



State of West Virginia
 Department of Administration
 Purchasing Division
 2019 Washington Street East
 Post Office Box 50130
 Charleston, WV 25305-0130

Request for Quotation

RFQ NUMBER
WV11869

PAGE
1

ADDRESS CORRESPONDENCE TO ATTENTION OF
FRANK WHITTAKER 304-558-2316

RFQ COPY
TYPE NAME/ADDRESS HERE

Balestra, Harr & Scherer, CPAs, Inc.
 204 Park Avenue
 Ironton, Ohio 45638

WV BUREAU OF EMPLOYMENT PROGRA
 3701 MAC CORKLE AVENUE SE

CHARLESTON, WV
 25304 348-2634

DATE PRINTED	TERMS OF SALE	SHIP VIA	FOB	FREIGHT TERMS
09/09/2010				

BID OPENING DATE: **10/06/2010** BID OPENING TIME **01:30PM**

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
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0001	1	LS		946-20		\$39,400
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AUDITING SERVICES

THE WEST VIRGINIA PURCHASING DIVISION, FOR THE AGENCY, WORKFORCE WEST VIRGINIA, IS SOLICITING BIDS FROM CERTIFIED PUBLIC ACCOUNTANTS TO PERFORM AN ANNUAL REVIEW OF THE AGENCY'S FINANCIAL STATEMENTS PER THE ATTACHED SPECIFICATIONS.

ALL TECHNICAL QUESTIONS MUST BE SUBMITTED IN WRITING TO FRANK WHITTAKER IN THE WV PURCHASING DIVISION VIA EMAIL AT FRANK.M.WHITTAKER@WV.GOV OR VIA FAX AT 304-558-4115. DEADLINE FOR TECHNICAL QUESTIONS: 09/20/10 AT 4:00 PM. ALL TECHNICAL QUESTIONS WILL BE ADDRESSED BY ADDENDUM AFTER THE DEADLINE.

EXHIBIT 3

LIFE OF CONTRACT: THIS CONTRACT BECOMES EFFECTIVE ON AND EXTENDS FOR A PERIOD OF ONE (1) YEAR OR UNTIL SUCH "REASONABLE TIME" THEREAFTER AS IS NECESSARY TO OBTAIN A NEW CONTRACT OR RENEW THE ORIGINAL CONTRACT. THE "REASONABLE TIME" PERIOD SHALL NOT EXCEED TWELVE (12) MONTHS. DURING THIS "REASONABLE TIME" THE VENDOR MAY TERMINATE THIS CONTRACT FOR ANY REASON UPON GIVING THE DIRECTOR OF PURCHASING 30 DAYS WRITTEN NOTICE.

UNLESS SPECIFIC PROVISIONS ARE STIPULATED ELSEWHERE IN THIS CONTRACT DOCUMENT, THE TERMS, CONDITIONS AND PRICING SET HEREIN ARE FIRM FOR THE LIFE OF THE CONTRACT.

RECEIVED
 2010 OCT 14 PM 1:16
 WV PURCHASING DIVISION

SIGNATURE <i>Frank M. Whittaker</i>		SEE REVERSE SIDE FOR TERMS AND CONDITIONS	
TITLE <i>State Auditor</i>	FON 31-1413363	TELEPHONE 740-532-1005	DATE 10-14-10
ADDRESS CHANGES TO BE NOTED ABOVE			

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



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RENEWAL: THIS CONTRACT MAY BE RENEWED UPON THE MUTUAL WRITTEN CONSENT OF THE SPENDING UNIT AND VENDOR, SUBMITTED TO THE DIRECTOR OF PURCHASING THIRTY (30) DAYS PRIOR TO THE EXPIRATION DATE. SUCH RENEWAL SHALL BE IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE ORIGINAL CONTRACT AND SHALL BE LIMITED TO TWO (2) ONE (1) YEAR PERIODS.

CANCELLATION: THE DIRECTOR OF PURCHASING RESERVES THE RIGHT TO CANCEL THIS CONTRACT IMMEDIATELY UPON WRITTEN NOTICE TO THE VENDOR IF THE COMMODITIES AND/OR SERVICE SUPPLIED ARE OF AN INFERIOR QUALITY OR DO NOT CONFORM TO THE SPECIFICATIONS OF THE BID AND CONTRACT HEREIN.

BANKRUPTCY: IN THE EVENT THE VENDOR/CONTRACTOR FILES FOR BANKRUPTCY PROTECTION, THE STATE MAY DEEM THE CONTRACT NULL AND VOID, AND TERMINATE SUCH CONTRACT WITHOUT FURTHER ORDER.

NOTICE

A SIGNED BID MUST BE SUBMITTED TO:

**DEPARTMENT OF ADMINISTRATION
 PURCHASING DIVISION
 BUILDING 15
 2019 WASHINGTON STREET, EAST
 CHARLESTON, WV 25305-0130**

THE BID SHOULD CONTAIN THIS INFORMATION ON THE FACE OF THE ENVELOPE OR THE BID MAY NOT BE CONSIDERED:

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE <i>Frank Whittaker</i>	TELEPHONE 740-532-1005	DATE 10-14-10
TITLE <i>S. D. ...</i>	FAX 31-141-3363	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



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09/09/2010				

BID OPENING DATE: 10/06/2010 BID OPENING TIME 01:30PM

LINE	QUANTITY	UQP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
SEALED BID						
BUYER:				44		
RFQ. NO.:				WWV11869		
BID OPENING DATE:				10/06/10		
BID OPENING TIME:				1:30 PM		
PLEASE PROVIDE A FAX NUMBER IN CASE IT IS NECESSARY TO CONTACT YOU REGARDING YOUR BID:						
740-289-3639						
CONTACT PERSON (PLEASE PRINT CLEARLY):						
Michael A. Balestra						
***** THIS IS THE END OF RFQ WWV11869 ***** TOTAL:						
						\$39,400

SIGNATURE <i>Michael A. Balestra</i>			TELEPHONE 740-532-1005		DATE 10-14-10
TITLE <i>Shareholder</i>	FAX 31-1413363		ADDRESS CHANGES TO BE NOTED ABOVE		

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

**STATE OF WEST VIRGINIA
WORKFORCE WEST VIRGINIA
REQUISITION For QUOTATION WWV11-869**

PROCUREMENT SPECIFICATIONS

General Requirements:

The qualified firm of certified public accountants will audit the financial statements for WORKFORCE West Virginia for the fiscal year ending June 30, 2010, with the option to audit the financial statements for each of the two (2) subsequent fiscal years. The audit for fiscal year 2010 and forward must also be audited in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Scope of Work:

Scope: The auditing firm shall issue an opinion on the fair presentation, in conformity with Generally Accepted Accounting Principles, of its general purpose financial statements that will include all WORKFORCE West Virginia Programs (the audit for fiscal year 2010 and forward must be audited in accordance with Government Auditing Standards, issued by the Comptroller General of the United States). This work is to include providing technical assistance to WORKFORCE West Virginia's financial personnel for the continuation of GASB 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and the continuation of SAS 99 which revises guidance on the consideration of fraud in financial statement audits.

WORKFORCE West Virginia desires the auditing firm to express an opinion on the fair presentation of its financial statements and schedules in conformity with Generally Accepted Accounting Principles.

The auditing firm is required to audit the additional financial information schedules required by the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration.

The auditing firm shall also be responsible for performing certain limited procedures involving required supplementary information required by Governmental Accounting Standards Board as mandated by Generally Accepted Auditing Standards.

All work under the proposed contract will be under the direction of the Executive Director of WORKFORCE West Virginia or his designee. Written reports must be submitted initially in draft form in order that any necessary changes may be discussed and agreed upon before final acceptance. Any public statements, which may be required, must be discussed with the Executive Director or designee prior to the statements being made or released.

Standards: To meet the requirements of this request, the audits shall be performed in accordance with Generally Accepted Auditing Standards. The audit for fiscal year 2010 and forward must also be audited in accordance with the Government Auditing Standards, issued by the Comptroller General of the United States.

Required Reports: Following the completion of each audit of the fiscal year's financial statements, the auditing firm shall issue reports on the fair presentation of the financial statements in conformity with Generally Accepted Accounting Principles and in accordance with Government Auditing Standards. The firm shall be required to give to the Director of the Financial Accounting and Reporting Section (FARS) of the Department of Administration, 2101 Washington Street East, Building 17, 3rd floor, Charleston, WV 25305, under the authority of Section 5A-2-23 of the State Code, an immediate, written report of all irregularities and illegal acts of which the firm becomes aware. Additionally, a copy of all such reports will be give to the Executive Director of WORKFORCE West Virginia and the Director of FAM in writing of each of the following:

1. The auditing firm's responsibility under generally accepted auditing standards.
2. Significant accounting policies.
3. Management judgments, accounting estimates and projections.
4. Significant audit adjustments and significant revisions of past and current estimates and projections.
5. Other information in documents containing audited financial statements and/or estimates and projections.
6. Disagreements with management.
7. Consultation with other accountants and actuaries.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.

Any issues that arise during the course of the audit that could cause delays in the issuance of the report or have an adverse impact on the audit opinion must be immediately communicated to the Executive Director of WORKFORCE West Virginia and the Director of FAM. A written summary of the issue must also be provided within 24 hours.

Management Communication: WORKFORCE West Virginia's financial statements are to be included in the financial statements of the State of West Virginia. The auditing firm may be required to provide special assistance to WORKFORCE West Virginia's auditors, the State's auditors, and the Financial Accounting and Reporting Section of the West Virginia Department of Administration.

Working Paper Retention and Access: All working papers and reports must be retained, at the auditing firm's expense, for a minimum of five (5) years, unless the firm is notified by WORKFORCE West Virginia of the need to extend the retention period. The firm will be required to make working papers available, upon request, to the Executive Director of WORKFORCE West Virginia and the Director of FAM and the Financial Accounting and Reporting Section of the West Virginia Department of Administration.

In addition, the firm must respond to the reasonable inquiries of federal grantors and successor auditors and allow them to review working papers relation to matters of continuing significance.

Assistance and Report Preparation: The accounting staff of WORKFORCE West Virginia, as well as management, will be available during the audit to assist the auditing firm by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the auditor. In addition, an appropriate number of hours of clerical support will be made available to the auditing firm for preparation of routine conformation/informational letters and memoranda.

No internal audit support will be available.

WORKFORCE West Virginia will provide the auditing firm with reasonable workspace, desks, and chairs. The auditing firm will also be provided with access to telephone lines, internet access, photocopying facilities, and fax machines. The firm will provide WORKFORCE West Virginia with an estimate of the number of personnel to be assigned to the audit in the detailed audit plan.

Final report preparation, editing, and printing shall be the responsibility of the auditing firm.

The firm must deliver 50 copies of the bound final audit report to the Director of FAM in Room 618, 112 California Avenue, Charleston, WV 25305-0112 by October 16, 2011. Also, an electronic copy of the report must be provided in a PDF or similar format for public review on the agency's website.

The dates in the following schedule are required delivery deadlines:

Delivery Schedule	
Entrance Conference	Before June 24, 2011
Detailed audit plan	July 18, 2011
Field work to begin	On or after July 18, 2011
Draft of WORKFORCE West Virginia Reports and financial statements for review	September 2, 2011
Revised draft with all requests changed and modification of WORKFORCE West Virginia reports and financial statements for review	September 9, 2011
Draft submitted to the Financial Accounting and Reporting Section (FARS) of the WV Department of Administration with copies to Executive Director of WORKFORCE West Virginia and Director of FAM	September 15, 2011
Unsigned final draft with all modifications to WORKFORCE West Virginia management for final review	October 11, 2011
Final signed report submitted to WORKFORCE West Virginia and FARS	October 17, 2011

In accordance with West Virginia State Code 5A-3-4(8), failure to deliver the required reports by the dates specified above will result in liquidated damages at the rate of \$2,500.00 per day for reasons attributable to the firm. In the event of such failure by the firm, this contract may be terminated immediately at the discretion of WORKFORCE West Virginia. The firm will not be subject to liquidated damages if the reasons for the failure are attributable to WORKFORCE West Virginia.

WORKFORCE West Virginia requires that the accounting firm be available to assist with accounting issues and new reporting requirements as they arise on an as-needed basis. The bid must include a firm fixed fee for the services discussed above as well as an hourly rate scale for accounting and auditing consulting services. The total cost submitted for bid must include all travel and out-of-the-pocket expenses.

Mandatory Requirements:

Independence:

Governmental auditing standards required by the governmental accounting office define independence in the second general standard for governmental auditing as follows: "In all matters related to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance."

The firm must provide an affirmative statement that it is independent of WORKFORCE West Virginia and related systems as defined by general accepted auditing standards and the aforementioned governmental auditing standards as promulgated by United States General Accounting Offices. The firm must also provide an affirmative statement that it is independent of the State of West Virginia and any other component units of that entity as defined by those same standards.

In addition, the firm will provide an affirmative statement that it will review the independent of all personnel within the firm assigned to this engagement to ensure that they are independent of WORKFORCE West Virginia and the State of West Virginia and its component entities.

In addition, the firm shall give WORKFORCE West Virginia written notice of any professional relationships entered into during the period of the agreement with any major contractors as defined in WV §29.22.23. The firm will also notify WORKFORCE West Virginia in writing if any other matters come to its attention during this engagement, which may impair its independence.

License to Practice in West Virginia:

The firm and all assigned key professional personnel and all associated and subcontracted firms must be licensed to practice in West Virginia. In addition, the firm and all associated and subcontracted firms are in good standing with the Unemployment Compensation Division of the State of West Virginia.

Quality Control:

The fourth general standard as set forth in governmental auditing standards is promulgated by the United States Governmental Accounting Offices states that "each audit organization conducting audits in accordance with these standards should have an appropriate internal control system in place and undergo an external quality control review."

The firm and all associated and sub-contracted firms have in place an internal quality control system to provide reasonable assurance that an adequate quality standard will be maintained during the engagement. In addition, copies of the firm or firms internal control document should be attached to the RFQ as well as a copy of the most recent external quality control review or made available within 48 hours upon request of the agency. Should the written report of the most recent external quality review disclose significant matters that would leave doubts as to the ability of the firm to maintain quality control, a written explanation should be attached to say what steps have been taken by the firm to improve their quality control procedures. The quality control review should have included a review of specific governmental engagements.

The firm should provide with the bid or make available within 48 hours request from the agency information on the results of any federal or state desk reviews or field reviews of its audits during the past three years.

Section I: Firm Qualifications and Experience

Should the firm intend to include any subcontracted firms the firm must provide the information for each subcontracted firm as for the primary firm; however, the primary firm will still be responsible for the results and deliverables of the contract.

Section II: Personnel Qualifications and Experience

The firm must identify the managing partner of the office from which the engagement will be performed upon request within 48 hours. The contact information for the managing partner must include the name of the managing partner, his address, his direct dial telephone number, fax number, and email address. This information is intended for use in the unlikely event that WORKFORCE West Virginia is unable to obtain satisfactory responses from the audit team and need to have direct contact with management.

The firm must identify the principle supervisory and management personnel to be included in the engagement including the engagement partner, reviewing partners, managers, other supervisors and specialists. All personnel must hold a license to practice as a Certified Public Accountant in West Virginia.

The Vender must provide for each of the aforementioned personnel a resume outlining the qualifications and experience including years of experience in the auditing field and in the governmental sectors. Resumes should be attached to the bid response or made available within 48 hours upon request of the agency. At minimum, each resume must include the following:

- **Number of years of total experience**
- **Number of years of experience in specific specialties and a description of each specialty**
- **General certifications and qualifications obtained**
- **Listing of relevant continuing professional education courses within the last three years**
- **A list of those clients similar to WORKFORCE West Virginia for which the person has performed a significant amount of work within the last three years**

A chief concern of WORKFORCE West Virginia is the ability of the successful firm to maintain the quality of staff assigned to the engagement over the term of agreement. The firm must clearly state what steps will be taken in order to ensure the quality of staff over the term of agreement.

All personnel assigned to the engagement must have at least one year of auditing experience in public accounting or a similar environment.

Subcontracted firms can only be added, dropped, or changed with the expressed written permission of WORKFORCE West Virginia, which retained the right to approve and reject these changes. Personnel assigned to the engagement by subcontracted firms must go through the same approval process as the primary firm's personnel discussed above. Any changes regarding a subcontractor must be made via a contract change order and subject to approval of the State Purchasing Division.

