 28,706.00	(62.00)
10/01/2001 - 12/31/2001	09/30/03	\$ 10,131.00	\$ 11,007.00	(876.00)

<u>Reporting Period</u>	<u>Grant Ending Date</u>	<u>Reported "Refunds, Rebates, etc."</u>	<u>WVFIMS Refunds, Rebates, etc.</u>	<u>Difference</u>
01/01/2002 - 03/31/2002	09/30/02	\$ 46,690.00	\$ 47,220.00	(530.00)
04/01/2002 - 06/30/2002	09/30/02	\$123,886.00	\$130,676.00	(6,790.00)
04/01/2002 - 06/30/2002	09/30/03	\$ 41,305.00	\$ 42,118.00	<u>(813.00)</u>
Net Difference				<u>\$19,919.00</u>

***A final report is filed for the 1st quarter following the end of a grant.**

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code states in part:

“The head of each agency shall:

. . . (b) 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....”

The agency’s Administrative Services Manager I, who calculates the amount to be reported as “Refunds, rebates, etc.” on the quarterly forms, stated there were several reasons the WVFIMS activity of the Federal Fund did not match the actual amount reported including: **1)** some deposits that he mistakenly overlooked; **2)** Revenue deposits of the Special Account were erroneously included in the total; **3)** Deposits into other agency funds that should not have been reported anywhere on the forms; **4)** keypunch errors; and **5)** deposits that he erroneously entered twice in the reported total.

The agency’s deposit of the above receipts into the Federal Fund benefitted the agency by making the \$60,474.38 in Special Account revenues available for immediate expenditure although the agency is required to obtain legislative spending authority for the use of these revenues. In addition, the deposit of these monies in the Federal Fund as expenditure reductions caused the agency to understate its revenues of the Special Account, understate its

expenditures of the Federal Fund, and also to understate its program income. If expenditures had been reduced to the point that money had not been obligated, the agency would be required to return unobligated funds to the Federal granting agency. Lastly, because of the reporting errors and the agency's improper practice of depositing revenues of the Special Account into the Federal Fund as expenditure reductions, we were unable to determine how much of the Federal Fund expenditure reductions should have been deposited into the Special Account.

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 5A, Article 8, Section 9(b) of the West Virginia Code. We also recommend the agency further develop its accounting and reporting procedures in regards to program income to ensure accurate information is reported on the SF-269 forms in accordance with the requirements of Circular A-102, as amended.

Agency's Response

The division will comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, and Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

To comply with the issues of this finding the Division has further developed its accounting and reporting procedures in regard to program income by segregating the reporting duties, by using a checklist, and by developing Crystal reports. A procedure defining what program income is and where it should be deposited will become part of the division's policy and procedures manual.

As stated earlier, we will begin reconciling the income received to fund 8664. Any discrepancies will be noted and reported to the chief financial officer and the executive

management group for review and action. These reconciliations will begin with November 2003 receipts. All reports will be maintained for the auditors review.

Missing and/or Inadequate Documentation

During the course of our audit, we noted several instances of missing and/or inadequate documentation. These instances are detailed below under individual headings.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, states in part:

"The head of each agency shall: . . .

Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities...."

We recommend the Division comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, by further developing its accounting system and maintaining adequate accounting records to adequately support the financial activity of the agency.

a. Driver Evaluation Receipts - Out of a sample of 15 invoices for Driver Evaluation Services provided to non-agency clients, payments were not documented as being received by the agency for seven of the invoices totaling \$1,706.25. In addition, four of these invoices did not have any notations on them that subsequent collection efforts (re-invoicing) had occurred. We also noted the billing and receivable functions for these type of receipts are all performed by the same agency employee.

For the four invoices that did not have notations on them indicating that subsequent invoicing had occurred, we were unable to determine if additional collection efforts had been made by the agency. Also, we also believe that having one person perform all aspects

of the billing and accounts receivable function is not indicative of a good system of internal controls.

b. Extended Supported Employment Services - The Hancock County Sheltered Workshop, Inc. (Hancock County) was originally authorized to provide 120 hours of extended supported employment services to five workshop clients; however, Hancock County billed and was paid by the agency for 178 hours of extended supported employment services.

A Rehab Services Associate for the agency stated the workshop justified its need for more hours of job coaching for the five workshop clients. However, based on the authorization forms established by the agency, the workshop billed and was paid for hours that were not properly approved by the Division.

We also noted 18 instances in which Extended Supported Employment Services invoices were paid from the Rehabilitation Center Special Account Fund - Fund 8664 during our audit period; however, none of the invoices had been signed by the Rehab Services Associate. Chapter 4, Section J.5 “Inter-Fund and Inter-Agency Payments: Certification of Receipt” of the State Auditor’s Payment Processing Guide governs grant payments and states:

“As with any other type of invoice, these invoices must have a Certification of Receipt signed by authorized agency personnel.”

We were unable to determine why the 18 invoices had not been signed. Consequently, we were not sure the invoices had been properly approved.

c. Inadequate Monitoring of Outstanding Hospital Accounts Receivable Balances - We noted one instance where a \$260.00 receivable is still outstanding in the hospital’s accounts receivable system (MEDSYS) although this entry dates back to July 12, 2000 (Bill Number 0033649). In another instance, we noted an insurance claim of \$127.50 was

entered in MEDSYS as a receivable under two different bill numbers (31512 and 14802) on April 5, 2000 and June 14, 2000, respectively. These two bills were adjusted off the receivable ledger on March 28, 2001 by the hospital's billing-office staff as an insurance "contractual write-off" although there is not any documentation to support why this claim was written off. Billing office staff stated these three receivables were either outstanding or written off because Medicaid had made a mistake. As of November 20, 2003, a billing office employee stated the agency has not received any information from Medicaid in relation to the three claims.

Based on our observance of the above \$260.00 receivable that is currently over two years old and the receivable entries that were written-off without supporting documentation from Medicaid, it is apparent the agency is not adequately reviewing its accounts receivable registers to ensure that all write-offs and outstanding receivables are properly documented and/or receive proper attention to allow timely followup action.

d. Miscellaneous Collections - The agency is not monitoring accounts receivable billings for some goods and services provided at the West Virginia Rehabilitation Center. Specifically, we noted the agency does not monitor the collection status of services provided to non-agency clients by its Assistive Technology Services Unit (four invoices totaling \$1,186.28) and its Environmental Modifications Unit (five invoices totaling \$928.83). In addition, the agency provided \$27,320.41 in refreshments to various councils, organizations, etc., but did not track the collection status of the related invoicing of those goods. Lastly, there were four invoices totaling \$850.00 for services that were provided to and were to be paid by agency clients (or their guardians) for which the agency did not have any record to show the collection status of the billed services.