**STATE OF WEST VIRGINIA
WORKFORCE WEST VIRGINIA
REQUISITION For QUOTATION WWV11-869
COST SHEET**

DELIVERABLES	
PHASE I Entrance Conference Detailed Audit Plan Draft of WORKFORCE West Virginia Reports and financial statements For review	PHASE I
PHASE II Revised draft with all requests changed and modification of WORKFORCE West Virginia reports and financial statements for review Draft submitted to the Financial Accounting and Reporting Section (FARS) of the WV Department of Administration with copies to Executive Director of WORKFORCE West Virginia and Director of FAM	PHASE II
PHASE III Unsigned final draft with all modifications to WORKFORCE West Virginia management for final review Final signed report submitted to WORKFORCE West Virginia and FARS	PHASE III
GRAND TOTAL	

Vendor may request payment pursuant to the following schedule:

First payment shall be 25% of the grand total and can be submitted upon completion of Phase I indentified in the above table.

Second payment shall be 25% of the grand total and can be submitted upon completion of Phase II indentified in the above table.

Third payment shall be 50% of the grand total and can be submitted upon completion of Phase III indentified in the above table.

VENDOR PREFERENCE CERTIFICATE

Certification and application* is hereby made for Preference in accordance with *West Virginia Code*, §5A-3-37. (Does not apply to construction contracts). *West Virginia Code*, §5A-3-37, provides an opportunity for qualifying vendors to request (at the time of bid) preference for their residency status. Such preference is an evaluation method only and will be applied only to the cost bid in accordance with the *West Virginia Code*. This certificate for application is to be used to request such preference. The Purchasing Division will make the determination of the Resident Vendor Preference, if applicable.

1. **Application is made for 2.5% resident vendor preference for the reason checked:**

Bidder is an individual resident vendor and has resided continuously in West Virginia for four (4) years immediately preceding the date of this certification; or,

Bidder is a partnership, association or corporation resident vendor and has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or 80% of the ownership interest of Bidder is held by another individual, partnership, association or corporation resident vendor who has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or,

Bidder is a nonresident vendor which has an affiliate or subsidiary which employs a minimum of one hundred state residents and which has maintained its headquarters or principal place of business within West Virginia continuously for the four (4) years immediately preceding the date of this certification; or,

2. **Application is made for 2.5% resident vendor preference for the reason checked:**

Bidder is a resident vendor who certifies that, during the life of the contract, on average at least 75% of the employees working on the project being bid are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,

3. **Application is made for 2.5% resident vendor preference for the reason checked:**

Bidder is a nonresident vendor employing a minimum of one hundred state residents or is a nonresident vendor with an affiliate or subsidiary which maintains its headquarters or principal place of business within West Virginia employing a minimum of one hundred state residents who certifies that, during the life of the contract, on average at least 75% of the employees or Bidder's affiliate's or subsidiary's employees are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,

4. **Application is made for 5% resident vendor preference for the reason checked:**

Bidder meets either the requirement of both subdivisions (1) and (2) or subdivision (1) and (3) as stated above; or,

5. **Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:**

Bidder is an individual resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard and has resided in West Virginia continuously for the four years immediately preceding the date on which the bid is submitted; or,

6. **Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:**

Bidder is a resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard, if, for purposes of producing or distributing the commodities or completing the project which is the subject of the vendor's bid and continuously over the entire term of the project, on average at least seventy-five percent of the vendor's employees are residents of West Virginia who have resided in the state continuously for the two immediately preceding years.

Bidder understands if the Secretary of Revenue determines that a Bidder receiving preference has failed to continue to meet the requirements for such preference, the Secretary may order the Director of Purchasing to: (a) reject the bid; or (b) assess a penalty against such Bidder in an amount not to exceed 5% of the bid amount and that such penalty will be paid to the contracting agency or deducted from any unpaid balance on the contract or purchase order.

By submission of this certificate, Bidder agrees to disclose any reasonably requested information to the Purchasing Division and authorizes the Department of Revenue to disclose to the Director of Purchasing appropriate information verifying that Bidder has paid the required business taxes, provided that such information does not contain the amounts of taxes paid nor any other information deemed by the Tax Commissioner to be confidential.

Under penalty of law for false swearing (*West Virginia Code*, §61-5-3), Bidder hereby certifies that this certificate is true and accurate in all respects; and that if a contract is issued to Bidder and if anything contained within this certificate changes during the term of the contract, Bidder will notify the Purchasing Division in writing immediately.

Bidder: Balistreri, Harry E. Schen, CPA

Signed: [Signature]

Date: 10-14-10

Title: Shoub-Idon

*Check any combination of preference consideration(s) indicated above, which you are entitled to receive.

STATE OF WEST VIRGINIA
Purchasing Division

PURCHASING AFFIDAVIT

West Virginia Code §5A-3-10a states: No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owed is an amount greater than one thousand dollars in the aggregate.

DEFINITIONS:

"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, limited liability company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceed five percent of the total contract amount.

EXCEPTION: The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing (*West Virginia Code §61-5-3*), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

WITNESS THE FOLLOWING SIGNATURE

Vendor's Name: Balestra, Horvath & Scheuer, CPAs, Inc.

Authorized Signature: *[Signature]* Date: 10-14-10

State of OHIO

County of Lawrence, to-wit:

Taken, subscribed, and sworn to before me this 14 day of October, 2010.

My Commission expires 12-21, 2010.

AFFIX SEAL HERE

NOTARY PUBLIC *[Signature]*



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 Department of Administration
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BID OPENING DATE: 10/14/2010					

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	BID OPENING TIME	UNIT PRICE
***** ADDENDUM NO. 1 *****						
THIS ADDENDUM IS ISSUED TO:						
1) EXTEND THE BID OPENING DATE AND TIME TO: 10/14/2010 AT 1:30 PM						
2) REPLACE THE ENTIRE SPECIFICATIONS WITH THE ATTACHED REVISED SPECIFICATIONS.						
3) PROVIDE THE ATTACHED TECHNICAL QUESTIONS & ANSWERS.						
4) PROVIDE THE ATTACHED 2009 WORKFORCE WEST VIRGINIA 2009 FINANCIAL STATEMENT.						
***** END ADDENDUM NO. 1 *****						
01	1	LS		946-20		
AUDITING SERVICES						\$39,400

NATURE: *Shoreholder* SEE REVERSE SIDE FOR TERMS AND CONDITIONS TELEPHONE: 740-532-1005 DATE: 10-14-10

FERN: 31-191-3363 ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

TECHNICAL QUESTIONS AND ANSWERS FOR WWV 11-869

1. Page 4, General Requirements refers to audit services for the fiscal year ending June 30, 2010. The delivery schedule on Page 7 refers to dates in 2011. Is the RFQ for audit services to audit the financial statements for the year ended June 30, 2010 or June 30, 2011?

A1 The auditing services to be provided under this RFQ are for the year ending June 30, 2011.

2. If the services are for the year ended June 30, 2010, what caused the RFQ to be issued so late? It appears that the previous contract was available for renewal for the year ended June 30, 2010. Why was the contract not renewed?

A2 The auditing services requested are for the year ending June 30, 2011.

3. Please provide the auditor's reports, financial statements, schedule of findings and responses (if findings), and management letter (if issued) for the year ended June 30, 2009 (or for June 30, 2010, if this RFQ is for audit services for the year ended June 30, 2011).

A3 Please see Attachment I

4. Please provide the current status of any prior year findings or management letter comments.

A4 There are no current unresolved findings.

5. Page 6 states that final report preparation, editing, and printing shall be the responsibility of the auditing firm. Will Workforce West Virginia prepare the content of the financial statements and notes for the audit firm to type? If not, what is the source of information and the process for accumulating and summarizing financial statement content, format, and information in the notes to financial statements?

A5 WorkForce West Virginia will use the prior year financial statements and update for the current year. Once complete, these financial statements will be emailed to the CPA firm who has been awarded the contract

6. We observed that the RFQ requires as part of the deliverables a PDF copy of the audit report for posting on the WORKFORCE West Virginia web site. We have searched for a copy of the latest audited financial statements for WORKFORCE West Virginia on the internet, however, we have been unable to locate a copy. Could the latest copy of the audited financial statements of WORKFORCE West Virginia be provided to us?

A6 Please see Attachment I

7. We observed that proposing firms "must provide an affirmative statement that it is independent of WORKFORCE West Virginia and related systems as defined by general accepted auditing standards" and the GAO audit standards, and that the firm must also "provide an affirmative statement that it is independent of the State of West Virginia and any other component units of that entity as defined by those same standards". Though auditing standards generally accepted in the United States of America and GAO standards require that the proposing firms must be independent of WORKFORCE West Virginia, those same standards do not require that the proposing firms be independent of the State of West Virginia and any other component units of the State of West Virginia (Ethics Interpretations 101-10). Consequently, the requirements of the RFQ appear to exceed the requirements of professional standards. Is it the intent of WORKFORCE West Virginia that, even though it is not required by professional standards, that the firms submitting proposals comply with this additional requirement?

A7 The successful vendor does not need to be independent of the State of West Virginia but will need to meet standard requirements. See revised specifications.

8. The regional offices of WORKFORCE West Virginia appear to be separate legal independent not-for-profit organizations. Are the financial statements of these regional entities combined/consolidated into the financial statements of WORKFORCE West Virginia?

A8 No

9. Though the RFQ states that no internal audit support will be available in the conduct of the audit, will it be possible to review the results of their work, reports, procedures, etc. so that we may determine if we can rely on such work?

A9 No audit staff exists within WorkForce West Virginia.

10. Is it possible for you to provide to the interested firms the estimated number of audit staff that worked onsite at WORKFORCE West Virginia during the most recent audit as well as the number of weeks the team was onsite?

A10 WorkForce West Virginia does not track that specific information.

11. Could you please provide a schedule of expenditures of Federal awards anticipated for the year to be audited?

A11 No

12. Could you please provide the amount of fees paid for non-audit accounting and advisory services paid to the prior auditors as a result of their provision of audit services?

A12 The only fees paid are those paid for the review of the audit.

STATE OF WEST VIRGINIA
WorkForce West Virginia
REQUISITION For QUOTATION WWV11-869

PROCUREMENT SPECIFICATIONS

General Requirements:

The qualified firm of certified public accountants will audit the financial statements for WorkForce West Virginia for the fiscal year ending June 30, 2011, with the option to audit the financial statements for each of the two (2) subsequent fiscal years. The audit for fiscal year 2010 and forward must also be audited in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Scope of Work:

Scope: The auditing firm shall issue an opinion on the fair presentation, in conformity with Generally Accepted Accounting Principles, of its general purpose financial statements that will include all WorkForce West Virginia Programs (the audit for fiscal year 2011 and forward must be audited in accordance with Government Auditing Standards, issued by the Comptroller General of the United States). This work is to include providing technical assistance to WorkForce West Virginia's financial personnel for the continuation of GASB 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and the continuation of SAS 99 which revises guidance on the consideration of fraud in financial statement audits.

WorkForce West Virginia desires the auditing firm to express an opinion on the fair presentation of its financial statements and schedules in conformity with Generally Accepted Accounting Principles.

The auditing firm is required to audit the additional financial information schedules required by the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration.

The auditing firm shall also be responsible for performing certain limited procedures involving required supplementary information required by Governmental Accounting Standards Board as mandated by Generally Accepted Auditing Standards.

All work under the proposed contract will be under the direction of the Executive Director of WorkForce West Virginia or his designee. Written reports must be submitted initially in draft form in order that any necessary changes may be discussed and agreed upon before final acceptance. Any public statements, which may be required, must be discussed with the Executive Director or designee prior to the statements being made or released.

Standards: To meet the requirements of this request, the audits shall be performed in accordance with Generally Accepted Auditing Standards. The audit for fiscal year 2011 and forward must also be audited in accordance with the Government Auditing Standards, issued by the Comptroller General of the United States.

Required Reports: Following the completion of each audit of the fiscal year's financial statements, the auditing firm shall issue reports on the fair presentation of the financial statements in conformity with Generally Accepted Accounting Principles and in accordance with Government Auditing Standards. The firm shall be required to give to the Director of the Financial Accounting and Reporting Section (FARS) of the Department of Administration, 2101 Washington Street East, Building 17, 3rd floor, Charleston, WV 25305, under the authority of Section 5A-2-23 of the State Code, an immediate, written report of all irregularities and illegal acts of which the firm becomes aware. Additionally, a copy of all such reports will be give to the Executive Director of WorkForce West Virginia and the Director of FAM in writing of each of the following:

1. The auditing firm's responsibility under generally accepted auditing standards.
2. Significant accounting policies.
3. Management judgments, accounting estimates and projections.
4. Significant audit adjustments and significant revisions of past and current estimates and projections.
5. Other information in documents containing audited financial statements and/or estimates and projections.
6. Disagreements with management.
7. Consultation with other accountants and actuaries.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.

Any issues that arise during the course of the audit that could cause delays in the issuance of the report or have an adverse impact on the audit opinion must be immediately communicated to the Executive Director of WorkForce West Virginia and the Director of FAM. A written summary of the issue must also be provided within 24 hours.

Management Communication: WorkForce West Virginia's financial statements are to be included in the financial statements of the State of West Virginia. The auditing firm may be required to provide special assistance to WorkForce West Virginia's auditors, the State's auditors, and the Financial Accounting and Reporting Section of the West Virginia Department of Administration.

Working Paper Retention and Access: All working papers and reports must be retained, at the auditing firm's expense, for a minimum of five (5) years, unless the firm is notified by WorkForce West Virginia of the need to extend the retention period. The firm will be required to make working papers available, upon request, to the Executive Director of WorkForce West Virginia and the Director of FAM and the Financial Accounting and Reporting Section of the West Virginia Department of Administration.

In addition, the firm must respond to the reasonable inquiries of federal grantors and successor auditors and allow them to review working papers relation to matters of continuing significance.

Assistance and Report Preparation: The accounting staff of WorkForce West Virginia, as well as management, will be available during the audit to assist the auditing firm by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the auditor. In addition, an appropriate number of hours of clerical support will be made available to the auditing firm for preparation of routine conformation/informational letters and memoranda.

No internal audit support will be available.

WorkForce West Virginia will provide the auditing firm with reasonable workspace, desks, and chairs. The auditing firm will also be provided with access to telephone lines, internet access, photocopying facilities, and fax machines. The firm will provide WorkForce West Virginia with an estimate of the number of personnel to be assigned to the audit in the detailed audit plan.

Final report preparation, editing, and printing shall be the responsibility of the auditing firm.

The firm must deliver 15 copies of the bound final audit report to the Director of FAM in Room 618, 112 California Avenue, Charleston, WV 25305-0112 by October 16, 2011. Also, an electronic copy of the report must be provided in a PDF or similar format for public review on the agency's website.

The dates in the following schedule are required delivery deadlines:

Delivery Schedule	
Entrance Conference	Before June 24, 2011
Detailed audit plan	July 18, 2011
Field work to begin	On or after July 18, 2011
Draft of WorkForce West Virginia Reports and financial statements for review	September 2, 2011
Revised draft with all requests changed and modification of WorkForce West Virginia reports and financial statements for review	September 9, 2011
Draft submitted to the Financial Accounting and Reporting Section (FARS) of the WV Department of Administration with copies to Executive Director of WorkForce West Virginia and Director of FAM	September 15, 2011
Unsigned final draft with all modifications to WorkForce West Virginia management for final review	October 11, 2011
Final signed report submitted to WorkForce West Virginia and FARS	October 17, 2011

In accordance with West Virginia State Code 5A-3-4(8), failure to deliver the required reports by the dates specified above will result in liquidated damages at the rate of \$2,500.00 per day for reasons attributable to the firm. In the event of such failure by the firm, this contract may be terminated immediately at the discretion of WorkForce West Virginia. The firm will not be subject to liquidated damages if the reasons for the failure are attributable to WorkForce West Virginia.

WorkForce West Virginia requires that the accounting firm be available to assist with accounting issues and new reporting requirements as they arise on an as-needed basis. The bid must include a firm fixed fee for the services discussed above as well as an hourly rate scale for accounting and auditing consulting services. The total cost submitted for bid must include all travel and out-of-the-pocket expenses.

Mandatory Requirements:

Independence:

Governmental auditing standards required by the governmental accounting office define independence in the second general standard for governmental auditing as follows: "In all matters related to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance."

The firm must meet standard accounting requirements as promulgated by United States General Accounting Offices and must also provide an affirmative statement that it is independent of the State of West Virginia and any other component units of that entity as defined by those same standards.

In addition, the firm will provide an affirmative statement that it will review the independent of all personnel within the firm assigned to this engagement to ensure that they are independent of WorkForce West Virginia and the State of West Virginia and its component entities.