Based on copies of the invoices the agency maintained in the above four areas, the total amount the agency should have received from the goods/services was \$30,582.02. The agency's Senior Fiscal Services Manager stated the above receipts are only a minor portion of the revenues generated by the agency and, therefore, agency personnel have not been assigned to track the receipt of these monies.

We believe the lack of communication between the fiscal office of the agency and the various servicing units in respect to monies due the agency is a weak accounting environment that could lead to agency monies being lost or misappropriated without alerting Division management.

e. Shop Fees - The Division has not established written accounting procedures to ensure that shop fees of the Heating, Ventilation, and Air Conditioning (HVAC) vocational class are deposited timely and that appropriate records are prepared to document these receipts. A \$4.00 shop fee is collected from anyone dropping off an item for repair through the agency's vocational class. Additional charges for parts (e.g., freon gas) are also collected by the shop depending on the nature of the repair. Division staff estimated that only a couple hundred dollars was received during our audit period for these repairs. We also noted the agency does not use pre-numbered work orders to account for all appliances brought in for repair.

The lack of accounting procedures could lead to shop fees not being deposited timely and adequately safe guarded. Also, without an effective system of controls, such as pre-numbered work orders, the agency has created an environment in which monies collected in the shop could be lost or misappropriated without alerting agency management.

f. Hospital Services - The Division has not developed a system of accounting controls to ensure that all goods and services provided to patients in the agency's Rehabilitation

Hospital (the hospital) are accounted for in the hospital's accounts receivable system (MEDSYS). Once services and/or goods have been provided to patients in the agency's hospital, the various servicing units within the hospital will document what has been provided on a super bill. Generally, once or twice a month the servicing units will forward all super bills they have prepared to the hospital's billing office for entry into MEDSYS or approval of entries that have already been entered by the various units. The super bills are not pre numbered, so the billing office staff have no way of knowing if they have received all super bills.

Since the billing department does not have a way of determining if it has received all super bills, it is possible that goods/services could be provided to agency patients and never be billed to the patients' insurer(s), which could lead to lost revenues in the Rehabilitation Center Special Account Fund - Fund 8664.

g. Contractual Agreements - During our audit period, the Division paid two not-for profit entities a total of \$878,417.95 from its Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account); however, the agency could not provide us with several documents supporting these payments as follows: **1)** Contract/Agreement or approved purchase order from the State's Purchasing Division for services received from the WVU Research Corporation relating to the Division's internal requisition numbers 003240 and 014701; **2)** a Contract/Agreement for service received from the WVU Research Corporation under Division requisition number 003389; **3)** the approved purchase orders from the State's Purchasing Division for four Contracts/Agreements with the WVU Research Corporation (Division requisition numbers 004336, 023087, 013023, and 003241) or for one Contract/Agreement with the Statewide Independent Living Council (Division requisition number 013379).

For those instances noted above in which the agency did not obtain approval of the contracts through the State's Purchasing Division, the agency's Senior Fiscal Services Manager stated the agency considers the related payments to be "grants," which are not required to be approved through the State's Purchasing Division. Agency staff were unable to provide us with an explanation for why the contracts/agreements could not be located. Without the above information, we were unable to fully test the contractual payments.

h. Missing Invoices - The agency could not provide us with five invoices totaling \$60,527.14 paid from the Special Account. As a result, we were unable to audit the payments.

i. Driver Evaluation Billings/Invoices - The agency was unable to provide us correspondence between the driver education staff and the hospital's billing office that would allow us to determine the accuracy of a \$150.00 invoice the agency created in relation to services provided to a non-agency client. Without this correspondence, we were unable to determine the accuracy of the \$150.00 billing.

In addition, the agency could not provide us with 21 invoices for driver evaluation services provided to non agency clients. Consequently, we were unable to determine if these services had been billed and if collection had been made by the agency. The agency staff member who mails the invoices estimated that most invoices are about \$150.00. Using this estimate, the agency did not have records to account for approximately \$3,150 in driver-education services provided to non-agency clients.

j. Inadequate Documentation - Support for Hospital Accounts Receivable Entries - We noted one discrepancy between the hours of therapy entered in the hospital's accounts receivable system (MEDSYS) and the superbill prepared by the hospital's occupational

therapy unit. In another instance, a superbill indicated that a patient was an inpatient of the Rehabilitation Hospital for 17 days in June 2002 but 18 days had been entered in MEDSYS. In another instance, \$176.73 was properly entered as a receivable in MEDSYS for three units of occupational therapy provided to a patient in November 2000; however, the patient's insurer was only billed for one of the units. There was no documentation to indicate why the patient's insurer was not billed for the other two units. Lastly, the hospital's billing-office staff could not provide us with adequate documentation to support why it did not bill Medicare \$150.00 for psychotherapy services (CPT 4-Code 90801) provided to a patient on January 11, 2001.

In reference to the first instance, agency staff stated the proper hours of occupational therapy had been entered in MEDSYS and there was a mistake on the super bill. In the second instance, the entry of the extra day in MEDSYS was a bookkeeping error. As stated above, the agency could not provide us with documentation to show why the two units of therapy were not billed in the third instance. Lastly, agency staff indicated that Medicare would not pay for any psychotherapy services unless they were rendered by a licensed psychiatrist and these services had been provided by the agency's licensed psychologist. Agency staff were unable to provide us with any Medicare guidelines that indicated the services had to be provided by a licensed psychiatrist as a condition for payment.

Although neither of the patients' insurers in the first two instances noted above were billed for the services, the gross receivables reflected in MEDSYS may not be relied upon to provide an accurate representation of the value of services that were provided at the hospital. In regards to the two unbilled units of occupational therapy totaling \$117.82, we were unable to determine the appropriateness of the contractual adjustment made by billing office staff to reduce the MEDSYS receivable. In regards to the un-billed psychotherapy services totaling \$150.00,

we had no way of determining the appropriateness of the contractual adjustment entered in MEDSYS without seeing this allowance in the Medicare guidelines.

k. Unwritten Hospital Policy - The agency's Rehabilitation Hospital has an unwritten policy of not billing Medicare patient's lifetime reserve days. Under Medicare A guidelines, an individual is allowed up to 90 days inpatient hospitalization in any given benefit period. If inpatient services are still needed after the 90th day, Medicare grants its insured the option of using as many as 60 additional "lifetime reserve" days of inpatient hospitalization coverage. The hospital has adopted an unwritten policy not to require patients to use their lifetime reserve days. These costs are simply absorbed by the agency by writing off the services to the agency's "110" or "charity" account. We believe policies such as these should be documented in writing so that if staff changes should occur any new employees of the agency would be aware of such policies.

Agency's Response

The Division will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code.

To comply with the issues addressed by this finding the division is developing a checklist to be used when auditing invoices. This checklist will cover all supporting documentation. This checklist will be in use by January 2004.

We also will begin requiring that all invoices and documentation that are removed from the filing room be signed out. This will allow us to track any missing invoices or documentation.

All invoicing will be done in the fiscal office. These invoices will be logged into the accounts receivable system. A monthly aging report will be prepared showing the status of payment. This will begin in January 2004.

The receipt and recording of these funds will be done by a different employee.

Pre-numbered will be prepared or any work done by the Center's training class. When the customer comes to pay for the services will be given the original and two copies of the work order and directed to the Cashier to make payment. The cashier will complete a pre-numbered receipt in duplicate. The cashier will keep the original work order and receipt, give the customer the duplicate receipt and two copies of the pre-numbered work order. On the training classes copy, the cashier will write paid, the receipt number, and initial. On a quarterly basis the paid work order copies maintained in the training area will be reconciled with the cashier's copies.

The Division will require that the hospital's super-bills be pre-numbered. This will begin in January 2004.

All income will be reconciled with fund 8664 on a monthly basis. These reconciliations will be kept on file for the auditor's review.

To ensure compliance an audit committee of three will on a quarterly basis select an appropriate sample for review. Any descriptiveness will be dealt with by education, disciplinary action, or possibly an update of the procedure.

Inadequate Monitoring of Lease Agreements/Contracts

The agency did not adequately monitor two lease agreements, one for office space utilized by the West Virginia Association of Rehabilitation Facilities (WVARF) and another for classroom space used by Marshall University College of Graduate Studies (COGS) at its Institute

headquarters resulting in a loss of rental receipts totaling \$7,882.57. According to the lease agreements by and between the Division of Rehabilitation Services (the Division) and WVARF, the rental rate applicable during our audit period was as follows:

“ . . . the lessee shall pay unto the lessor as rent for the premises herein leased, per exhibit 1, the sum of \$981.92 PER MONTH payable in advance on the first day of each month. . . .”

The agency’s Senior Fiscal Services Manager maintained a “rents received” spreadsheet to account for receipts collected under the above lease agreements. According to this spread sheet, WVARF had only paid rents for the months of July 2000 through February 2001; however, deposit ledgers in the agency’s Cashier Office indicated the agency received additional rents totaling \$3,927.68 for the months of March 2001 through November 2001. The Senior Fiscal Services Manager stated that to his knowledge, WVARF had not paid any rents after November 2001 and that WVARF is currently using the office space for free because the lease agreement expired December 31, 2002 and it has not been renewed. The loss of rental receipts during our audit period for the months of December 2001 through June 2002 totaled \$6,873.44.

The COGS lease referred to above originally began on August 1, 1997, and was extended into our audit period. The monthly rents applicable during our audit period were changed via addendum MGC-014-799 which stated in part:

“ . . . Whereas, both parties agree that the monthly rental rate will be increased from \$1,000.00 a month to \$1,009.13 a month. . . .”

For the COGS lease, the aforementioned “rents received” spread sheet showed the agency did not receive the July 2000 rent of \$1,009.13. The agency employee who did the billing for the COGS lease stated that she had invoiced COGS for the month of July 2000, but the lease payment had not been received by the agency as of November 20, 2003. This brings

the total of all rent uncollected by the agency for tenancy provided to COGS and WVARF during our audit period to \$7,882.57.

The agency did not adequately monitor and/or enforce the provision of the leasing arrangements. Both leases contained “Default by Lessee” provisions, which could have been enforced by the agency. Specifically, Section 9 of the lease agreement by and between the Division and WVARF states:

“In the event the lessee (WVARF) defaults in any of the covenants contained herein, the lessor shall notify the lessee in writing of such default. If, in the judgment of the lessor, such default is not corrected or substantial progress made toward correcting such default within thirty (30) days after notice is served, the lessor shall similarly notify the lessee that the lease is terminated and repossess the leased premises.”

Similarly, Section 9 of the lease agreement by and between the Division and COGS states:

“In the event Lessee (Department of Administration) and/or Tenant (COGS) defaults in any of the covenants contained herein, the Lessor shall notify the Lessee, in writing, of such default and if such default is not corrected within sixty days after receipt of notification, the Lessor may notify Lessee that the lease is terminated, and reenter the premises herein leased.”

We also noted another instance of the agency not monitoring a contract adequately. Specifically, in the 1996 calendar year, the agency contracted with the West Virginia University Research Corporation (Research Corporation) to provide specialized research services for a project titled “Program Evaluation for the West Virginia Rehabilitation Program”(OSP Ref No. 96-250). This agreement was extended into the 1999 calendar year in which the agency agreed to an operating budget of \$133,818.00 to be billed on a quarterly basis. At the time this extension was being added to the existing agreement, the Research Corporation

was to hire a Program Evaluation Specialist (PE Specialist) “to be recruited and housed at the WVDRS Office at Institute, West Virginia.”

A footnote on the calendar year 1999 operating budget under the above agreement stated:

“personnel services cost (Salary and fringe benefits of \$45,000 and \$11,250, respectively) will be billed according to the exact amount spent when the PE personnel is hired.”

The agency received a lump-sum invoice from the Research Corporation on January 18, 2001 for the entire \$56,250.00. The invoice indicated the period of services being billed as March 3, 1999 - December 30, 1999. The agency paid the entire \$56,250.00 invoice on 08/29/2001 from its 2002 Rehabilitation Center Special Account Fund - Unclassified - Fund 8664-099 appropriation (WVFIMS Document Number I004947954). According to the agency’s Senior Fiscal Services Manager, he only knew of one PE Specialist working in this agreed upon capacity in the 1999 calendar year and this individual was subsequently hired by the agency on January 16, 2001. According to information in the employee’s personnel file, the employee did not begin working for the Research Corporation until May 1999, which does not correspond to billing period on the invoice beginning March 3, 1999. Based on this information, we believe the agency should not have paid the entire \$56,250.00 since it did not receive a full year of service in the 1999 calendar year in respect to the PE Specialist. Using May 1999 as a basis to pro-rate the amount of services for the eight months in which a PE Specialist was housed at the agency, we believe the agency may have been over invoiced \$18,750.00.

We brought this matter to the attention of the agency’s Senior Fiscal Services Manager who stated the 1999 budget for the above professional-services contract stated that personnel service costs will be billed according to the “exact amount spent” when the PE

personnel is hired. As of November 20, 2003, the agency is still attempting to attain the supporting documentation from the Research Corporation to show that it spent the entire \$56,250.00 for which it was reimbursed. Based on information supplied to us, it appears the agency overpaid the Corporation an estimated \$18,750.00.

We recommend the agency strengthen its internal controls over the monitoring of lease agreements to ensure that all monies due the agency are collected from those benefitting from the use of the agency's facilities. We also recommend the agency continue its followup efforts with the Research Corporation to determine if it is due a refund for the possible overpayment.