In addition, the firm shall give WorkForce West Virginia written notice of any professional relationships entered into during the period of the agreement with any major contractors as defined in WV §29.22.23. The firm will also notify WorkForce West Virginia in writing if any other matters come to its attention during this engagement, which may impair its independence.

Required Software for Financial Statement Preparation:

The CPA Firm who is awarded this contract must use CorpSystem WorkPaper Manager software by CCH for Financial Statement Preparation.

License to Practice in West Virginia:

The firm and all assigned key professional personnel and all associated and subcontracted firms must be licensed to practice in West Virginia. In addition, the firm and all associated and subcontracted firms are in good standing with the Unemployment Compensation Division of the State of West Virginia.

Quality Control:

The fourth general standard as set forth in governmental auditing standards is promulgated by the United States Governmental Accounting Offices states that "each audit organization conducting audits in accordance with these standards should have an appropriate internal control system in place and undergo an external quality control review."

The firm and all associated and sub-contracted firms have in place an internal quality control system to provide reasonable assurance that an adequate quality standard will be maintained during the engagement. In addition, copies of the firm or firms internal control document should be attached to the RFQ as well as a copy of the most recent external quality control review or made available within 48 hours upon request of the agency. Should the written report of the most recent external quality review disclose significant matters that would leave doubts as to the ability of the firm to maintain quality control, a written explanation should be attached to say what steps have been taken by the firm to improve their quality control procedures. The quality control review should have included a review of specific governmental engagements.

The firm should provide with the bid or make available within 48 hours request from the agency information on the results of any federal or state desk reviews or field reviews of its audits during the past three years.

Section I: Firm Qualifications and Experience

Should the firm intend to include any subcontracted firms the firm must provide the information for each subcontracted firm as for the primary firm; however, the primary firm will still be responsible for the results and deliverables of the contract.

Section II: Personnel Qualifications and Experience

The firm must identify the managing partner of the office from which the engagement will be performed upon request within 48 hours. The contact information for the managing partner must include the name of the managing partner, his address, his direct dial telephone number, fax number, and email address. This information is intended for use in the unlikely event that WorkForce West Virginia is unable to obtain satisfactory responses from the audit team and need to have direct contact with management.

The firm must identify the principle supervisory and management personnel to be included in the engagement including the engagement partner, reviewing partners, managers, other supervisors and specialists. All personnel must hold a license to practice as a Certified Public Accountant in West Virginia.

The Vender must provide for each of the aforementioned personnel a resume outlining the qualifications and experience including years of experience in the auditing field and in the governmental sectors. Resumes should be attached to the bid response or made available within 48 hours upon request of the agency. At minimum, each resume must include the following:

- **Number of years of total experience**
- **Number of years of experience in specific specialties and a description of each specialty**
- **General certifications and qualifications obtained**
- **Listing of relevant continuing professional education courses within the last three years**
- **A list of those clients similar to WorkForce West Virginia for which the person has performed a significant amount of work within the last three years**

A chief concern of WorkForce West Virginia is the ability of the successful firm to maintain the quality of staff assigned to the engagement over the term of agreement. The firm must clearly state what steps will be taken in order to ensure the quality of staff over the term of agreement.

All personnel assigned to the engagement must have at least one year of auditing experience in public accounting or a similar environment.

Subcontracted firms can only be added, dropped, or changed with the expressed written permission of WorkForce West Virginia, which retained the right to approve and reject these changes. Personnel assigned to the engagement by subcontracted firms must go through the same approval process as the primary firm's personnel discussed above. Any changes regarding a subcontractor must be made via a contract change order and subject to approval of the State Purchasing Division.

**STATE OF WEST VIRGINIA
WORKFORCE WEST VIRGINIA
REQUISITION For QUOTATION WWV11-869
COST SHEET**

DELIVERABLES	
PHASE I Entrance Conference Detailed Audit Plan Draft of WORKFORCE West Virginia Reports and financial statements For review	PHASE I
PHASE II Revised draft with all requests changed and modification of WORKFORCE West Virginia reports and financial statements for review Draft submitted to the Financial Accounting and Reporting Section (FARS) of the WV Department of Administration with copies to Executive Director of WORKFORCE West Virginia and Director of FAM	PHASE II
PHASE III Unsigned final draft with all modifications to WORKFORCE West Virginia management for final review Final signed report submitted to WORKFORCE West Virginia and FARS	PHASE III
GRAND TOTAL	

Vendor may request payment pursuant to the following schedule:

First payment shall be 25% of the grand total and can be submitted upon completion of Phase I identified in the above table.

Second payment shall be 25% of the grand total and can be submitted upon completion of Phase II identified in the above table.

Third payment shall be 50% of the grand total and can be submitted upon completion of Phase III identified in the above table.

WorkForce WEST VIRGINIA
(A Division of the State of West Virginia)
Management's Discussion and Analysis (MD & A),
Basic Financial Statements,
Required Supplementary Information, and
Other Financial Information

June 30, 2009

(With Independent Auditors' Reports Thereon)

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INDEPENDENT AUDITORS' REPORT

The Commissioner
WorkForce West Virginia
Charleston, West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of WorkForce West Virginia, as of and for the year ended June 30, 2009, which collectively comprise WorkForce West Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of WorkForce West Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WorkForce West Virginia's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

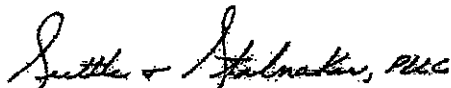
As discussed in Note 1, the financial statements of WorkForce West Virginia are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund of the West Virginia Department of Commerce and of the State of West Virginia that is attributable to the transactions of WorkForce West Virginia. They do not purport to, and do not, present fairly, the financial position of the West Virginia Department of Commerce or the State of West Virginia as of June 30, 2009 and the changes in their financial position and their cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of WorkForce West Virginia, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 13 and the budgetary comparison information on pages 35 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2010 on our consideration of WorkForce West Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise WorkForce West Virginia's basic financial statements. The budget versus actual schedules on pages 38 through 41 are presented for the purpose of additional analysis and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Charleston, West Virginia
January 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

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The management of WorkForce West Virginia (Division), a Division of the West Virginia Department of Commerce, State of West Virginia, provides this *Management's Discussion and Analysis* of the Division's financial standing for the readers of the audited financial statements. As of June 30, 2009, WorkForce West Virginia consisted of four primary operating Divisions: the One Stop Operations Division (OS); the Employment Services Division (ES); the Unemployment Compensation Division (UC); and the Research Information and Analysis Division (RIA).

This narrative overview and analysis of the financial activities for the Division is for the fiscal year ended on June 30, 2009. Please read it in conjunction with the Division's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Division Wide Highlights:

The assets of the Division exceeded the liabilities for the fiscal year ended June 30, 2009 by \$194 million as compared to \$251 million for the fiscal year ended June 30, 2008.

Fund Level Highlights:

At the close of the fiscal year, the governmental activities of the Division reported a net fund balance deficit of \$1.6 million as compared to \$3.0 million for the fiscal year ended June 30, 2008. The decrease of this deficit is mainly due to resolving the past audit findings and increased funding from the State of West Virginia.

The business-type activities reported net assets of \$196 million for the Unemployment Compensation Trust Fund at June 30, 2009 as compared to \$254 million at June 30, 2008. The decrease in net assets is mainly due to increased Unemployment Compensation benefits for fiscal year June 30, 2009.

More detailed information regarding these funds and their activities is contained in Footnote 1 to the audited financial statements, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - *management's discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and *other financial information*. The basic financial statements include two kinds of statements that present different views of the Division.

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Division's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual* parts of the Division's government, reporting the Division's operations in *more detail* than the government-wide statements.
 - The *government fund* statements tell how *general government* services like education were financed in the *short term* as well as what remains for future spending. For the Division, this consists primarily of federally funded workforce development programs.
 - *Proprietary fund* statements offer short and long-term financial information about the activities the government operates like businesses. For the Division, this consists of the Unemployment Compensation Trust Program.

WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

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- *Fiduciary fund* statements provide information about the financial relationships - like the retirement plan for the Division's employees - in which the State acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources in question belong. The Division has no fiduciary funds.
- The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the Division as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the reporting entity's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Division's *net assets* and how they have changed. Net assets - the difference between the Division's assets and liabilities - are one way to measure the Division's financial health or *position*.

- Over time, increases or decreases in the Division's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Division, one needs to consider additional non-financial factors such as changes in the Division's revenue sources and the condition of the Division's assets.

The government-wide financial statements of the State are divided into three categories:

- *Governmental activities* - These are the activities that are necessary for the government to function and meet its intended purpose. They are generally funded through a tax. For the Division, this consists primarily of federally funded workforce development programs.
- *Business-type activities* - The Division charges fees to customers to help it cover the costs of certain services it provides. For the Division, this consists of the Unemployment Compensation Trust Program.
- *Component Units* - The State includes other entities in its report such as West Virginia Housing Development Fund; Parkways, Economic Development and Tourism Authority; and West Virginia Higher Education Fund. These "component units" are important because the State is financially accountable for them. The Division has no component units. However, the Division exists within the State of West Virginia, and is considered part of the primary government in the State of West Virginia Comprehensive Annual Financial Report.

WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Division's most significant *funds* - not the Division as a whole. Funds are accounting devices that the governmental agencies use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The State Legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Division has two kinds of funds:

- *Governmental funds* - Most of the Division's basic services are included in the governmental general fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Division's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements, or on the subsequent page, that explains the relationship (or differences) between them. For the Division, this fund consists primarily of federally funded workforce development programs.
- *Proprietary funds* - Services for which the Division charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. For the Division, this consists of the Unemployment Compensation Trust Fund.

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE

Net Assets

The Division's combined net assets (governmental and business-type) totaled \$194 million at the end of 2009, compared to \$251 million at the end of the previous year. (See table below).

	Statements of Net Assets (Expressed in Thousands)						% of Change Primary Government 2008-2009
	Governmental Activities		Business-type Activities		Total Primary Government		
	2008	2009	2008	2009	2008	2009	
Current and other assets	\$ 1,596	\$ 1,927	\$ 286,120	\$ 247,942	\$ 287,716	\$ 249,869	(13.15%)
Capital assets	292	254	-	-	292	254	(13.01%)
Total assets	1,888	2,181	286,120	247,942	288,008	250,123	(13.18%)
Long-term debt outstanding	411	414	-	-	411	414	(0.73%)
Other liabilities	4,484	3,325	31,788	52,095	36,272	56,420	(52.79%)
Total liabilities	4,895	3,739	31,788	52,095	36,683	56,834	(52.21%)
Net Assets (Deficit):							
Invested in capital assets, net of debt	292	254	-	-	292	254	(13.01%)
Restricted	3,859	581	254,332	195,847	258,182	196,428	(23.92%)
Unrestricted (deficit)	(7,149)	(2,393)	-	-	(7,149)	(2,393)	56.53%
Total net assets (deficit)	\$ (3,007)	\$ (1,658)	\$ 254,332	\$ 195,847	\$ 251,325	\$ 194,289	(22.69%)

The total net assets deficit of the Division's governmental activities decreased 48% to (\$1.6) million. This is primarily due to utilizing Reed Act carryover, and the reduction of compensated absences with the implementation of GASB Statement No. 45.

WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

The total net assets' of the Division's business-type activities decreased 23% to \$196 million. This is primarily due to the increased cost of unemployment payments.

Changes in net assets

The Division's total revenues increased by 42% to \$308 million. (See table below.) 15% of the Division's revenues come from federal grant programs aimed at workforce analysis and development. Other revenue comes from fees charged for services to employers by the Unemployment Compensation programs and investment earnings.

The total cost of all programs and services was \$406 million. The Division's expenses can be categorized into two categories: general governmental and direct benefits. General government expenses include all costs associated with operation of the Division and its programs, which includes administration and federal grant expenses incurred for employment training, statistics and support. Direct benefits consist of unemployment insurance benefits and comprised 88% of the total expenses of the Division for the fiscal year ended June 30, 2009.

Change in Net Assets (Deficit)
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		% of Change Primary Government 2008-2009
	2008	2009	2008	2009	2008	2009	
Revenues							
Program revenues:							
Charges for services	\$ -	\$ -	\$ 147,742	\$ 250,000	\$ 147,742	\$ 250,000	69.21%
Federal grants	56,319	47,443	-	-	56,319	47,443	(15.76%)
General revenues:							
Investment earnings	-	-	11,984	10,248	11,984	10,248	(14.50%)
Total revenues	56,319	47,443	159,726	260,248	216,045	307,689	42.42%
Expenses							
Program expenses:							
General government	58,464	48,010	-	-	58,464	48,010	17.88%
Unemployment Compensation Trust	-	-	175,107	356,715	175,107	356,715	(103.71%)
Total expenses	58,464	48,010	175,107	356,715	233,571	404,725	(73.28%)
Increase (decrease) in net assets before transfers	(2,145)	(567)	(15,381)	(96,469)	(17,526)	(97,036)	(453.67%)
Transfers and other revenues	4,171	2,016	(1,190)	37,984	2,981	40,000	1,241.83%
Increase (decrease) in net assets	2,026	1,449	(16,571)	(58,485)	(14,545)	(57,036)	(292.13%)
Beginning net assets (deficit)	(9,104)	(3,007)	270,903	254,332	261,799	251,325	(4.00%)
Cumulative effect of adoption of accounting principles	4,071	-	-	-	4,071	-	(100.00%)
Ending net assets (deficit)	\$ (3,007)	\$ (1,558)	\$ 254,332	\$ 195,847	\$ 251,325	\$ 194,289	(22.69%)

**WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)**

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Business-type Activities

For the Unemployment Compensation Trust Program, the Regular Unemployment Benefits expenditures increased \$182 million as compared with last year. As for revenue, the Regular Unemployment revenue categories increased by \$102 million.

FINANCIAL ANALYSIS OF THE DIVISION'S FUNDS

Governmental Funds

The focus of the Division's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Division's financing requirements.

The general fund is the chief operating fund of the Division's federal program activities. At the end of the current fiscal year, the Division's governmental fund reported an ending fund balance deficit of (\$1.4) million, a reduced deficit in fund balance of \$1.5 million from prior year.

Proprietary Funds

The Unemployment Compensation (UC) Program has a total of 79 performance measurements. West Virginia met the eighteen Federal standards for measurement year ending March, 2009 and has met all established Federal standards over the past nine years with the exception of one in fiscal year 2005. These performance measurements cover timeliness, quality, and accuracy of each state's Benefit and Tax operations.

West Virginia's operational proper payment rate for unemployment benefits was 95.7% during Calendar Year 2007 which is substantially above the National Average Rate of 90.9%. Please note, the National Office has not published the proper payment rates for 2008.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original general fund budget of the Division was not amended during the year ending June 30, 2009. The most significant budget versus actual variances includes:

- Expenditure schedules are budgeted at an increased amount for a number of reasons including:
 - Some of the grants received by the Division are adjusted based upon workloads. As the economy worsens, workloads increase and additional funds are received; therefore, additional amounts are budgeted in case additional grant funds are received.
 - Additional funds are budgeted in case grants are received in the event of natural disasters.
 - The Division operates the Trade Readjustment Assistance Program (TRA) which provides retraining services to workers who find themselves unemployed due to competition from foreign trade. In addition to the annual grant received from the United States Department of Labor to fund this program, the Division may receive additional grants to serve special groups laid off by large employers. These National Emergency grants have amounted to as much as \$23 million in past years. The Division budgets additional funds each year in case these major layoffs occur and National Emergency grants are received.
 - As disclosed above, some additional amounts, such as personal services, are budgeted in case grant funds are received for natural disasters and/or the economy worsens which results in an increase in the Division's workload.

WORKFORCE WEST VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the Division had invested \$254 in capital assets that consist entirely of office furniture and equipment. (See table below). This amount represents a net decrease of \$38 or (13.01%) from last year.

Capital Assets (Equipment) at Year-end
(Expressed in Thousands)
(Net of Depreciation)

	Governmental Activities		Total Percentage Change
	2008	2009	2008-2009
Governmental Activities	\$ 292	\$ 254	(13.01%)

The 13.01% decline in total capital assets from 2008 to 2009 is due to the normal disposal of equipment which is antiquated or no longer of use to the Division and due to depreciation expense. More detailed information is presented in Note 1 to the financial statements.