Agency's Response

The division will begin using an accounts receivable aging report to track all monies due. We will pursue the collection of outstanding balances. The aging report will be distributed to the chief financial officer and the executive management group. This will begin in January 2004.

We have invoiced WVARF and Marshall University for the back rent. The Division is also trying to obtain information from the Research Corporation to determine if an overpayment took place. We will continue to pursue this matter until it is settled.

Late Deposits

We noted 14 hospital receipts totaling \$45,851.25 and eight driver-evaluation receipts totaling \$1,131.25 were not deposited by the agency within 24 hours of receipt. These receipts were deposited from six days to 56 days after the agency had received them. We also noted one instance where a \$200 hospital receipt and 12 instances where lease payments totaling

\$16,692.64 had been received from the West Virginia Association of Rehabilitation Facilities were not documented by the agency to show the date the monies had been received.

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part:

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state board of investments all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . .”

In addition to the above receipts, we performed a cash count of monies on hand by the agency on September 2, 2003. We noted three checks/State warrants totaling \$4,490.14 in the fiscal office were not deposited until on or after September 8, 2003. Also, there were 13 checks/warrants totaling \$1,398.43 in the fiscal office that were deposited the day after our cash count; however, the documentation supporting these receipts did not indicate when the agency had received the monies. In addition, we noted there were three stale-dated State warrants totaling \$170 in the fiscal office that were made payable to agency clients. These warrants were remitted to the Unclaimed Property Division of the State Treasurer’s Office after our cash count; however, the agency did not have any documentation to indicate how long the these warrants had been in its possession. Lastly, our cash count revealed one check in the fiscal office dated March 22, 2002 in the amount of \$120.89 the agency had received from the Charleston Area Medical Center (CAMC). An Administrative Services Manager I for the fiscal office stated this check was stale and could not be deposited. This employee contacted CAMC for a replacement check (after our cash count) but as of November 20, 2003, the agency has not received a replacement.

There was not any documentation on hand to indicate when the agency received the stale-dated check, which would allow us to determine if it went stale while in the agency's possession.

We believe the above instances of late deposits and lack of supporting documentation indicates the agency has not established an accounting routine for cash receipts that will ensure deposits are made timely and receipts are adequately documented. As a result, for the noted receipts that were not date stamped by the agency, we were unable to determine if the monies were deposited within 24 hours of receipt and, in regard to the late deposits and possession of a stale-dated check, the State lost an indeterminable amount of interest earnings and possibly has lost the benefit of \$120.89.

We recommend the agency comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Agency's Response

The Division will comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

To comply with the issues addressed in this finding the Division will require that the employee opening the mail date stamp all checks, make two copies of each check and carry the original check to the cashier's office for immediate deposit into the state treasurer. One copy of the check will be sent to the accounts receivable office for posting to the ledger, and the other copy will be maintained by the employee opening the mail. The checks received will be reconciled with the Cashier's deposits on a monthly basis. Any discrepancies will be reported.

One employee will be assigned to handle all stale dated checks. Action will be required within a twenty four hour period. The checks will be date stamped when received and logged into a spreadsheet. The spreadsheet will be checked monthly to ensure that the appropriate action has been taken in a timely manner.

Management Override of Internal Controls

We noted the agency paid twelve invoices totaling \$329,079.10 directly through WVFIMS rather than processing the invoices first through its internal accounting system. The agency's internal accounting system is designed to control the agency's spending and it serves as a method to track spending by internal authorization codes. Once purchases are approved through the agency's internal requisition process, the agency's Procurement Unit staff will enter an authorization code and attach a dollar limit to the requisition. Vendor invoices are typically scrutinized by the agency's accounts payable staff for proper authorization and entered in the agency's internal accounting system to reduce the available monies authorized under a particular authorization number before the invoices are processed through WVFIMS.

Because the contractual and/or grant agreements we reviewed occasionally included funding sources other than the Special Account, we requested the agency staff to provide us with a printout from its internal accounting system showing all payment activity related to each contract/grant, which included payments from the Rehabilitation Center Special Account Fund - Fund 8664. Based on our review of the internal accounting system's records, we noted the following invoices the agency received from the West Virginia University Research Corporation (the Research Corporation) were processed directly through WVFIMS and did not get posted in the agency's internal accounting system.

<u>WVFIMS Doc ID</u>	<u>Agency Req. Number</u>	<u>Fund*</u>	<u>Fiscal Year</u>	<u>Activity*</u>	<u>Object Code</u>	<u>Date</u>	<u>Amount</u>
I004633661	003240	8664	2001	099	025	01/10/01	\$ 33,564.00
I004654356	003240	8734	2001	096	025	01/29/01	33,564.00
I004577823	003389	8664	2001	099	025	01/10/01	13,292.10
I004942284	004336	0310	2001	813	025	07/31/01	25,000.00
I004944040	023087	8664	2002	099	083	08/09/01	20,079.50
I005038888	023087	0310	2002	813	083	10/15/01	20,079.50
I005256434	023087	0310	2002	813	083	05/01/02	20,079.50
I005277314	023087	0310	2002	813	083	05/02/02	20,079.50
I004942284	004336	0310	2001	813	025	07/31/01	25,000.00
I004941874	013023	8664	2002	099	083	08/10/01	86,550.00
I004978604	014701	8664	2002	099	025	08/29/01	15,891.50
I005256566	014701	8734	2002	096		04/29/02	<u>15,891.50</u>
Total							<u>\$329,071.10</u>

*** Fund 8734-096 is the Consolidated Federal Funds General Administrative Fund - Unclassified - Fund 8734-096; Fund 0310-813 is the General Administrative Fund - Traumatic Brain and Spinal Cord Injury Fund - Fund 0310-813.**

During our documentation of the agency's accounting procedures, fiscal-office staff stated in part:

“all invoices are required to be processed through the agency's internal accounting system before the invoices are entered into WVFIMS for further payment processing.”

The agency's Senior Fiscal Services Manager stated the agency was having problems with Division personnel and temporary employees processing the invoices relating to grants and contractual arrangements with the Research Corporation, and as a result, some invoices were not processed timely. Therefore, the manager entered the invoices directly into

WVFIMS to expedite processing the invoices. He stated he had intended to enter them into the internal accounting system at a later date and forgot to do so.

We believe that if agency management does not adhere to its own accounting procedures, it may inadvertently make overpayments, duplicate payments, or over obligate itself in relation to Legislative appropriations and internal budgets.

We recommend the Division follow the accounting routine described to us in our documentation of the agency's accounting procedures.

Agency's Response

The Division is reviewing its accounting policies and rewriting and updating needed policies and procedures. We will ensure that the procedures are followed by reviewing transactions on a quarterly basis. Any deviation will require disciplinary action.