Long-term Debt

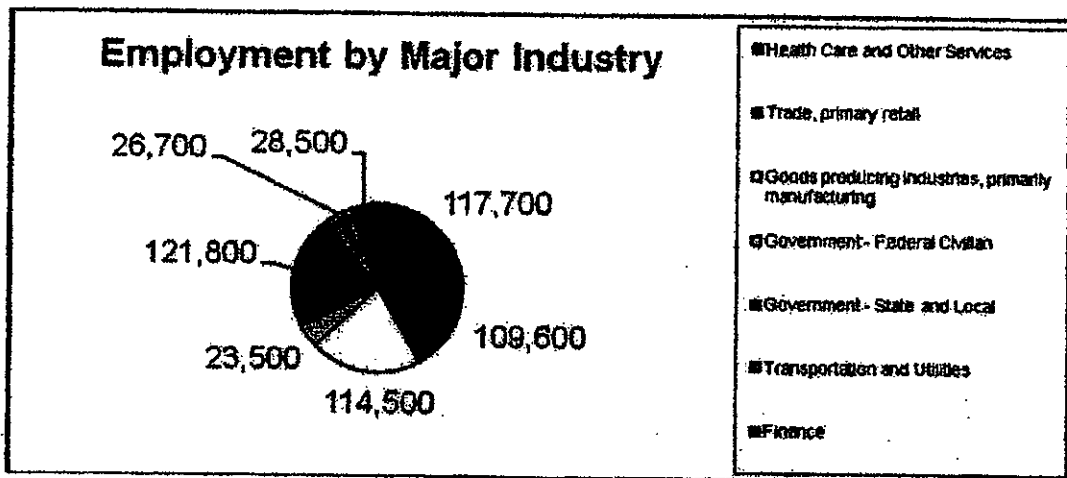
At year end, the Division had \$414 in the long-term portion of compensated absences, an increase of 0.72% as shown in the table below. More detailed information is presented in Notes 1 and 4 to the financial statements.

Outstanding Long-Term Debt at Year-end
(Expressed in Thousands)

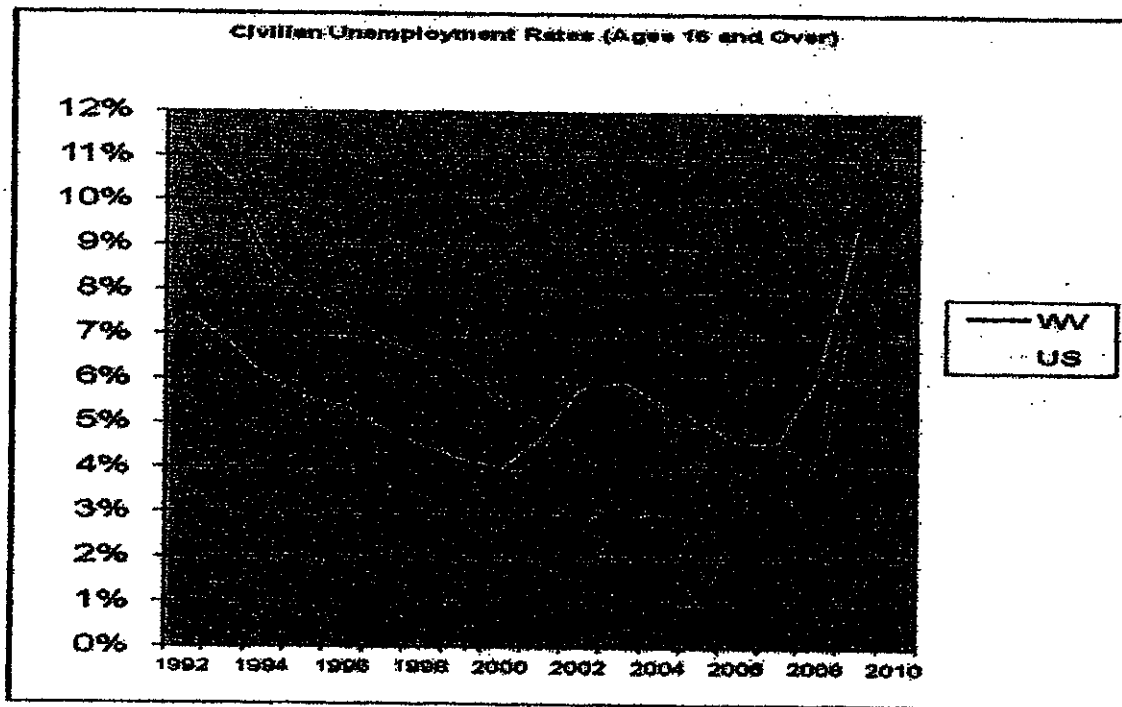
	Governmental Activities		Total Percentage Change
	2008	2009	2008-2009
Compensated absences	\$ 411	\$ 414	0.73%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

These indicators were taken into account when adopting the Division's budget for 2009.



The following chart shown includes projected information for fiscal year 2009.



Senate Bill 246

This bill was passed by the Legislature on April 11, 2009 and signed into law by the governor on May 11, 2009. The purpose of the bill was to bolster the solvency of the Unemployment Compensation Trust Fund. Provisions included in the bill to do that included increasing the taxable wage base on employee wages from \$8,000 (dollars) per year to \$12,000 (dollars) per year effective with passage of the bill. The taxable wage base will remain at \$12,000 (dollars) until the UC Trust Fund has a year end balance in excess of \$220 million. When that threshold is reached, the taxable wage base will revert to \$9,000 (dollars) and be indexed annually thereafter depending on the increase or decrease of average annual wages in West Virginia. The rate of benefits, previously adjusted annually, would also be frozen while the taxable wage base remains at \$12,000 (dollars). The bill also provided for the transfer of \$40 million from the old Workers Compensation Fund into the Unemployment Compensation Trust Fund.

The bill also provided for inclusion of the application of an alternate based period on UC claimants who did not qualify for benefits under the regular base period. This change in statute was made to qualify West Virginia for one third of a possible Reed Act distribution from USDOL. Subsequent to year end, in September 2009, the UC Trust Fund received the Reed Act distribution in the amount of approximately \$11 million.

The bill also made some minor clarifications to language concerning employees who leave their jobs due to medical reasons, work stoppages, etc. The bill also called for the creation of a violators list to be made available to the public via internet. Employers on the list would include those who had an outstanding liability due the UC Trust Fund.

House Bill 301

Subsequent to year end, this bill was introduced to the Legislature in a special session and approved by the Legislature on August 12, 2009. The bill was signed into law by the governor on August 19, 2009. The purpose of the bill was to make provision for a trigger for payment of extended benefits based on the Total Unemployment Rate (TUR). Existing law provided only for a trigger for extended benefits based only on the Insured Unemployment Rate (IUR). The reason for the change in statute was to qualify West Virginia for 100% federal funding of extended benefits by meeting the requirements set forth in the ARRA. The basic provisions of the change was that WV claimants who exhaust their regular benefits and emergency unemployment compensation benefits could qualify for an additional 13 weeks of extended benefits if WV had a 13 week average of TUR of 6.5% or an additional 20 weeks of extended benefits if WV had a 13 week average of TUR of 8.0% or more.

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Division's finances and to demonstrate the Division's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact WorkForce West Virginia, 112 California Avenue, Charleston, WV 25305.

BASIC FINANCIAL STATEMENTS

WORKFORCE WEST VIRGINIA
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2009
(In Thousands)

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	Primary Government		
	Governmental Activities	Business - type Activities	
	General Fund	Unemployment Compensation Trust	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,611	\$ 193,174	\$ 194,785
Receivables, net:			
Unemployment compensation premiums	-	49,971	49,971
Other	192	-	192
Due from other governments	-	4,199	4,199
Due from other funds - primary government	68	598	666
Inventories	58	-	56
Total current assets	1,927	247,942	249,869
Noncurrent assets:			
Capital assets, net	254	-	254
Total noncurrent assets	254	-	254
Total assets	2,181	247,942	250,123
Liabilities			
Current liabilities:			
Accounts payable	275	-	275
WV Retiree Health Benefit Trust (RHBT) payable (OPEB)	796	-	796
Accrued expenses and other liabilities	677	1,179	1,856
Due to other governments	666	4,386	5,052
Unemployment Compensation benefits payable	-	46,530	46,530
Compensated absences due within one year	911	-	911
Total current liabilities	3,325	52,095	55,420
Noncurrent liabilities:			
Compensated absences due in more than one year	414	-	414
Total noncurrent liabilities	414	-	414
Total liabilities	3,739	52,095	55,834
Net assets (deficit)			
Net assets (deficit):			
Invested in capital assets, net of related debt	254	-	254
Restricted for:			
Encumbrances	537	-	537
Reed Act	44	-	44
Unemployment Compensation benefit payments	-	195,847	195,847
Unrestricted net assets (deficit)	(2,393)	-	(2,393)
Total net assets (deficit)	\$ (1,558)	\$ 195,847	\$ 194,289

The Accompanying Notes Are An Integral
Part Of These Financial Statements

**WORKFORCE WEST VIRGINIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009
(In Thousands)**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
General government	\$ 47,913	\$ -	\$ 47,443	\$ (470)	\$ -	\$ (470)
Unallocated depreciation	97	-	-	(97)	-	(97)
Total governmental activities	48,010	-	47,443	(567)	-	(567)
Business-type activities:						
Unemployment Compensation Trust	356,715	250,000	-	-	(106,715)	(106,715)
Total business-type activities	356,715	250,000	-	-	(106,715)	(106,715)
Total primary government	\$ 404,725	\$ 250,000	\$ 47,443	(567)	(106,715)	(107,282)
General Revenues:						
Investment earnings				-	10,246	10,246
Fund balance transfers				(37,984)	37,984	-
Transfers in from the State of West Virginia				40,000	-	40,000
Change in net assets (deficit)				1,449	(58,485)	(57,036)
Net assets (deficit) - beginning				(3,007)	254,332	251,325
Net assets (deficit) - ending				\$ (1,558)	\$ 195,847	\$ 194,289

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2009
(In Thousands)

	Governmental Activities
	General Fund
Assets:	
Cash and cash equivalents	\$ 1,611
Due from other funds - primary government	68
Accounts Receivable - other	192
Inventories	56
Total assets	\$ 1,927
Liabilities and Fund Balance (Deficiency):	
Liabilities:	
Accounts payable	\$ 275
RHBT Payable (OPEB)	796
Due to other governments	666
Accrued expenditures and other liabilities	1,588
Total liabilities	3,325
Fund balance (Deficiency):	
Reserved for Encumbrances	537
Reserved for Reed Act	44
Unreserved deficiency	(1,979)
Total fund balance (deficiency)	(1,398)
Total liabilities and fund balance (deficiency)	\$ 1,927
Total fund balance (deficiency)	\$ (1,398)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	254
Long term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	(414)
Net assets (deficit) of governmental activities	\$ (1,558)

WORKFORCE WEST VIRGINIA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIENCY)
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2009
 (In Thousands)

	Governmental Activities General Fund
Revenues:	
Grants	\$ 47,443
	47,443
Expenditures:	
Employment training, statistics, and support	47,969
Excess (deficiency) of revenues over expenditures	(528)
Other financing sources and uses, including transfers	
Transfer out to the Unemployment Compensation Trust Fund	(37,984)
Transfer in from the State of West Virginia	40,000
Net change in fund balance	1,490
Fund balance (deficiency) - beginning	(2,888)
Fund balance (deficiency) - ending	\$ (1,398)
Net change in fund balance (deficiency) - total governmental funds	\$ 1,490
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.	(38)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which expenditures exceeded expense for long term compensated absences.	(3)
Change in Net Assets of Governmental Activities	\$ 1,449

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
BALANCE SHEET
PROPRIETARY FUND
JUNE 30, 2009
(In Thousands)

	Business-type Activities - Enterprise Fund Unemployment Compensation Trust
Assets:	
Current assets:	
Cash and cash equivalents	\$ 193,174
Receivables, net:	
Unemployment Compensation premiums	49,971
Due from other governments	4,199
Due from other funds - primary government	598
Total current assets	247,942
Total assets	\$ 247,942
 Liabilities and Fund Balance:	
Current liabilities:	
Accrued expenses and other liabilities	\$ 1,179
Due to other governments	4,386
Unemployment Compensation benefits payable	46,530
Total current liabilities	52,095
Total liabilities	52,095
 Fund Balance:	
Restricted for:	
Unemployment Compensation benefit payments	195,847
Total Fund Balance	195,847
Total liabilities and fund balance	\$ 247,942

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2009
 (In Thousands)

	<u>Business-type Activities - Enterprise Fund Unemployment Compensation Trust</u>
Operating revenues:	
Unemployment Compensation premiums	\$ 250,000
Total operating revenues	<u>250,000</u>
Operating expenses:	
Unemployment insurance benefits	<u>356,715</u>
Total operating expenses	<u>356,715</u>
Operating income (loss)	<u>(108,715)</u>
Nonoperating revenues:	
Investment earnings	<u>10,246</u>
Total nonoperating revenues (expenses)	<u>10,246</u>
Income (loss) before transfers	(96,469)
Transfer in from general fund	<u>37,984</u>
Increase (decrease) in net assets	(58,485)
Total net assets - beginning	<u>254,332</u>
Total net assets - ending	<u>\$ 195,847</u>

WORKFORCE WEST VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Business-type Activities - Enterprise Fund Unemployment Compensation Trust
Cash flows from operating activities:	
Received from employers	\$ 151,203
Received from federal and local agencies	77,761
Payments to claimants and providers	(335,850)
Net cash provided (used) by operating activities	(106,886)
Cash flows from non-capital financing activities:	
Transfers from other funds	37,984
Net cash provided (used) by non-capital financing activities	37,984
Cash flows from investing activities:	
Investment earnings	10,246
Net cash provided (used) by investing activities	10,246
Net increase (decrease) in cash and cash equivalents	(58,656)
Cash and cash equivalents - beginning	251,830
Cash and cash equivalents - ending	\$ 193,174
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (106,715)
Net change in assets and liabilities:	
Unemployment compensation premiums receivable	(17,553)
Due from other governments	(2,600)
Due from other funds - primary government	(325)
Accrued expenses and other liabilities	148
Due to other governments	(2,628)
Unemployment Compensation benefits payable	22,787
Net cash provided (used) by operating activities	\$ (106,886)

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (In Thousands, Unless Otherwise Noted)

(1) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

WorkForce West Virginia (Division) is a Division of the West Virginia Department of Commerce and as of June 30, 2009, consisted of four primary operating Divisions: the One Stop Operations Division (OS); the Employment Services Division (ES); the Unemployment Compensation Division (UC); and the Research, Information and Analysis Division (RIA).

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the West Virginia Department of Commerce and of the State of West Virginia that is attributable to the transactions of WorkForce West Virginia. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Commerce or the State of West Virginia as of June 30, 2009 and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Division is reported as part of the primary government in the State of West Virginia Comprehensive Annual Financial Report.

The General Fund of the Division includes funds received from the United States Department of Labor (USDOL) for Employment Services, Unemployment Compensation and Labor Statistics. These funds allow for operating local offices throughout the State of West Virginia to serve those seeking and providing employment. Most local offices were historically identified as "Job Service," and conduct employment outreach, interviewing, testing, counseling and referral to placement, training and other services designed to ready individuals for employment.

The UC provides temporary income as partial compensation to unemployed workers. The Division has direct responsibility for operation of this program. This program is administered under the oversight of USDOL, which establishes guidelines and funds administrative costs from monies collected under provisions of the Federal Unemployment Tax Act. Both ES and UC are federal mandated partners in the one stop delivery system.

Senate Bill 246

This bill was passed by the Legislature on April 11, 2009 and signed into law by the governor on May 11, 2009. The purpose of the bill was to bolster the solvency of the Unemployment Compensation Trust Fund. Provisions included in the bill to do that included increasing the taxable wage base on employee wages from \$8,000 (dollars) per year to \$12,000 (dollars) per year effective with passage of the bill. The taxable wage base will remain at \$12,000 (dollars) until the UC Trust Fund has a year end balance in excess of \$220 million. When that threshold is reached, the taxable wage base will revert to \$8,000 (dollars) and be indexed annually thereafter depending on the increase or decrease of average annual wages in West Virginia. The rate of benefits, previously adjusted annually, would also be frozen while the taxable wage base remains at \$12,000 (dollars). The bill also provided for the transfer of \$40 million from the old Workers Compensation Fund into the Unemployment Compensation Trust Fund.

The bill also provided for inclusion of the application of an alternate based period on UC claimants who did not qualify for benefits under the regular base period. This change in statute was made to qualify West Virginia for one third of a possible Reed Act distribution from USDOL. Subsequent to year end, in September 2009, the UC Trust Fund received the Reed Act distribution in the amount of approximately \$11 million.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

(1) **Summary of Significant Accounting Policies (Continued)**

The bill also made some minor clarifications to language concerning employees who leave their jobs due to medical reasons, work stoppages, etc. The bill also called for the creation of a violators list to be made available to the public via internet. Employers on the list would include those who had an outstanding liability due the UC Trust Fund.