Late Payments

The Division failed to make contract payments totaling \$730,411.50; payment of vendor invoices totaling \$3,093.38; and Extended Supported Employment Workshop payments totaling \$8,825.00 within 60 days of receiving the applicable invoices. Consequently, the Division could have been liable for up to \$26,294.33 in late payment interest. In regards to the contract invoices, payments were made from 69 to 223 days after the invoices were received. Details of these payments are listed in the following table:

FIMS Document ID	Vendor	Invoice Date Received	Date Paid	Days to Pay Invoice	Amount
I004243668	WVU Research Corp	04/04/00	09/28/00	177	\$ 29,999.00
I004276254	WVU Research Corp	04/04/00	09/26/00	155	33,564.00
I004417740	WVU Research Corp	07/11/00	01/10/01	183	33,564.00
I00449787525	WV Statewide Ind Living Council Inc	09/15/00	03/01/01	167	180,591.00
I004577826	WVU Research Corp	09/26/00	12/04/00	69	25,000.00
I004640553	Virginia Common- wealth Univ	07/03/00	01/16/01	197	130,751.00
I004640561	Virginia Common- wealth Univ	11/09/00	01/16/01	68	130,751.00
I004787981	WVU Research Corp	02/02/01	04/23/01	80	94,050.00
I004947954	WVU Research Corp	01/18/01	08/29/01	223	56,250.00
I004978604	WVU Research Corp	04/13/01	08/29/01	138	<u>15,891.50</u>
Total					<u><u>\$730,411.50</u></u>

Likewise, we noted two vendor invoices that were paid 68 to 78 days late based on the date the invoices were received by the agency.

FIMS Document ID	Vendor	Invoice Date Received	Date Paid	Days to Pay Invoice	Amount
I005179867	Lewisburg Office Equipment Inc.	10/30/01	01/16/02	78	\$2,280.00
I004842289	Lowe's Home Centers Inc. #343	03/28/01	06/04/01	68	<u>813.38</u>
					<u><u>\$3,093.38</u></u>

Lastly, we noted four invoices the agency received from Extended Supported Employment Services vendors (Workshops) were paid from 63 to 148 days late.

Extended Supported Employment Workshop	<u>FIMS</u> <u>Document No.</u>	<u>Date</u> <u>Received</u>	<u>Date</u> <u>Paid</u>	<u>Difference</u>	<u>Amount</u>
Hancock Co. Sheltered Workshop Inc.	I004735642	02/09/01	04/13/01	63 Days	\$2,750.00
Jackson Co. Developmental Center	I004735643	02/07/01	04/16/01	68 Days	100.00
Goodwill Industries of KYOWVA	I005245743	11/14/01	03/05/02	111 Days	2,725.00
Mercer Co. Opportunity	I005245744	10/18/01	03/15/02	148 Days	<u>3,250.00</u>
			Total		<u>\$8,825.00</u>

Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code, states in part:

“ . . . for purchases of services or commodities . . . a state check shall be issued in payment thereof within sixty days after a legitimate uncontested invoice is received by the state agency receiving the services or commodities. Any state check issued after such sixty days shall include interest at the current rate, as determined by the state tax commissioner...”

The agency’s Senior Fiscal Services Manager stated the late payment to the Statewide Independent Living Council for \$180,591.00 was due to the lack of Federal funding at the time of receipt of the invoice. He also stated there was no documented reason for the other contractual and professional or vendor invoices not being paid timely. In relation to the invoices received from the Workshops, a Rehabilitation Services Associate for the agency stated the Workshops did not send their invoices to the agency in a timely manner. However, we observed that agency date received stamps were present on the Workshop invoices. In all cases, more than one invoice was included in the Workshop payments; therefore, in each instance, we used the date of the earliest date received stamp to determine if the agency paid the invoices within 60 days of receipt.

We recommend the agency comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code.

Agency's Response

The Division will comply with Chapter 5A, Article 3, Section 54(b)(1) of the West Virginia Code

To comply with this issue the Division is developing an invoice tracking system. This system requires that a checklist be attached to each invoice. On that check list will be space to document any problems in payment. For instance, over the last several years we have operated under a continuing resolution where we get a very small amount of federal funds until a budget is passed. Therefore, there are times when we do not have funds to pay the invoices. These times will be noted on the checklist.

Management will generate a quarterly report form WVFIMS using Crystal to monitor the time between when an invoice is received and paid. Any payment over sixty days will be investigated.

Estimated Rather Than Actual Amounts Used To Prepare Tax Returns

The accounting system of the agency's Rehabilitation Hospital (the hospital) cannot generate information the agency needs to accurately prepare its annual Broad Based Health Care Related Tax returns (tax returns) required under Chapter 11, Article 27 of the West Virginia Code. The tax returns detail the taxable "gross receipts" for services provided to patients of the agency's hospital. Based on agency's tax returns filed for the 2001 and 2000 calendar years, the agency remitted \$32,688.84 and \$50,508.61, respectively, to the State Tax Commissioner.

During our audit period, the agency *estimated* its allowable contractual allowances reported on the annual tax returns. Contractual allowances are insurance adjustments and directly reduce the taxable gross receipts reported on the tax returns. The hospital's Business Manager (the Manager) stated that MEDSYS (the hospital's accounts receivable system) was not designed to generate a report that would allow agency staff to determine the actual contractual allowances that should be reported on the tax returns. Therefore, the agency reports estimates of the contractual allowances resulting in taxes being based on estimated rather than actual amounts. The Manager also stated that in order to determine the actual contractual allowances that should have been reported on the tax returns, the agency would have to go to the onerous task of determining these totals manually. He also stated the agency currently does not have staff availability to complete this task without compromising the business office's daily operations.

The following tables summarize the information reported on the agency's calendar year 2000 and 2001 tax returns filed with the Tax Commissioner.

Information Reported on the 2000 Tax Return

<u>Taxable Service Type</u>	<u>Gross Receipts</u>	<u>Contractual Allowances</u>	<u>Taxable Gross Proceeds</u>	<u>Tax Due</u>
Inpatient Hospital Services	\$2,077,193.08	\$523,836.87	\$1,553,356.21	\$38,833.91
Outpatient Hospital Services	628,873.37	249,042.02	379,831.35	9,495.78
Physician Services	<u>155,637.00</u>	<u>46,491.10</u>	<u>109,145.90</u>	<u>2,178.92</u>
Totals	<u>\$2,861,703.45</u>	<u>\$819,369.99</u>	<u>\$2,042,333.46</u>	<u>\$50,508.61</u>

Information Reported on the 2001 Tax Return

<u>Taxable Service Type</u>	<u>Gross Receipts</u>	<u>Contractual Allowances</u>	<u>Taxable Gross Proceeds</u>	<u>Tax Due</u>
Inpatient Hospital Services	\$1,043,236.72	\$195,799.18	\$ 847,437.54	\$21,185.94
Outpatient Hospital Services	536,359.56	173,175.70	363,183.86	9,079.60
Physician Services	<u>182,433.00</u>	<u>54,729.90</u>	<u>127,703.10</u>	<u>2,423.30</u>
Totals	<u>\$1,762,029.28</u>	<u>\$423,704.78</u>	<u>\$1,338,324.50</u>	<u>\$32,688.84</u>

Chapter 11, Article 27, Section 9 of the West Virginia Code, states in part:

“(a) Imposition of tax. - For the privilege of engaging or continuing within this state in the business of providing inpatient hospital services, there is hereby levied and shall be collected from every person rendering such service an annual broad-based health care related tax: . . .

(b) Rate and measure of tax. - The tax imposed in subsection (a) of this section shall be two and one-half percent of the gross receipts derived by the taxpayer from furnishing inpatient hospital services in this state.”

Chapter 11, Article 27, Section 15 of the West Virginia Code, states in part:

“(a) Imposition of tax. - For the privilege of engaging or continuing within this state in the business of providing outpatient hospital services, there is hereby levied and shall be collected from every person rendering such service an annual broad-based health care related tax.

(b) Rate and measure of tax. - The tax imposed in subsection (a) of this section shall be two and one-half percent of the gross receipts derived by the taxpayer from furnishing outpatient hospital services in this state.”

Chapter 11, Article 27, Section 16 of the West Virginia Code, states in part:

“(a) Imposition of tax. - For the privilege of engaging or continuing within this state in the business of providing physicians’ services, there is hereby levied and shall be collected

from every person rendering such service an annual broad-based health care related tax.

(b) Rate and measure of tax. - The tax imposed in subsection (a) of this section shall be two percent of the gross receipts derived by the taxpayer from furnishing physicians' services in this state."

Because the agency could not generate the information from its accounting system needed to accurately complete the tax returns for the 2000 and 2001 calendar years, we were unable to determine the reasonableness of the amount of taxes that it remitted to the State Tax Commissioner.

We recommend the agency comply with Chapter 11, Article 27, Section 9; Chapter 11, Article 27, Section 15; and Chapter 11, Article 27, Section 16 of the West Virginia Code.

Agency's Response

The Division will comply with Chapter 11, Article 27, Section 9; Chapter 11, Article 27, Section 15; and Chapter 11, Article 27, Section 16 of the West Virginia Code.

The estimates used to calculate the contractual allowances were based on a formula developed by Arnett and Foster, a certified public accounting firm. Arnett and Foster is an expert in hospital financial matters. Therefore, we feel that the estimates derived from the formula were accurate but we will have Arnett and Foster review the formula for correctness and take appropriate action.

As stated earlier, we are actively seeking an updated software system to include a seamless program, to include electronic billing, accounts receivable and pharmacy. Hopefully, this system will be able to give us actual contractual allowances.

Improper use of Object of Expenditure and Revenue Source Codes

We tested 21 Extended Supported Employment payments totaling \$24,628.75 that had been made during our audit period from the Rehabilitation Center Special Account Fund - Workshop - Supported Employment - Fund 8664-484. The agency classified all of the payments as “Case Services” (object code 084). We believe these “Grant” payments should have been charged to object 083 (Grants, Awards, Scholarships, and Loans).

The Department of Administration’s Expenditure Schedule Instructions, as amended, state in part:

“083 - Grants, Awards, Scholarships, and Loans: Disbursement of funds for the payment of grants . . . ”

“084 - Case Services (Human Services, Health, Vocational Rehabilitation): Payments for a variety of case services to meet and/or maintain the needs of clients including travel to transport clients to receive services, e.g., educational needs for clients, room and board, and medical needs for clients which include medications, medical records and hospitalization and other rehabilitation equipment. . . .”

We also noted four lease receipts totaling \$5,891.52 and seven driver education receipts totaling \$981.25 the agency received during our audit period were deposited into the Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account) and improperly classified as “Hospital Patient Care Collections” (revenue source code 687). We believe these receipts should have been classified as “Other Collections, Fees, Licenses and Income” (revenue source code 696).

The Department of Administration’s Expenditure Schedule Instructions, as amended, state in part:

“696 - Other Collections, Fees, Licenses and Income: Miscellaneous collections, fees, licenses, and income. (Not for collection of state imposed taxes - Use Revenue Source 878)”

“687 - Hospital Patient Care Collections: Collections by hospitals for patient care.”

We were unable to determine why the agency chose to classify the expenditures as Case Services (object code 084) when these payments were Grants (object code 083). The agency’s Senior Fiscal Services Manager stated the lease receipts had mistakenly been classified as hospital revenues but he believed the driver education receipts were properly classified since these monies are received and accounted for by staff in the hospital’s billing office. We noted, however, that driver education receipts are generated from services provided by the Driver Education Services unit of the agency’s Rehabilitation Technology Department, which is not one of the seven operational units of the hospital.

Because the agency did not properly classify the above expenditures and receipts, the information in WVFIMS does not accurately reflect the true nature of agency’s expenditures and revenues sources for the referenced transactions.

We recommend the agency comply with the Department of Administration’s Expenditure Schedule Instructions, as amended.

Agency’s Response

The Division will comply with the Department of Administration’s Expenditure Schedule Instructions, as amended.

To comply with the issue addressed in this finding, the division will educate its accounting staff on the proper use of expenditure objects and revenue codes. This training will be completed by the end of January 2004.

Quarterly, the audit committee will review an appropriate sampling of transactions to ensure that we are in compliance. Any discrepancies will be addressed by education, or discipline.

Two Purchases Not Approved by the Agency's Procurement Unit

We noted two instances where the agency's procurement unit did not approve purchases in accordance with the agency's Administrative Manual. In the first instance, agency purchase requisition number 01-5256 was approved by the procurement unit on March 27, 2001 in the amount of \$600.00 to provide for the renewal of six employee's "Supervisor's Asbestos Abatement Licenses." We noted that two additional agency employees were included on the Bureau for Public Health invoice (WVFIMS Document E413874) related to this requisition adding an additional cost of \$200.00 beyond what had been pre authorized by the procurement unit. Agency staff stated the the \$200.00 increase was verbally approved by the procurement unit.

In another instance, we noted where an \$813.38 invoice dated April 13, 2000 from Lowes Home Centers Inc.(WVFIMS Document I4842289) for the purchase of supplies and tools was not approved by the procurement unit until March 27, 2001 (agency purchase requisition number 01-5247). Internal memoranda indicated this purchase should have been charged to one of the agency's State Purchasing Cards but was mistakenly charged to a Lowes' charge account. The agency does not require purchases made on the State Purchasing Cards to

be approved by its procurement unit. We believe the agency may have identified this problem much sooner if its purchasing card activity had been adequately monitored.