House Bill 301

Subsequent to year end, this bill was introduced to the Legislature in a special session and approved by the Legislature on August 12, 2009. The bill was signed into law by the governor on August 19, 2009. The purpose of the bill was to make provision for a trigger for payment of extended benefits based on the Total Unemployment Rate (TUR). Existing law provided only for a trigger for extended benefits based only on the Insured Unemployment Rate (IUR). The reason for the change in statute was to qualify West Virginia for 100% federal funding of extended benefits by meeting the requirements set forth in the ARRA. The basic provisions of the change was that WV claimants who exhaust their regular benefits and emergency unemployment compensation benefits could qualify for an additional 13 weeks of extended benefits if WV had a 13 week average of TUR of 6.5% or an additional 20 weeks of extended benefits if WV had a 13 week average of TUR of 8.0% or more.

(b) **Basis of Presentation**

The accompanying financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of inter-fund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The Division has no component units or fiduciary activities.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

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(1) Summary of Significant Accounting Policies (Continued)

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Significant revenues subject to accrual include business unemployment taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The following summarizes the major governmental funds that are presented in the accompanying financial statements:

- **General Fund** - The General Fund is the general operating fund of the Division. It is used to account for all financial resources obtained and spent for those services normally provided by the Division that are not accounted for in other funds, including the administrative services related to the Unemployment Compensation System (see below), and the operation of various federal programs funded by USDOL.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

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(1) Summary of Significant Accounting Policies (Continued)

- Enterprise Funds - Enterprise funds are used to account for the operations of state agencies providing goods or services to the general public on a user-charge basis, and for any activity whose principal revenue sources meet any of the following criteria: debt backed solely by fees and charges; legal requirement to recover cost; and policy decision to recover cost. Based upon these criteria state unemployment compensation funds should be reported in enterprise funds.

The Division reports the following enterprise fund: The UC Trust fund is used to account for the operations of the UC Division, which is responsible for providing temporary income as partial compensation to unemployed workers.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include business unemployment taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Expenditures under the modified accrual basis of accounting are recognized when the related fund liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

In accordance with OMB Circular A-87, all allowable indirect costs related to USDOL for the Division are allocated to federal grants in compliance with the applicable federal cost principles. The basis for this allocation is the percentage of salary dollars paid by each federal grant in comparison to the total salary dollars paid by all of the Division's federal grants.

(c) Budgetary Data

All financial operations of the Division, except for benefits and direct claims costs of the UC Division are subject to a non-appropriated budget review and approval process in which the Division submits a financial plan for approval in a manner authorized by statute. Pursuant to West Virginia Code §5A-2-12, the Division submits a detailed budgetary schedule of general administrative expenses to the Secretary of the Department of Administration prior to the beginning of each fiscal year. The budgetary schedule is prepared on the cash basis. The cash basis is modified at year-end to allow for payment of invoices up to 31 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories as well as for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each Division as a whole must be approved by the State Legislature. The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund along with the reconciliation of budgetary information to GAAP is included in the Required Supplementary Information.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

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(1) **Summary of Significant Accounting Policies (Continued)**

(d) **Cash and Cash Equivalents**

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with outside financial institutions or amounts on deposit in the State Treasurer's Office (STO) or State Auditor's Office. Balances are recorded at fair value or amortized cost which approximates fair value. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

In addition, the Division's UC Trust Fund maintains a deposit account in the Federal Unemployment Insurance Trust Fund of the United States Treasury, and utilizes commercial banks for depositing amounts disbursed for unemployment benefit payments. All such funds are generally available to the Division with overnight notice, and are considered cash equivalents.

(e) **Inventory**

Inventory consists of supplies used in the normal course of business and is valued at the lower of cost or market using the first in first out method.

(f) **Revenue and Receivables**

The Division has one primary source of revenue for each fund type. The general fund's activities are supported by federal grants primarily on a reimbursement basis. Expenditures in excess of receipts are recorded as "due from other governments".

Revenue in the UC Trust Fund represents employer contributions for unemployment insurance. The Division recognizes as revenue and taxes receivable amounts due for periods ending on or before the balance sheet date, together with an allowance for estimated uncollectible employer contributions. When collected, these funds are held in trust until expended to pay unemployment benefits. The amounts on the financial statement are reported net of an allowance for doubtful accounts of \$1.7 million.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (In Thousands, Unless Otherwise Noted)

(1) Summary of Significant Accounting Policies (Continued)

(g) Capital Assets

Capital assets, which consist primarily of office furniture and equipment of the Division, are reported in the applicable governmental or business-type activities columns in the statement of net assets of the government-wide financial statements. In accordance with the capitalization policy adopted by the Division for financial reporting, assets costing in excess of five thousand dollars are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Depreciation is computed for these assets using the straight-line method over the estimated economic useful lives ranging from 3-20 years. Total depreciation expense relating to the Division approximated \$96 for the fiscal year ended June 30, 2009. Accumulated depreciation relating to the capital assets approximated \$546 at June 30, 2009. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets:				
Governmental activities:				
Office furniture and equipment	\$ 989	\$ 58	\$ (247)	\$ 800
Accumulated depreciation	<u>(697)</u>	<u>(96)</u>	<u>247</u>	<u>(546)</u>
Governmental activities capital assets, net	<u>\$ 292</u>	<u>\$ (38)</u>	<u>\$ -</u>	<u>\$ 254</u>

(h) Other Operating Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Balances classified as operating revenues and expenses are those which comprise the Division's ongoing operations. Principal operating revenues are charges to customers for use of the services. Principal operating expenses are the costs of providing the goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses, if any, are classified as non-operating in the financial statements.

(i) Retirement Benefits

The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

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(1) Summary of Significant Accounting Policies (Continued)

(j) Net Assets and Fund Balance

NET ASSETS - As required by GASB 34, the Division displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT - This component of net assets consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

RESTRICTED NET ASSETS - Restricted net assets should be reported when constraints placed on the net assets used are either externally imposed (for instance, by creditors, laws or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the Division's ability to use the resources to pay current liabilities.

UNRESTRICTED NET ASSETS - Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". In the governmental environment, net assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

FUND BALANCE - General fund balance reservations principally represent encumbrances for outstanding purchase orders and commitments at June 30, 2009. The UC expendable trust fund balance is fully reserved for benefit payments to claimants.

(k) Compensated absences

Effective July 1, 2007, the Division adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit ("OPEB") expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2007, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, the Division was required to participate in this multiple employer cost-sharing plan the West Virginia Retiree Health Benefit Trust Fund (RHBT), sponsored by the State of West Virginia. The Plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPE) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency ("PEIA"), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://www.wvpeia.com>.

This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

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(1) Summary of Significant Accounting Policies (Continued)

Full-time employees earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

The estimated expense and expense incurred for the vacation leave, or OPEB benefits are recorded as a component of benefits expense on the statements of revenues, expenses, and changes in net assets.

Legislation requires the RHBT to determine through an actuarial study, the ARC (Annual Required Contribution) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC is allocated to respective cost-sharing employers including the Division who are required by law to fund at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residue funds held in trust for future OPEB costs. Based on the actuarial study completed, the annual required contribution rates were determined for the fiscal year ended June 30, 2009. The OPEB expense for fiscal year 2009 based upon actuarial determined amounts is \$388.21 dollars per current employee per month which was the annual required contribution. The total OPEB expense for fiscal year 2009 was \$1,587. The amount accrued as the RHBT cumulative liability is \$796 at June 30, 2009.

The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,587 and \$224, respectively, during 2009. As of the year ended June 30, 2009, there were 66 individual retirees receiving these benefits.

(i) Recent Statements Issued By GASB

The GASB has issued Statement No. 51, *Accounting and Financial Reporting*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The Division has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The Division has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (In Thousands, Unless Otherwise Noted)

(2) Deposits

The composition of cash and cash equivalents were as follows at June 30, 2009:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Cash on deposit with State Treasurer	\$ 1,474	\$ 1,474
Cash in bank / bank overdraft balance	(158)	(158)
Cash in U.S. Treasury	<u>193,469</u>	<u>193,469</u>
	<u>\$ 194,785</u>	<u>\$ 194,785</u>

At June 30, 2009, the carrying value of amounts on deposit with the U.S. Treasury in the Federal Unemployment Insurance Trust Fund approximated \$193,469 while a bank overdraft balance of (\$158) in deposits was held in commercial bank accounts that are utilized for collection of unemployment taxes and benefit payments. Substantially all of the Division's deposits in commercial bank accounts are collateralized by securities held by the pledging financial institution, but not in the Division's name.

(3) Leases

The Division has various lease agreements for its current central office buildings and various hearing and field offices throughout West Virginia. The Division also leases a small number of vehicles.

All State agencies are required to have language in their lease agreements which allow termination by either party with 30 days notice. The Division has entered into several such agreements. The Division plans to honor the original terms of all such agreements and, therefore, has provided disclosure of these "operating" leases as though they were non-cancelable. These leases are classified as operating leases with the lease payments recorded as rent expense as they become payable. Contingent rentals on operating leases for certain equipment are determined based on usage of the equipment. In addition, certain operating leases for office space include rent escalation provisions based on increases in the lessor's real property taxes over taxes paid in a base year and annual renewal options.

Future minimum rentals under operating leases for the Division at June 30, 2009 are as follows:

Rentals due in fiscal year:

2010	\$ 1,807
2011	809
2012	598
2013	598
2014	440
Thereafter	<u>445</u>
Total minimum lease payments	<u>\$ 4,697</u>

Rental expense for the minimum rentals under operating leases for the year ended June 30, 2009 was \$1,722.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (In Thousands, Unless Otherwise Noted)

(4) Compensated Absences and Other Post Employment Benefits

The liability for compensated absences is generally liquidated in the fund for which the liability is recorded. Changes in compensated absences balances and other post employment benefits are as follows:

	<u>Beginning Balance</u>	<u>Additions/ Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
Compensated absences	\$ 1,327	\$ (2)	\$ 1,325	\$ 911
RHBT payable (OPEB)	<u>387</u>	<u>409</u>	<u>796</u>	<u>-</u>
	<u>\$ 1,714</u>	<u>\$ 407</u>	<u>\$ 2,121</u>	<u>\$ 911</u>

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Division's unfunded obligation arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Division or to obtain a greater benefit under the West Virginia Public Employees Retirement System.

(5) Pension Plan

(a) Plan Description

The Division contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. CPRB issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5, Room 1000, Charleston, WV 25305.

(b) Funding Policy

The PERS funding policy has been established by action of the State Legislature. State statute requires plan members to contribute 4.5% of their annual covered salary. Effective July 1, 2005, the employer contribution rate from the Division increased from 9.5% to 10.5% of the covered employee's salaries. The contribution requirements of plan members and the Division are established and may be amended by the PERS Board of Trustees. The Division's contributions to PERS for the years ended June 30, 2009, 2008, and 2007 were \$1,503, \$1,587, and \$1,532 respectively, equal to the required contributions for each year.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (In Thousands, Unless Otherwise Noted)

(6) Related Party Transactions

During the course of operations, the Division enters into transactions with other agencies of the State of West Virginia. These transactions consist of normal Division/employer transactions or fees for services paid to other State enterprise or internal service funds, as set forth below:

	<u>General Fund</u>	<u>Unemployment Compensation Trust</u>
Employer premiums revenue from other State agencies	\$ -	\$ 4,199
Employee benefits and other costs paid to other State agencies	\$ 7,060	\$ -

Due from other State Agencies:

	<u>General Fund</u>	<u>Unemployment Compensation Trust</u>
West Virginia Human Rights Commission	\$ 4	\$ -
West Virginia Department of Health and Human Resources, Bureau of Child Support	64	-
Rehabilitation Services	-	52
Motor Vehicles	-	2
WV Department of Highways	-	5
Health & Human Resources	-	42
Natural Resources	-	36
Lakin State Hospital	-	7
William R. Sharpe Jr. Hospital	-	3
Bluefield State College	-	8
Marshall Division	-	10
West Virginia Division	-	66
Attorney General's Office	-	5
Environmental Protection	-	3
Regional Jail	-	58
Mt. Olive	-	21
Division of Juvenile Services	-	21
Others	-	259
Total	<u>\$ 68</u>	<u>\$ 598</u>

(7) Commitments and Contingencies

(a) Risk Management

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

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(In Thousands, Unless Otherwise Noted)

(7) Commitments and Contingencies (Continued)

BRIM is a public entity risk pool that provides coverage for general, liability and property damage in the amount of \$1,000 per occurrence. There have been no settlements that have exceeded this coverage in the last three years. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance.

Through its participation in the PEIA, the Division has obtained health, life and prescription drug coverage for all its employees. The Division, through a third-party insurer has obtained coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and a third-party insurer, the Division has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

These entities issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to these specific entities.

West Virginia had a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies began to offer coverage to private sector employers beginning July 1, 2008 and can begin to offer services to government employers July 1, 2010. Nearly every employer in the State, who has a payroll, must have coverage. The cost of all coverage is paid by the employers. BrickStreet or other insurance agencies retain the risk related to the compensation of injured employees under the program.

(b) Other Risks

During the normal course of operations, the Division incurs certain routine claims. The Legal Counsel for the Division has evaluated the potential loss for these claims and believes that the insurance coverage provided by BRIM is adequate to cover any potential losses from these claims.

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

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

WORKFORCE WEST VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2009
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/08	\$ -	\$ -	\$ 550,506	\$ 550,506
2009 FY Gross Revenue and Appropriations	76,250,000	76,250,000	83,777,794	7,527,794
Amounts Available For Appropriation	<u>76,250,000</u>	<u>76,250,000</u>	<u>84,358,300</u>	<u>8,108,300</u>
Charges To Appropriations (Outflows)				
001-Personal Services (With Payroll Deductions)	15,256,000	15,258,000	14,495,355	760,645
004-Annual Increment	402,220	402,220	417,594	(15,374)
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	130,311	130,311	97,999	32,312
011-Social Security Matching	1,197,854	1,197,854	1,092,385	105,469
012-Public Employees' Insurance	2,866,842	2,866,642	2,071,565	795,277
013-Other Health Insurance	100,000	100,000	-	100,000
014-Workers Compensation	285,545	285,545	72,800	213,645
015-Unemployment Compensation	100,000	100,000	10,598	89,414
018-Pension & Retirement	1,644,113	1,644,113	1,502,548	141,564
Current Expenses:				
020-Office Expenses	560,000	500,000	389,073	110,926
021-Printing and Binding	500,000	500,000	229,142	270,858
022-Rental Expense	1,700,000	1,700,000	2,148,229	(448,229)
023-Utilities	250,000	250,000	72,752	177,248
024-Telecommunications	750,000	750,000	347,068	402,932
025-Contractual and Professional	5,312,657	5,312,657	1,223,682	4,088,975
026-Travel	750,000	750,000	-	750,000
027-Computer Services	250,000	250,000	1,194,453	(854,453)
028-Vehicle Rental	150,000	150,000	15,189	134,811
030-Rentals (Machine and Miscellaneous)	200,000	200,000	-	200,000
031-Association Dues and Professional Memberships	28,780	28,780	22,328	16,452
032-Fire, Auto, Bond, and Other Insurance	88,017	86,017	88,016	1
034-Clothing, Household and Recreational Supplies	30,000	30,000	7,536	22,464
038-Advertising and Promotional	100,000	100,000	25,408	74,592
036-Vehicle Operating Expense	30,000	30,000	15,858	14,142
039-Routine Maintenance Contracts	400,000	400,000	-	400,000
041-Cellular Charges	15,000	15,000	8,751	6,249
042-Hospitality	100,000	100,000	63,368	36,631
043-Educational Training (Stipends)	25,000	25,000	29,803	(4,803)
051-Miscellaneous	213,983	213,983	3,380	210,603
052-Training and Development	200,000	200,000	10,690	189,310
053-Postal and Freight	750,000	750,000	985,410	(235,410)
054-Computer Supplies	400,000	400,000	-	400,000
058-Attorney Legal Service Payments	100,000	100,000	170	99,830
059-Miscellaneous Equipment Purchases	30,000	30,000	187,550	(157,550)
059-Student Activities	-	-	59,553	(59,553)
061-Office & Communication Equipment Repairs	50,000	50,000	5,622	44,378
063-Building & Household Equipment Repairs	5,000	5,000	-	5,000
064-Routine Maintenance Of Buildings	10,000	10,000	15,317	(5,317)
065-Vehicle Repairs	-	-	2,123	(2,123)
070-Office and Communication Equipment	100,000	100,000	14,513	85,487
083-Grants, Awards, Scholarships, and Loans	-	-	1,928	(1,928)
089-Bank Costs	-	-	489	(489)
096-Other Interest and Penalties	5,000	5,000	19,947	(14,947)
100-Fund Transfers	41,434,620	41,434,620	276,909	41,157,711
101-Legislative Direct Transfer	-	-	40,606,060	(40,606,060)
124-Cost Allocation Adjustment/Settlement	150,000	150,000	-	150,000
128-Federal Subrecipient Disbursement	90,178	90,178	13,768,328	(13,678,150)
143-Building Improvements	-	-	7,309	(7,309)
160-CPEB Expense	-	-	288,425	(288,425)
170-Computer Equipment	50,000	50,000	-	50,000
171-Computer Software	20,000	20,000	30,490	(10,490)
331-Other Travel	-	-	535,407	(535,407)
343-Other Rentals	-	-	174,498	(174,498)
350-Comm Equip Maint Contract	-	-	22,359	(22,359)
351-Other Maintenance Contracts	-	-	341,157	(341,157)
360-Software Licenses	-	-	177,712	(177,712)
361-Other Computer Supplies	-	-	418,315	(418,315)
Total Charges To Appropriations	<u>78,779,520</u>	<u>78,779,520</u>	<u>82,894,758</u>	<u>(8,108,300)</u>
Budgetary Fund Balance, June 30, 2009	<u>\$ (529,520)</u>	<u>\$ (529,520)</u>	<u>\$ 1,473,544</u>	<u>\$ 2,003,064</u>