Section 702, RESPONSIBILITY FOR PROCUREMENT of the Administrative Manual states in part:

“. . . The supervisor of any location having a budget is the sole employee in that location authorized to submit requisitions. No order will be placed with a vendor until authority to purchase has been granted by the Procurement Unit.”

The agency’s failure to follow its own purchasing procedures could lead to various departments of the agency overspending their internal budgets.

We recommend the agency comply with Section 702 of its own Administrative Manual.

Agency’s Response

The division will comply with Section 702 of its own Administrative Manual.

The division will educate its staff about the responsibility for procurement and tell staff that and deviations from policy could result in loss of procurement authority and/or being personally responsible for paying for the goods or services procured incorrectly.

To ensure compliance the audit committee while reviewing transactions will check to see that the requisition was signed before the goods or service were procured.

Revenue Refunds Paid from Wrong Account

We noted four revenue refunds totaling \$14,566.71 had been issued for valid reasons out of the agency’s Rehabilitation Center Special Account Fund - Fund 8664 (the Special Account); however, the deposits of the monies being refunded had been recorded as expenditure

reductions of the Consolidated Federal Funds General Administrative Fund - Unclassified - Fund 8734-096 (the Federal Fund). Details of the refunds are reflected below:

<u>Payee</u>	<u>FIMS Document No.</u>	<u>Date</u>	<u>FY</u>	<u>Amount</u>
Mt. St. Blue Cross/Blue Shield	I0004842707	05/25/01	2001	\$ 5,230.77
WVARF	I0004974049	08/31/01	2002	1,293.64
Accordia National/PEIA	I0005180180	01/18/02	2002	2,839.58
Accordia National/PEIA	I0005223116	02/20/02	2002	5,202.72
			TOTAL	<u>\$14,566.71</u>

Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended, states in part:

“There is hereby established in the state treasury a separate account which shall be designated the “West Virginia rehabilitation services special account”. The director of rehabilitation services shall deposit promptly into the account all fees received for services provided by the West Virginia rehabilitation center from whatever source, including the federal government, state government, or from other third-party payers or personal payments.”

The agency’s Senior Fiscal Services Manager stated the refunds had been mistakenly paid out of the Special Account and should have been paid out of the Federal Fund. Based on the West Virginia Code, the original deposits should have been made into the Special Account and the refunds would have been properly made from the account. However, since the agency paid the above refunds from its Special Account when the deposits had been made into the Federal Fund the agency inadvertently understated the net revenues of the Special Account by \$14,566.71.

We recommend the agency comply with Chapter 18, Article 10A, Section 6a of the West Virginia Code, as amended.

Agency's Response

The written procedures for making revenue refunds will require that no refund be approved without the supporting documentation. The supporting documentation will contain a copy of the original deposit, the funding source of the deposit, and the amount of the deposit. The employee approving the transaction will be required to check the supporting documentation to ensure that the refund is being paid from the correct fund. A check list will be attached to the refund to show that the documentation was checked.

Quarterly, the audit committee will review an appropriate sampling of transactions to ensure compliance.

Improper Use of Funds

During our review of transactions processed by the agency after the end of our audit period (subsequent events), we noted 15 instances totaling \$38,281.12 in which the agency paid utility invoices of the agency out of the Rehabilitation Center Special Account Fund - Workshop Development - Fund 8664-163.

Chapter 18, Article 10B, Section 1(2) of the West Virginia Code, as amended, states in part:

“(2) “Workshop” means a particular type of vocational rehabilitation facility where any manufacture or handiwork is carried on and which is operated by a public agency or by a private corporation or association, no part of the net earnings of which inures or may lawfully inure to the benefit of any private shareholder or individual, or by a cooperative, for the primary purpose of providing remunerative employment to disabled persons (a) as an interim step in the rehabilitation process for those who cannot be readily absorbed in the competitive labor market; or

(b) during such time as employment opportunities for them in the competitive labor market do not exist; or (c) for providing vocational evaluation and work adjustment services for disadvantaged persons.”

We believe the use of these monies to pay operating expenses of the agency instead of providing direct financial assistance to workshops was not the Legislative intent for which these monies were to be used. A Senior Fiscal Services Manager for the agency stated the utility expenditures were paid out of the fund by mistake.

We recommend the agency use the above appropriations only for work shops as defined in Chapter 18, Article 10B, Section 1(2) of the West Virginia Code, as amended.

Agency's Response

The Division will only use Fund 8664 -163 for workshops. The utility bills were paid from this account because of a coding error on the commitment. The commitment should have been paid from 8664-099.

The division will educate its accounting staff about the appropriate use of each fund. If an employee feels that the funding source is wrong on a transaction, he/she will notify the immediate supervisor who will take the appropriate action. These occurrences will be noted on the checklist.

The employee approving the transaction for payment will also review the supporting documentation and so note on the checklist.

Quarterly, the audit committee will review an appropriate sampling of transaction to ensure compliance.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of Cash Receipts, Disbursements and Changes in Cash Balances of the West Virginia Division of Rehabilitation Services for the years ended June 30, 2002 and June 30, 2001. The financial statement is the responsibility of the management of West Virginia Division of Rehabilitation Services. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and 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 opinion.

As described in Note A, the financial statement was prepared on the cash and modified cash basis of accounting, which are comprehensive bases of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid of West Virginia Division of Rehabilitation Services for the years ended June 30, 2002 and June 30, 2001, on the bases of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Respectfully submitted,



Theoford L. Shanklin, CPA, Director
Legislative Post Audit Division

October 24, 2003

Auditors: Michael A. House, CPA, Supervisor
Timothy C. Butler, CPA, Auditor-in-Charge
Noah E. Cochran, CPA
Thomas F. Ward, CPA
Sheela K. Francis
Lori A. Sutton

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES
REHABILITATION CENTER SPECIAL ACCOUNT FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Cash Receipts:		
Hospital Patient Care Collections	\$2,783,734.26	\$ 0.00
Other Collections, Fees, Licenses and Income	<u>334,579.70</u>	<u>2,969,031.79</u>
	3,118,313.96	2,969,031.79
Disbursements:		
Personal Services	1,000,000.00	765,000.00
Employee Benefits	250,000.00	0.00
Current Expenses	959,309.10	1,957,425.36
Repairs and Alterations	28,142.25	75,628.95
Assets	12,776.45	34,531.01
Payment of Taxes	28,311.69	36,183.91
Grants, Awards, Scholarships, and Loans	106,629.50	0.00
Case Services	682,266.45	78,901.40
Other Interest and Penalties	0.00	1,265.29
Public Employees' Insurance Reserve Transfer	<u>39,960.00</u>	<u>39,444.00</u>
	<u>3,107,395.44</u>	<u>2,988,379.92</u>
Cash Receipts Over/(Under) Disbursements	10,918.52	(19,348.13)
Beginning Balance	<u>2,164.08</u>	<u>21,512.21</u>
Ending Balance	<u>\$ 13,082.60</u>	<u>\$ 2,164.08</u>