WORKFORCE WEST VIRGINIA
 NOTES TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
 YEAR ENDED JUNE 30, 2009
 (in thousands)

(1) **Budget and Actual Comparison**

The Division's General Fund has a legislatively approved budget. However, certain monies reported within the General Fund in accordance with accounting principles generally accepted in the United States of America (GAAP), are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these amounts have not been reported in the Division's Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund. A reconciliation of the net change in fund balance for the year ended June 30, 2009, on the budgetary basis to the GAAP basis for the General Fund follows:

Net change in fund balance - budgetary basis	\$ (2,003)
Basis of accounting differences (budgetary to GAAP)	1,423
Unbudgeted funds	54
Transfers, net	<u>2,016</u>
Net change in fund balance - GAAP basis	<u>\$ 1,490</u>

OTHER FINANCIAL INFORMATION

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 3450 Administration and Service
Year Ended June 30, 2009
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/08	\$ -	\$ -	\$ 440,181	\$ 440,181
2009 FY Gross Revenue	70,332,843	70,332,843	84,771,484	(5,581,679)
Amounts Available For Appropriation	70,332,843	70,332,843	85,211,326	(5,121,618)
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	15,258,000	15,258,000	12,650,328	2,605,672
004-Annual Increment	402,220	402,220	377,188	25,032
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	130,311	130,311	89,482	41,819
011-Social Security Matching	1,197,854	1,197,854	958,640	241,214
012-Public Employees' Insurance	2,856,842	2,856,842	1,652,614	1,014,228
013-Other Health Insurance	100,000	100,000	-	100,000
014-Workers Compensation	288,545	288,545	86,841	218,704
015-Unemployment Compensation	100,000	100,000	9,615	90,385
016-Pension & Retirement	1,644,113	1,644,113	1,325,188	318,914
Current Expenses:				
020-Office Expenses	500,000	500,000	328,441	180,559
021-Printing and Binding	500,000	500,000	224,439	275,561
022-Rental Expense	1,700,000	1,700,000	1,300,598	399,402
023-Utilities	250,000	250,000	28,174	221,826
024-Telecommunications	750,000	750,000	308,433	441,567
025-Contractual and Professional	300,000	300,000	919,384	(619,384)
028-Travel	750,000	750,000	-	750,000
027-Computer Services	250,000	250,000	843,289	(593,289)
029-Vehicle Rental	150,000	150,000	14,464	135,536
030-Rentals (Machine and Miscellaneous)	200,000	200,000	-	200,000
031-Association Dues and Professional Memberships	38,780	38,780	28,377	18,403
032-Fire, Auto, Bond, and Other Insurance	86,617	86,617	78,387	8,230
034-Clothing, Household and Recreational Supplies	30,000	30,000	7,520	22,480
038-Advertising and Promotional	100,000	100,000	28,888	71,112
035-Vehicle Operating Expenses	30,000	30,000	14,380	15,620
038-Routine Maintenance Contracts	400,000	400,000	-	400,000
041-Cellular Charges	15,000	15,000	5,289	9,711
042-Hospitality	100,000	100,000	57,497	42,503
043-Educational Training (Stipends)	25,000	25,000	19,340	5,660
051-Miscellaneous	219,889	219,889	1,016	218,873
052-Training and Development	200,000	200,000	10,913	189,087
053-Postal and Freight	788,000	750,000	978,339	(228,339)
054-Computer Supplies	400,000	400,000	-	400,000
058-Attorney Legal Service Payments	100,000	100,000	170	99,830
058-Miscellaneous Equipment Purchases	30,000	30,000	168,686	(138,686)
051-Office & Communication Equipment Repairs	50,000	50,000	5,378	44,622
053-Building & Household Equipment Repairs	5,000	5,000	-	5,000
054-Routine Maintenance Of Buildings	10,000	10,000	14,952	(4,952)
065-Vehicle Repair	-	-	1,998	(1,998)
078-Office and Communication Equipment	100,000	100,000	13,689	86,311
089-Bank Costs	-	-	408	(408)
056-Other Interest and Penalties	5,000	5,000	1,588	3,412
100-Fund Transfers	40,000,000	40,000,000	-	-
101-Legislative Direct Transfer	-	-	40,000,000	-
124-Cost Allocation Adjustment/Settlement	150,000	150,000	-	150,000
128-Federal Subrecipient Disbursement	50,178	90,178	346,802	(256,824)
143-Building Improvements	-	-	7,044	(7,044)
160-CPFB Expense	-	-	264,101	(264,101)
170-Computer Equipment	50,000	50,000	(5,285)	55,285
171-Computer Software	20,000	20,000	30,480	(10,480)
331-Other Travel	-	-	441,407	(441,407)
343-Other Rentals	-	-	183,682	(183,682)
350-Comm Equip Maint Contract	-	-	20,811	(20,811)
351-Other Maintenance Contracts	-	-	245,935	(245,935)
360-Software Licenses	-	-	(11,772)	11,772
361-Other Computer Supplies	-	-	104,624	(104,624)
Total Charges To Appropriations	70,332,843	70,332,843	84,480,583	5,802,290
Budgetary Fund Balance, June 30, 2009	\$ -	\$ -	\$ 780,762	\$ 780,762

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 8835 Consolidated Federal Funds
Year Ended June 30, 2009
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/08	\$ -	\$ -	\$ 13,458	\$ 13,458
2009 FY Gross Revenue	5,012,657	5,012,657	2,008,154	(3,004,503)
Amounts Available for Appropriation	5,012,657	5,012,657	2,021,612	(2,991,045)
Charges to Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	-	-	419,781	(419,781)
004-Annual Increment	-	-	10,660	(10,660)
Employee Benefits				
010-Personnel Division & Public Employees Insurance	-	-	385	(385)
011-Social Security Matching	-	-	29,339	(29,339)
012-Public Employees' Insurance	-	-	76,780	(76,780)
014-Workers Compensation	-	-	47	(47)
016-Pension & Retirement	-	-	35,032	(35,032)
Current Expenses				
022-Rental Expense	-	-	737,079	(737,079)
023-Utilities	-	-	43,467	(43,467)
025-Contractual and Professional	5,012,657	5,012,657	41,250	4,971,407
027-Computer Services	-	-	82,500	(82,500)
058-Miscellaneous Equipment Purchases	-	-	17,661	(17,661)
170-Computer Equipment	-	-	5,295	(5,295)
331-Other Travel	-	-	21,358	(21,358)
351-Other Maintenance Contracts	-	-	76,505	(76,505)
360-Software Licenses	-	-	68,943	(68,943)
361-Other Computer Supplies	-	-	311,753	(311,753)
Total Charges To Appropriations	5,012,657	5,012,657	1,977,835	3,034,822
Budgetary Fund Balance, June 30, 2009	\$ -	\$ -	\$ 43,777	\$ 43,777

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 8888 Workforce Investment Act
Year Ended June 30, 2009
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/08	\$ -	\$ -	\$ -	\$ -
2009 FY Gross Revenue	-	-	16,745,712	16,745,712
Amounts Available For Appropriation	-	-	16,745,712	16,745,712
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	-	-	1,425,246	(1,425,246)
004-Annual Increment	-	-	29,736	(29,736)
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	-	-	9,122	(9,122)
011-Social Security Matching	-	-	106,406	(106,406)
012-Public Employees' Insurance	-	-	142,171	(142,171)
014-Workers Compensation	-	-	6,012	(6,012)
015-Unemployment Compensation	-	-	971	(971)
016-Pension & Retirement	-	-	142,318	(142,318)
Current Expenses:				
020-Office Expenses	-	-	49,630	(49,630)
021-Printing and Binding	-	-	4,703	(4,703)
022-Rental Expense	-	-	108,552	(108,552)
023-Utilities	-	-	111	(111)
024-Telecommunications	-	-	40,832	(40,832)
025-Contractual and Professional	-	-	262,828	(262,828)
027-Computer Services	-	-	78,594	(78,594)
029-Vehicle Rentals	-	-	785	(785)
031-Association Dues and Professional Memberships	-	-	2,011	(2,011)
032-Fire, Auto, Bond, and Other Insurance	-	-	6,629	(6,629)
034-Clothing, Household and Recreational Supplies	-	-	16	(16)
035-Advertising and Promotional	-	-	2,719	(2,719)
036-Vehicle Operating Expense	-	-	1,278	(1,278)
041-Cellular Charges	-	-	3,492	(3,492)
042-Hospitality	-	-	5,872	(5,872)
043-Educational Training (Stipends)	-	-	1,463	(1,463)
051-Miscellaneous	-	-	2,364	(2,364)
052-Training and Development	-	-	377	(377)
053-Postal and Freight	-	-	7,071	(7,071)
058-Miscellaneous Equipment Purchases	-	-	6,893	(6,893)
059-Student Activities	-	-	59,553	(59,553)
061-Office & Communication Equipment Repairs	-	-	206	(206)
064-Routine Maintenance Of Buildings	-	-	365	(365)
065-Vehicle Repairs	-	-	125	(125)
070-Office and Communication Equipment	-	-	644	(644)
083-Grants, Awards, Scholarships, and Loans	-	-	1,928	(1,928)
096-Other Interest and Penalties	-	-	18,289	(18,289)
100-Governors Workforce Investment Act	529,520	529,520	-	529,520
128-Federal Subrecipient Disbursement	-	-	13,419,526	(13,419,526)
143-Building Improvements	-	-	266	(266)
160-WV OPEB Contribution	-	-	24,324	(24,324)
331-Other Travel	-	-	72,642	(72,642)
343-Other Rentals	-	-	10,836	(10,836)
350-Comm equip Maint-contract	-	-	1,548	(1,548)
351-Other Maintenance Contracts	-	-	18,717	(18,717)
361-Other Computer Supplies	-	-	120,541	(120,541)
360-Software Licenses	-	-	1,938	(1,938)
Total Charges To Appropriations	529,520	529,520	16,199,449	(15,689,929)
Budgetary Fund Balance, June 30, 2009	\$ (529,520)	\$ (529,520)	\$ 546,263	\$ 1,075,783

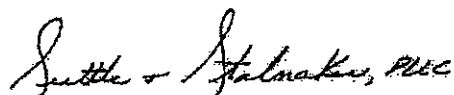
COMPLIANCE AND INTERNAL CONTROL REPORT

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WorkForce West Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting that we have reported to management of WorkForce West Virginia in a separate letter dated January 25, 2010.

This report is intended solely for the information and use of management, the State of West Virginia, grantor agencies, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Charleston, West Virginia
January 25, 2010

PROPOSAL
FOR
WORKFORCE WEST VIRGINIA
FOR
PROFESSIONAL AUDITING SERVICES
JANUARY 1, 2010 THROUGH DECEMBER 31, 2011
RFQ# WWV11869

SUBMITTED OCTOBER 14, 2010 BY
BALESTRA, HARR & SCHERER, CPAs, INC.
MICHAEL A. BALESTRA, SHAREHOLDER/DIRECTOR
balestra@bhscpas.com

528 SOUTH WEST STREET
PIKETON, OHIO 45661
740-289-4131

204 PARK AVENUE
IRONTON, OHIO 45638
740-532-1005

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Balestra, Harr & Scherer, CPAs, Inc.

ACCOUNTING, AUDITING, AND CONSULTING SERVICES

FOR FEDERAL, STATE, AND LOCAL GOVERNMENTS

www.bhscpas.com

528 SOUTH WEST STREET
PIKETON, OHIO 45661
(740) 289-4131

204 PARK AVENUE
IRONTON, OHIO 45638
(740) 532-1005

October 14, 2010

WORKFORCE WEST VIRGINIA
WV Bureau of Employment Programs
3701 Mac Corkle Avenue SE
Charleston, WV 25304

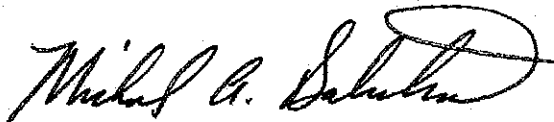
In accordance with the State of West Virginia Purchasing Division and WORKFORCE WEST VIRGINIA's request for proposal (RFP), Balestra, Harr & Scherer, CPAs, Inc. is pleased to submit this proposal to perform the financial and compliance audit of the WORKFORCE WEST VIRGINIA for period July 1, 2010 through June 30, 2011, with option to audit financial statements for each of the two (2) subsequent fiscal years.

Balestra, Harr & Scherer, CPAs, Inc. is committed to perform the audit of the WORKFORCE WEST VIRGINIA for the period in question in accordance with the requirements of the "Request for Proposal."

Balestra, Harr & Scherer, CPAs, Inc. specializes in providing services to federal, state, and local governmental units. We believe our experience in providing auditing, accounting, and management consulting services for numerous government clients similar to the WORKFORCE WEST VIRGINIA makes us uniquely qualified to assist you with the proposed contract. As you will find the key personnel have the experience to perform this engagement in a timely and efficient manner.

We are very interested in doing business with the WORKFORCE WEST VIRGINIA and hope to be able to be your auditor for the period July 1, 2010 through June 30, 2011. Thank you for the opportunity to present this proposal.

Sincerely yours,



Michael A. Balestra, CPA, CFE, CGFM, CISM

AUDIT OF WORKFORCE WEST VIRGINIA'S BASIC FINANCIAL STATEMENTS

LICENSE TO PRACTICE IN WEST VIRGINIA/INDEPENDENCE/NONDISCRIMINATION

Balestra, Harr & Scherer, CPAs, Inc. is a small business in accordance with the U.S. Small Business Administration, a Professional Corporation in the State of Ohio. We are currently authorized to engage in practice as a Certified Public Accountant pursuant to 4701.10, Revised Code. All assigned key professional staffs are properly licensed to practice in West Virginia. Balestra, Harr & Scherer, CPAs, Inc. will not use a subcontractor for this engagement.

The principal and all key professional staff have complied with the governmental qualification standards, including governmental continuing education. Included in the qualification and experience for the key personnel is a listing of continuing education courses attended over the past three years. The firm's most recent external quality review was conducted in January 2009 for which it received an unqualified opinion.

AFFIRMATIONS

The firm of Balestra, Harr & Scherer, CPAs, Inc. hereby affirms that all assigned key professional staffs who are indicated to be a licensed CPA, are properly licensed to practice in Ohio, have complied with the governmental qualification standards, including the governmental continuing education requirements, have undergone an external quality peer review.

The firm of Balestra, Harr & Scherer, CPAs, Inc. hereby affirms that the firm and all key professional staff are independent of the WORKFORCE WEST VIRGINIA and the State of West Virginia as defined by the U.S. General Accounting Office's Governmental Auditing Standards, Amendment Number 3 (2003).

The firm of Balestra, Harr & Scherer, CPAs, Inc. hereby affirms that they will not provide non-audit services to WORKFORCE WEST VIRGINIA during the term of the contract that would require the firm to perform management functions or make management decisions for the client, or would lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the IPA would be auditing their own work.

The firm of Balestra, Harr & Scherer, CPAs, Inc. hereby affirms that it will not discriminate against any employee or applicant for employment because of race, color, religion, sex, age, handicap, or national origin. The firm has complied with Presidential Executive Order 11246, "Equal Employment Opportunity," as amended by Presidential Executive Order 11375, and as supplemented by 41 CFR Part 60. The firm is committed to Affirmative Action.

EXPERTISE AND EXPERIENCE

FIRM QUALIFICATION AND EXPERIENCE

Balestra, Harr & Scherer, CPAs, Inc. is a certified public accounting firm with clients located throughout Ohio, Indiana, Kentucky, Michigan and West Virginia. Our firm was established in 1992 and has a proven history of service which serves a broad range of nonprofit, government, and private sector clients. We provide a broad range of services to our clients including auditing, accounting, management consulting, and tax preparation and planning. Our firm is registered with the American Institute of Certified Public Accountants, Ohio, Indiana, Kentucky, Michigan, and West Virginia State Accountancy Board, and the Auditor of State of Ohio - IPA Division. Our firm is classified as a Hub-zone small business in accordance with the U.S. Small Business Administration. We have five office locations in Circleville, Ironton, Worthington, Portsmouth and Piquette, Ohio. The location of the office from which the work on this engagement is to be performed is 204 Park Avenue, Ironton, Ohio 45638.

Balestra, Harr & Scherer, CPAs, Inc. is a member of the Private Companies Practice Sections (PCPS) of the American Institute of Certified Public Accountants. As members we subject ourselves to triennial peer reviews in an effort to ensure that the quality of work and our staff's education is maintained at the highest level of our profession. Membership in the PCPS also requires that our professional staff obtain at least forty hours of continuing education annually. In addition, we encourage our staff to become involved in professional and civic organizations. These organizations include the American Institute of Public Accountants, West Virginia Society of Certified Public Accountants, Association of Government Accountants, Government Finance Officers Association, Information Systems Audit and Control Association and many other organizations.

Our firm's membership in the Independent Accountant's International and other networks provides us with technical resources and manpower not only on a national level but a global level as well. Members of Independent Accountants International network are thoroughly screened to ensure that the quality of their work meets professional standards and the standards established by the network. When the need arises, we have a proven, quality contact in other cities across the nation as well as around the world that we can use for technical resources or provide help on a project in another part of the country or world.

Balestra, Harr & Scherer, CPAs, Inc. is a group of dedicated professionals. We employ 64 people full-time of which 60 are professional staff. Of this total, 15 are Certified Public Accountants, 2 are Certified Fraud Examiners, 2 are Certified Information System Auditors, 1 is Certified Information Technology Professional, 1 is a Certified Government Audit Professional, 1 is a Certified Information Security Manager and 2 is a Certified Government Financial Manager. All professional staff has a Bachelors Degree in Accounting. Our firm has a substantial audit and consulting practice of government clients, so we have 15 full-time and 2 part-time audit staff members dedicated to this important client base. The staffing for this engagement will entail the following; Engagement Partner, Director of Quality Assurance/Concurring Reviewer, Manager, Supervisor, staff auditors, and a systems auditor.

Experience and professionalism are the keys to our success. Members of the firm have worked in various entities including governmental and regulated industries. They understand the system from both sides of the equation. Maintaining the highest degree of independence, integrity, and competence, our staff treats all client matters with the utmost confidentiality. Consequently, every member of our firm is committed to providing a high level of service that is responsive to the needs and expectations of each individual client. The firm uses state of the art computerized equipment to insure accurate and timely preparation of reports.

One way we insure quality service is to have an effective quality control program. Our firm underwent a external review of its internal quality control program by an independent review team in January 2009 and received an unqualified opinion. This review process is a requirement of our professional organization, the American Institute of Certified Public Accountants, and is completed to insure that firms are meeting professional standards.

Balestra, Harr & Scherer, CPAs, Inc. is a firm registered with the Accountancy Boards in Ohio, Indiana, Kentucky, Michigan and West Virginia and has no record of outstanding complaints on file with the Boards during the past 3 years. The firm has no pending disciplinary action against it nor has it had any disciplinary action taken against it during the past 3 years with state regulatory bodies or professional organizations.

ASSIGNED PARTNER QUALIFICATIONS AND EXPERIENCE

MICHAEL A. BALESTRA

Current position	President/Director		
Current employer	Balestra, Harr & Scherer, CPAs, Inc.		
Education	B.B.A., Accounting, Ohio University		
Professional certifications	CPA, CFE, CGFM, CISM		
Total years of experience	25	Years of audit experience	25
Proposed position	Engagement Partner	Years of Government experience	25

Relevant experience

- Mr. Balestra served as the engagement partner on the fiscal years 1995 through 2009 Government engagements.

State and local government audit experience

- **States of Ohio, West Virginia and Kentucky.** Mr. Balestra served as a engagement partner on financial statement and compliance audits of State Agencies, Counties, Cities, Villages, Townships, School District, Universities, WWV, and Not for Profits conducted in accordance with *Government Auditing Standards* and the Single Audit Act. These audits involved accounting and auditing principles and techniques that closely resemble those of the WWV. Mr. Balestra's responsibilities include supervising and reviewing all phases of field work.
- Also, Mr. Balestra worked for 13 years as a Senior Auditor Manager for the Auditor of State of Ohio and has experience with an international accounting firm. While at the Auditor of State's office he performed audits in a 10 WWV area which involved numerous WWV engagements.

Professional accomplishments, affiliations, and other

Member, Association of Government Accountants
 Member, Government Financial Officers Association
 Member, WV, KY and Ohio Society of CPAs

Member, Information Systems Audit and Control Association
 Member, American Institute of Certified Public Accountants
 Member, Association of Certified Fraud Examiners

Continuing professional education (last three years)

Course	Participant (P)/ Instructor (I)	CPE Hours	Date
Uniform Cost Reporting	P	8	01/07
The Higher Education Accounting Forum: GFOA	P	18	04/07
Ohio Professional Standards and Responsibilities	P	3	12/07
Auditing Networked Computers	P	22	11/07
GASB Statement No.44 – The New Statistical Section	P	4	02/08
Core A&A Training – CCH	P	8	03/08
GASB #34 – CCH	P	8	03/08
Workshop – CCH	P	8	03/08
Compliance Issues and How to Design Policies to Avoid Them	P	2	03/08
Annual Update for Accountants and Auditors	P	8	03/08
Fraud Red Flags in Local Government	P	4	04/08
Training – Governmental Auditing – BHS	I	8	04/08
Fraudulent Payroll Schemes and Prevention	P	2	01/09
101 st Annual GFOA Conference	P	24	06/09
Community School Training	P	6	07/09
Government Accounting and Auditing Update Training	P	9	08/09

MATT THOMAS

Current position	Audit manager		
Current employer	Balestra, Harr & Scherer, CPAs, Inc.		
Education	B.B.A., Accounting, The Ohio State University		
Professional certifications	CPA, CFE		
Total years of experience	16	Years of audit experience	16
Proposed position	Audit Manager	Years of WWV experience	16

Relevant experience

WWV experience

- Mr. Thomas served as the audit manager on the fiscal years 1997 through 2009 WWV engagements. Mr. Thomas's responsibilities include supervising and reviewing all phases of field work and completing field work.

State and local government audit experience

- **State of Ohio.** Mr. Thomas served as Audit manager on financial statement and compliance audits of Counties, Cities, Villages, Townships, School Districts, Special Districts and Not for Profits conducted in accordance with *Government Auditing Standards* and the Single Audit Act. These audits involved accounting and auditing principles and techniques that closely resemble those of the WWV. Mr. Thomas's responsibilities include supervising and reviewing all phases of field work and completing field work.

Professional accomplishments, affiliations, and other

Member, Association of Government Accountants
 Member, American Institute of Certified Public Accountants
 Member, Ohio Society of Certified Public Accountants
 Member, Association of Certified Fraud Examiners

Continuing professional education (last three years)

<u>Course</u>	<u>Participant (P)/ Instructor (I)</u>	<u>CPE Hours</u>	<u>Date</u>
Fraud & the Financial Statement Audit (SAS 99) – AICPA	P	8	08/07
Audit Sampling – RSM McGladrey	P	3	08/07
SAS 99 and Identity Theft/ Forged Documents Seminar – Central Ohio AGA	P	4	09/07
Going Concerns Issues – RSM McGladrey	P	1	09/07
Consideration of Internal Controls in a Financial Statement Audit – RSM McGladrey	P	4	09/07
Audit Sampling Materiality & Risk – Video Education	P	8	09/07
Student Financial Aid Seminar – NASFFA	P	8	10/07
Accounting & Auditing for ADAMH – Franklin WWV ADAMH	P	8	12/07
The Revised Yellow Book – Government Auditing Standards – AICPA	P	8	01/08
Auditor of State Accounting, Auditing and Ohio Supplement Update	P	8	03/08
Central Ohio AGA Professional Development Conference	P	24	12/08
Ohio Professional Standards and Responsibilities	P	3	12/08
Uniform Cost Report Training	P	12	01/09
Emerging Trend In Fraud Investigation and Prevention Conference	P	12	05/09
The Higher Education Accounting Forum	P	18	04/09

AVAILABILITY AND EXPERIENCE OF MANAGEMENT SUPPORT PERSONNEL

The following personnel are available support personnel for technical consultation during the audit and as needed throughout the term of the contract. They can be assessed daily by staff and client, either by email, cell phone or land phone. Also, they have the capabilities to review our electronic work papers while at another location or off the audit site.

JEFF HARR, CPA

Jeff graduated from the Ohio State University with a BSBA in accounting in 1978. He is a shareholder and the firm's Director of Quality Control. Before starting the firm, he worked as an audit manager for an international accounting firm. He is a peer reviewer in the AICPA peer review program. Jeff has extensive experience in auditing government entities. He performs a stringent, independent technical review process of all opinion audits to ensure its accuracy and unbiased reporting. Also, he is available for consultation on technical matters, as needed. He meets the 40 hours CPE yellow book requirement every year.

PAUL RENNICK, CPA

Paul graduated from Wilmington College with a BS in accounting in 1979. He is the firm's Director of Quality of Assurance/Accounting and Auditing Support and has held various other audit and accounting management positions in his 24+ years in the field. Prior to joining our firm, he was the Senior Deputy Auditor for Local Government Services with the Auditor of State and an audit manager for an international accounting firm. Paul has served on GASB Task Forces, is an annual reviewer for the AICPA's governmental sector Audit Risk Alert and is a member of the GFOA Certificate Special Review Committee. He has extensive experience in auditing government entities. Paul is trained in the implementation of new reporting and disclosure requirements for Counties. To assist with compliance in the complex and evolving regulatory environment, Paul monitors the activities of the Auditor of State and GFOA. He also monitors state agencies and others regarding government funding and audit requirements of government entities. He meets the 40 hours of CPE yellow book requirement every year.

BRENDEN BALESTRA, CPA, CISA, CGAP, CGEIT

Brenden graduated from Liberty University with a BSBA in accounting in 1995. He is the firm's Director of Government Auditing and has 15 years experience. Brenden has extensive experience in auditing government entities and IT systems. His specialty is government audits and federal programs. Brenden is a member of the Institute of Internal Auditors, Association of Government Accountants and the Information Systems Audit and Control Association. He meets the 40 hours CPE yellow book requirement every year. He is available for consultation on technical matters, as and when needed.

CHRIS GLEASON, CISA

Chris graduated from the Ohio State University with a BSBA in accounting in 1998. He is the firm's IT Director and has 15 years experience. Chris has extensive experience in auditing government entities and IT systems. His specialty is reviewing general and application controls for IT systems. Chris is a member of the Information Systems Audit and Control Association. He meets the 40 hours CPE yellow book requirement every year. He is available for consultation on technical matters, as and when needed.

All the above listed personnel have provided technical support on the firm's government audits.

SIMILAR GOVERNMENT EXPERIENCE

WV EDUCATIONAL BROADCASTING AUTHORITY
WV PUBLIC BROADCASTING FOUNDATION, INC.
FRIENDS OF WV BROADCASTING, INC
WV ALCOHOL BUREA CONTROL ADMINISTRATION
WV DEPARTMENT OF EDUCATION
FORT GAY, WV
WAYNE, WV
SPENCER, WV
OHIO DOE
OHIO DOT
OHIO SCHOOL TO WORK
OHSAA
OHSAA FOUNDATION

PLEASE NOTE OUR FIRM PERFORMS OVER 100 GOVERNMENT AND NONPROFIT AUDITS ANNUALLY. THESE ARE TO LARGE TO SCHEDULE OUT BUT THE LIST CAN BE MADE A VAILABLE ON REQUEST.

UNDERSTANDING OF THE SCOPE OF THE WORK AND AUDIT APPROACH

We understand that the WORKFORCE WEST VIRGINIA seeks and independent CPA firm to perform an audit of the WWV's basic financial statements for the fiscal year ending June 30, 2011, with the option for auditing the subsequent two fiscal years. We understand that the WWV's basic financial statements include the following:

- Management's Discussion and Analysis
- Government Wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
- Fund Financial Statements
 - Balance Sheet – Governmental Funds
 - Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (includes reconciliation to the Statement of Net Assets)
 - Balance Sheet – Proprietary Funds
 - Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds
 - Statement of Cash Flows – Proprietary Funds
- Notes to the Financial Statements
- Required Supplementary Information – Unaudited
 - Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) –General Fund
 - Notes to Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) –General Fund
- Other Financial Information - Unaudited
 - Budgetary Comparison Schedule – Fund 3450 Administration and Service
 - Budgetary Comparison Schedule – Fund 8835 Consolidated Federal Funds
 - Budgetary Comparison Schedule – Fund 3451 Interest on Employers Delinquent Contributions Fund
 - Budgetary Comparison Schedule – Fund 8888 Workforce Investment Act

We will conduct the audit in accordance with *Government Auditing Standards* issued by the comptroller general of the United States, and subsequent revisions. Our audits of the WWV will be performed in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Public Accountants, the standards for financial audits set forth by *Government Auditing Standards* issued by the comptroller general of the United States, and subsequent revisions (2003), and the provisions of the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, we will perform tests of compliance using the West Virginia Code to determine the audit steps to be performed. Upon completion of the audit of the financial statements of the Workforce West Virginia we will issue the reports listed on page 21.

We are also required to audit the additional financial information schedules required by the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration. Also, limited procedures will be performed on RSI and OFI.

Understanding of the WORKFORCE WEST VIRGINIA

The WORKFORCE WEST VIRGINIA (Division) is a Division of the West Virginia Department of Commerce and as of June 30, 2009 consisted of four primary operating divisions: the One Stop Operations Division; The Employment Services Division; the Unemployment Compensation Division; and the Research Information and Analysis Division. The financial statements of the Division only present that portion of the West Virginia Department of Commerce and of the State of West Virginia that is attributable to the transactions of the Workforce West Virginia. The General Fund of the Division includes funds received from the United States Department of Labor for Employment Services, Unemployment Compensation and Labor Statistics. The funds allow for operating local offices throughout the State of West Virginia to serve those seeking and providing employment. The Unemployment Compensation provides temporary income as partial compensation to unemployed workers. The Division has direct responsibility for the operation of this program with oversight from the United States Department of Labor.

Audit Methodology and Approach

Audit methodologies and technical approaches can vary significantly among CPA firms, even though auditing standards and accounting principles have been uniformly established. Balestra, Harr & Scherer, CPAs, Inc. has developed an approach to auditing financial statements that has proved effective in meeting both professional standards and the high expectations of the general community. This methodology incorporates the best practices of the Firm's Audit Service Manual with the unique applications and requirements of the WWV and government sector's own authoritative literature.

We have already successfully implemented this methodology on previous audits. This methodology integrates both the financial and EDP audit approached seamlessly. The traditional audit approach is based upon an important premise-financial statements are not an end unto themselves. They are only one result of numerous operational processes and other variables that ultimately contributed to the financial results. With this in mind, we recognize that WWV and government entities today expect more than a certification statement for their audit fee. Although the auditors' opinion as to whether the financial statements are free of material misstatements is a critical outcome, the most important outcome of WWV and government audits today is practical recommendations for improving controls and increasing efficiency.

Technology-Enabled

Balestra, Harr & Scherer, CPAs, Inc. audit teams armed with proprietary applications that help to ensure that you receive a quality audit. Balestra, Harr & Scherer, CPAs, Inc.'s technology tools provide our teams with a structured, risk-focused workflow that puts industry information at their fingertips and enables team collaboration. These state-of-the-art tools are more than simple work papers; these tools help teams focus on the key risks of your business and drive concise analysis that is fundamental to the financial statement audit.