See Notes to Financial Statement

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policy

Accounting Method: The modified cash basis of accounting is followed for the Rehabilitation Center Special Account Fund. The major modification from the cash basis is that a 31-day carry-over period is provided at the end of each fiscal year for the payment of obligations incurred in that year. All balances of the Rehabilitation Center Special Account Fund appropriations for each fiscal year expire on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except that expenditures encumbered prior to the end of the fiscal year may be paid up to 31 days after the fiscal year-end; however, appropriations for buildings and land remain in effect until three years after the passage of the act by which such appropriations were made. The cash basis of accounting is followed by all other funds. Therefore, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Expenditures paid after June 30, in the carry-over period and expirations were as follows:

	<u>Expenditures Paid</u>		<u>Expirations</u>	
	<u>After June 30,</u>		<u>July 31,</u>	<u>July 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Rehabilitation Center Special Account Fund:				
Unclassified	\$12,042.95	\$2,072.71	\$178,057.46	\$118,493.64
Workshop Development	0.00	0.00	2,633.86	112,207.23
Workshop - Supported Employment	0.00	0.00	4,125.00	62.50
BRIM Premium	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>102,182.00</u>
	<u>\$12,042.95</u>	<u>\$2,072.71</u>	<u>\$184,816.32</u>	<u>\$332,945.37</u>

Combined Totals: The combined totals contain the totals of similar accounts of the various funds. Since the appropriations and cash receipts of certain funds are restricted by various laws, rules and regulations, the totaling of the accounts is for memorandum purposes only and does not indicate that the combined totals are available in any manner other than that provided by such laws, rules and regulations.

SUPPLEMENTAL INFORMATION

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

STATEMENT OF APPROPRIATIONS AND EXPENDITURES

SPECIAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
<u>Rehabilitation Center Special Account Fund -</u>		
<u>Unclassified - Fund 8664-099</u>		
Appropriations	\$2,802,182.00	\$2,700,000.00
Expenditures:		
Personal Services	1,000,000.00	765,000.00
Employee Benefits	250,000.00	0.00
Current Expenses	513,082.82	1,617,231.97
Repairs and Alterations	35,269.54	71,957.01
Assets	12,776.45	21,670.01
Payment of Taxes	28,311.69	36,183.91
Grants, Awards, Scholarships, and Loans	106,629.50	0.00
Case Services	638,094.54	28,754.17
Other Interest and Penalties	0.00	1,265.29
Public Employees' Insurance Reserve Transfer	<u>39,960.00</u>	<u>39,444.00</u>
	<u>2,624,124.54</u>	<u>2,581,506.36</u>
	178,057.46	118,493.64
Transmittals Paid After June 30	<u>12,042.95</u>	<u>2,072.71</u>
Balance	<u>\$ 190,100.41</u>	<u>\$ 120,566.35</u>

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

SPECIAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
<u>Rehabilitation Center Special Account Fund - Workshop - Development - Fund 8664-163</u>		
Appropriations	\$450,000.00	\$450,000.00
Expenditures:		
Current Expenses	<u>447,366.14</u>	<u>337,792.77</u>
	2,633.86	112,207.23
Transmittals Paid After June 30	<u>0.00</u>	<u>0.00</u>
Balance	<u>\$ 2,633.86</u>	<u>\$112,207.23</u>
<u>Rehabilitation Center Special Account Fund -Workshop - Supported - Employment - Fund 8664-484</u>		
Appropriations	\$ 50,000.00	\$ 50,000.00
Expenditures:		
Case Services	<u>45,875.00</u>	<u>49,937.50</u>
	4,125.00	62.50
Transmittals Paid After June 30	<u>0.00</u>	<u>0.00</u>
Balance	<u>\$ 4,125.00</u>	<u>\$ 62.50</u>

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES

STATEMENT OF APPROPRIATIONS AND EXPENDITURES

SPECIAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
<u>Account Fund - BRIM Premium - Fund 8664-913</u>		
Appropriations	\$0.00	\$102,182.00
Expenditures:		
Current Expenses	<u>0.00</u>	<u>0.00</u>
	0.00	102,182.00
Transmittals Paid After June 30	<u>0.00</u>	<u>0.00</u>
Balance	<u>\$0.00</u>	<u>\$102,182.00</u>

WEST VIRGINIA DIVISION OF REHABILITATION SERVICES
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
CASH CONTROL - REHABILITATION CENTER SPECIAL ACCOUNT FUND
FUND 8664-999

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Beginning Balance:		
State Treasury	\$ 2,164.08	\$ 21,512.21
Cash Receipts:		
Hospital Patient Care Collections	2,783,734.26	0.00
Other Collections, Fees, Licenses and Income	<u>334,579.70</u>	<u>2,969,031.79</u>
	3,118,313.96	2,969,031.79
TOTAL CASH TO ACCOUNT FOR	<u>\$3,120,478.04</u>	<u>\$2,990,544.00</u>
Disbursements:		
Personal Services	\$1,000,000.00	\$ 765,000.00
Employee Benefits	250,000.00	0.00
Current Expenses	960,448.96	1,955,024.74
Repairs and Alterations	35,269.54	71,957.01
Assets	12,776.45	21,670.01
Payment of Taxes	28,311.69	36,183.91
Grants, Awards, Scholarships, and Loans	106,629.50	0.00
Case Services	683,969.54	78,691.67
Other Interest and Penalties	0.00	1,265.29
Public Employees' Insurance Reserve Transfer	<u>39,960.00</u>	<u>39,444.00</u>
	3,117,365.68	2,969,236.63
Add Transmittals Paid July 1 - 31 Beginning; and (Less)		
Transmittals Paid July 1 - 31 Ending:		
Personal Services	0.00	0.00
(Personal Services)	0.00	0.00
Employee Benefits	0.00	0.00
(Employee Benefits)	0.00	0.00
Current Expenses	0.00	2,400.62
(Current Expenses)	(1,139.86)	0.00
Repairs and Alterations	2,072.71	5,744.65
(Repairs and Alterations)	(9,200.00)	(2,072.71)
Assets	0.00	12,861.00
(Assets)	0.00	0.00
Case Services	0.00	209.73
(Case Services)	<u>(1,703.09)</u>	<u>0.00</u>
	<u>(9,970.24)</u>	<u>19,143.29</u>
	3,107,395.44	2,988,379.92
Ending Balance:		
State Treasury	<u>13,082.60</u>	<u>2,164.08</u>
TOTAL CASH ACCOUNTED FOR	<u>\$3,120,478.04</u>	<u>\$2,990,544.00</u>

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 8TH day of December 2003.



Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Governor; Attorney General; State Auditor; and, Director of Finance, Department of Administrations.