Given today's highly complex financial management systems, and evaluation of the IT control environment is a critical component of auditing the financial statements of most entities. Such and evaluation determines the degree of reliance an auditor can place on the internal controls of the systems that generate financial statements. Our IS auditors perform thorough reviews of the overall control procedures within the IT environment and of the specific controls unique to each client's application systems and transactions. The IT general control environment, combined with the specific applications controls unique to individual transaction cycles, will determine the reliability of data produced by computerized systems.

In determining our EDP audit approach, we use our technical expertise and understanding of the WWV and government agencies and its operating environments. Our EDP audits comply with Information Systems Audit and Control Association's audit methodology, COSO and COBIT.

Our EDP audit approach and work plan are simple and straightforward. We deploy a methodology that evaluates general controls at the entity and installation levels, we evaluate general controls as they are applied to the applications being examined, and we assess applications controls, which are the controls over input, processing, output, and security of data associated with individual applications.

This methodology examines the effectiveness of general controls as a significant factor in determining the effectiveness of application controls. We realize that without effective general controls. Application controls may be rendered ineffective by circumvention or modification. Our methodology examines both general and application controls to examine their effectiveness and to help ensure the reliability, appropriate confidentiality, and availability of critical automated information.

Balestra, Harr & Scherer, CPAs, Inc.'s Approach is Successful and Efficient

Our comprehensive engagement approach is based on a clear understanding of the client. We take into consideration the mission, business and operating objectives, and business and operating processes unique to your organization. This enables us to provide you with tailored results that specifically address opportunities for improvement.

Balestra, Harr & Scherer, CPAs, Inc. has audited more government entities than most other firms. Because our audit approach has proved to be successful at numerous government entities, we will not have to create a new approach of the WWV's, as any other firm would be required to do.

The chart below details the differences between traditional audits and Balestra, Harr & Scherer, CPAs, Inc.'s unique audit approach.

What You Should Expect	How Traditional Audits Respond	How Our Audit Responds
Understanding of your business, operations, and market challenges	Financial statement focus	Business approach built upon a foundation of understanding your mission and strategic operating objectives
Focus on compliance and controls	Internal control evaluation for interim test work	Continuous contact involving key members or our service team; integration with the audit objectives
The right team to match your operations	Functional audit team (auditors "borrowing" consultants	Multidisciplinary integrated team that works together, year-round
A firm that listens to your concerns	Responds to client-raised concerns; visits from a "sales partner"	Continuously asks how we can improve

Our audit methodology is founded on several key points:

- Consideration and use of existing documentation and related work products. We review the WWV's strategic plans, annual reports, five-year plans, budgets, and audit reports, and make use of prior-year work papers to the maximum extent possible. These sources of information save us time and enable us to better understand the WWV's business and operating environment, to assess control risk, and to plan the audit.
- Analytical review techniques in the planning phase or the audit to assess inherent risk and to identify account inter-relationships or results that may differ from expectations. This allows us to focus our audit effort on critical areas, providing an earlier and more effective identification of potential problems and areas most likely to result in material misstatement.
- Early consideration and discussion of the more contentious and often troublesome issues, such as the accounts most likely to require adjustment, most difficult to audit, or most difficult for which to obtain adequate audit evidence, and legal letters, management representation letters, and their ramifications.
- Maximum use of technology in the audit process, including the use of statistical sampling techniques to select and evaluate samples more efficiently and to minimize audit risk; extensive use of the WWV's computers to automate the audit process; use of other technology-based audit tools and techniques to audit "through the computer" where practicable; and use of IS auditors experienced in WWV and government audit engagements.
- Assignment of experienced professionals with specialized knowledge and skills in auditing WWV and government entities in accordance with related authoritative guidance.
- Strong reliance on planning, communication, and coordination between all parties.
- Continuous consideration and updates on the status of any reportable conditions, communicated through progress meetings and notices of findings, so that there are no surprises at the audit's completion.

Our audit methodology is risk-based and concentrates on areas that present a higher risk of financial statement loss or misstatement. Our approach focuses on planning, communicating, and coordinating with WWV's management and audit committee. Maintaining communication throughout the audit is critically important. Therefore, we will inform the audit committee and WWV's management of our progress as well as of potential audit issues and findings.

Four-Phase Approach

Our audit approach includes four phases: planning, internal control review, substantive testing, and reporting and is consistent with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The four phases and the work to be performed as part of each phase are summarized below. This summary does not limit the audit scope, as additional areas of focus may surface as the audit progresses.

Planning Phase

The primary purpose of this phase is to establish a proper foundation for the direction of the audit. The procedures performed during the planning phase will help ensure that the audit work performed is adequate and supports our opinion on the financial statements and our Report on Compliance and Internal Controls over Financial Reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.

Step 1.1 – Hold an entrance conference. We will hold an audit entrance conference with the WWV's management and Audit Committee to ensure all relevant concerns are incorporated into our procedures, to provide an overview of our objectives and planned approach, and to discuss administrative issues. We will provide at least five working days notice to WWV's management prior to the meeting. Topics we expect to address during the conference include:

- Identification of key contacts
- General audit approach
- Timeline
- Coordination with management regarding audit assistance needed
- Coordination of EDP and statistical specialist involvement
- Preliminary audit concerns
- WWV's management concerns
- Notification of findings and recommendations process (our "no surprises" audit technique)
- Content, format, and timing of progress and financial status reports
- Space and equipment needs

Step 1.2 – Meeting with key WWV personnel. We will meet with designated WWV personnel to discuss certain aspects of the overall audit planning process, including the following:

- Initial audit concerns
- Management concerns
- Fraud risk factors and management's response to such risk
- EDP general and application control environment

- Potential accounting and reporting issues
- Financial highlights
- Status of implementation of new GASB 34
- Any concerns not addressed in the entrance conference

We anticipate that the meeting described above will assist us in determining information needed for interim and final testing and establishing timetables. We believe that communication is vital for a successful audit; therefore, we will ensure that we discuss the information needed for the audit, the format of the information, and the due dates that will enable us to meet the deadlines.

Step 1.3 – Plan for interim fieldwork. We will design our audit so that we perform most of the detailed audit procedures throughout the year instead of after year-end. Example audit procedures that we will perform prior to year-end include:

All Processes

- Test the design and operating effectiveness of EDP controls
- Test the design and operating effectiveness of non-EDP internal controls, such as reconciliations and management review controls, for all audit processes

Cash and Investment Management Processes

- Test controls over cash and reconciliation activity

Budget Management Process

- Test controls over monthly budgetary statements
- Test a sample of appropriations and transfers approvals
- Test a sample of obligations incurred

Revenue Management Process

- Test controls and compliance with revenue policy and related laws and regulations

Human Resources Management Process

- Test controls over compliance with payroll and benefit related laws and regulations
- Test controls over payroll policy
- Substantively sample payroll

Procurement Management Process

- Test controls over compliance with procurement policy and laws
- Test controls over procurement policy
- Substantively sample vouchers

Step 1.4 – Perform high-level review of organization, programs, controls, and risk. We will obtain and review the following documentation as necessary:

- Enabling legislation
- Appropriations and related internal budgets
- Applicable laws and regulations
- Strategic plans
- Five year plans
- Accounting policies and procedures manuals
- Recent financial statements and annual reports
- Key statistical data
- Annual performance plans and related reports

Two key elements of our audit process are assessing business risks affecting the client and obtaining an understanding, sufficient to plan and execute the audit, of the key processes and controls in place to manage and mitigate those risks, including the use of information systems.

Step 1.5 – Review prior year audit work papers. We will review the prior year work papers and reports. We will also review any relevant internal audit reports that may have been issued that would affect WWV's financial systems, internal controls, or operations. This will allow us to build upon prior work and avoid duplication of effort. Our review of prior year work papers will focus on:

- Background information on operations and policies
- Overall control environment, financial management systems, and control procedures
- Controls and systems to ensure compliance with laws and regulations
- Other work papers supporting prior year reports

Step 1.6 – Make preliminary materiality determinations. Materiality determinations help focus the audit on key areas. We will preliminary determine materiality to identify significant line items, accounts, assertions, processes, and accounting applications. We will document these determinations in the work papers and include them in our planning document. We will also preliminarily determine materiality for analytical, internal control, and substantive testing purposes.

Step 1.7 – Review sources of financial statement data. We will review the flow of accounting data from the point of transfer or exchange to the general ledger. We will determine how the financial statement amounts are obtained from the general ledger and type of supporting documentation that supports the key general ledger activity. The information we obtain in this step will be used to prepare internal control cycle matrices.

Step 1.8 – Identify significant line items, accounts, and assertions. Based on our understanding of the source of financial statement data, we will begin to prepare an account risk analysis (discussed later in this section), in which we identify the material financial statement cycles, accounts, line items, components, and audit assertions. This will focus our attention on those financial statement elements that will require the most audit attention. Based upon our understanding of WWV's operations, we will have identified the following significant processes and related financial statement accounts:

- Cash and investment management
 - a. Cash and Cash Equivalents – pooled and segregated
- Budget Management
 - a. Appropriations
 - b. Status of budgetary resources
 - c. Estimated resources
 - d. Encumbrances and un-obligated balances
 - e. Transfers in and out, due to and from other funds
- Financial Reporting
 - a. Basic Financial statements
 - b. MD & A
 - c. Required supplementary information
 - d. Other financial information
- Revenue Management Process
 - a. Unemployment Compensation Premiums and other receivables
 - b. Charges for services and operating grants, interest and other
 - c. Due from other governments
- Procurement Management Process
 - a. Accounts payable and expenses
 - b. Material and supplies inventories
 - c. Capital assets, additions, deletions and depreciation
- Human Resource Management Process
 - a. Salaries, Wages and Benefit expense
 - b. Employee Pension contributions
 - c. Employer Pension contributions
 - d. Salaries, Wages and Benefits Payable, intergovernmental payable
 - e. Compensation Absences due

Step 1.9 – Identify significant internal control processes, cycles and accounting applications. Based on our definition of material financial statement accounts, line items, and components, and our understanding of the flow of information from the original points of entry, through the accounting application, to the financial statements, we will identify significant internal control processes, cycles, and accounting applications. In this effort, we will focus on those key controls directly affecting each material financial statement item, as well as those controls over the reported performance measures. This will guide our work in the internal control phase of the audit, where we understand, document, and test internal controls for purposes of determining whether they are adequately designed and their overall effectiveness. We expect the significant internal control processes and cycles to be:

- Cash and Investment management
- Budget management
- Revenue management
- Procurement management
- Human Resource management
- Financial Reporting management
- Federal Programs Grant management

Step 1.10 – Review general record keeping considerations. For each financial statement line item, we will determine the methodology, frequency of activity, and personnel involved in maintaining the accounting records. For example, we will determine how WWV's ensures that salary and benefits for new employees are calculated and entered into the payroll system accurately and timely and whether approved wage adjustments are properly made.

Step 1.11 – Assess adequacy of systems and procedures documentation. We will determine whether the accounting systems and control procedures are documented. We will also determine whether available systems and procedures documentation have been updated for any significant changes in accounting applications.

Step 1.12 – Perform preliminary analytical review procedures. Analytical procedures included reviewing interim account balances for trends, fluctuations, and relationships. We will perform analytical procedures for selected financial information and discuss unusual relationships and trends with management.

Step 1.13 – Identify major areas of audit concern and define the major audit objectives. Based on areas important to WWV's management, auditor of state and the audit committee, our understanding of the operating environment, the results of our analytical reviews, and our other planning procedures, we will highlight areas to emphasize during the engagement. We will then define the engagement objectives, concentrating on identified areas of concern.

These objectives will form the basis for the design of the audit programs and procedures to be performed. We will design our procedures based on the nature and materiality of the information to be tested, the likelihood of misstatements, the information gathered in the planning process, prior engagement experience, and our overall pension and government experience. We will design our engagement procedures to ensure we neither omit required procedures nor perform unnecessary procedures.

Step 1.14 – Identify significant provisions of laws and regulations. We will perform the following to identify laws and regulations that could have a direct and material effect on the financial statements:

- Inquire of the WWV's management and audit committee to discuss laws and regulations that could have a direct and material effect on the financial statements.
- Review the Request for Proposal
- Review work done in the prior year, as documented in prior year reports and work papers
- Review applicable authorizing and enabling legislation and any related WWV's
- Request WWV's general counsel to identify laws and regulations that it believes could have a direct and material effect on the retirement funds
- Review Auditor of State's Ohio Compliance Supplement
- Review applicable grant agreements

Step 1.15 – Determine preliminary risk assessments. We will determine the preliminary risk assessments based on quantitative and qualitative risk factors. Quantitative risk factors are a function of size and volume, while qualitative risk factors are more subjective and can include:

- The nature of operations and operating environment
- The strength of the internal control structure
- Transaction procedures and systems
- Accounting capabilities and policies
- The degree of subjective judgment required in determining significant dollar amounts
- The size, volume, and nature of transactions
- The systems to ensure compliance with laws and regulations
- The level and degree of management review
- The integrity and experience of management

During the planning phase, we will make preliminary risk assessments for each assertion. We will update and refine risk assessments based on results of our internal control test work and our assessment of effectiveness of internal control procedures. This will help us to focus the procedures we will perform in the testing phase on critical objectives, consistent with our assessments of control risk. More significant risk areas will receive more attention in terms of the procedures performed.

Step 1.16 – Identify uses for computerized audit applications. Our team will have multiple personal computers on site to automate certain functions. Automation makes engagement process more efficient and allows our professionals more time to analyze data and solve problems. We will use personal computers to automate analytical reviews, audit programs, system documentation, and detailed work papers; calculate statistical sample sizes and select sample items; test down load files; and automate various other tasks to produce an efficient and professional work product. Our work papers will include planning memoranda, internal control memoranda, spreadsheets, analytical reviews, and internal and external memoranda in Microsoft Word and Excel (format). Our IS auditors have developed computer assisted auditing techniques (CAATs) using our computer tools. The use of computers and our audit software enables our staff to perform the following functions electronically:

- Directly load client files into our microcomputer systems
- Update financial analyses and benchmarking indices
- Prepare or revise internal control analyses

- Select and analyze statistical and non-statistical audit samples for use in compliance and substantive audit test
- Exchange data among our offices, using our email system
- Track audit adjustments and their effect on financial statement balances

We will use sampling software to select sample sizes for non-payroll area.

The following summarizes certain automated software available to our audit team.

Audit Software	Application	Benefits
CCH Prosystems FX	Documents and manages audit strategy and execution	Improves audit team communication and efficiency
CCH CorpSystem Workpaper Manager Software	Workpaer Manger and Financial Statement Preparation	Improves audit team workpaper quality and efficiency and integrates Financial Statement Preparation
CAATs Automation Tools (ACL Software)	Enables automated data extraction, analysis, and reporting	Increases the efficiency of the audit
Cobit (ISAACA)	Models for microcomputer and mainframe based internal control documentation and review	Provides customized documentation in accordance with the Committee on Sponsored Organizations (COSO)
PPC Librarian	Professional accounting and auditing literature retrieval	Provides up to date guidance and key word searches
IT Control Reviews	IT documentation tool designed specifically for evaluating IT controls	Increases audit efficiency; minimizes time in documenting the IT control environment
IT Risk Management Benchmarking	Benchmarks the organization's key IT risk and controls against other organizations	Provides an objective means of reviewing the risk faced by an organization in relation to its use of IT

Step 1.17 – Assess work performed by other firms. We will inquire of WWV's management and the Auditor of State to identify any audits, reviews, or agreed upon procedures performed by other firms. We expect to review the work of these firms.

Step 1.18 - Review form and content of financial statements. We will review the prior year financial report and provide suggestions for improving presentation of the financial statements and related disclosures, as necessary. We will meet with WWV's management to discuss these suggestions and any new reporting requirements.

Step 1.19 – Review preparation of the MD & A. We will review the process for preparing the MD & A, developing and documenting performance measures, determining source(s) of the information, and determining whether the information is appropriately supported by source documentation.

Step 1.20 – Prepare the strategic audit plan. We will document the results of the planning phase in the strategic audit plan. Our standard work papers include business understanding documents, risk analysis documents, significant issues and decision documents, process analysis documents, control risk matrices, and audit program guides. Our strategic audit plan will include the following:

- Entity Profile, which provides a background of the WWV's and describes our overall engagement approach. This information is documented in our standard work papers entitled Engagement Planning Memorandum.
- General Risk Analysis, which identifies the overall engagement risks, the impact of accounting and engagement issues, the significant accounting cycles, laws and regulations, preliminary analytical procedures, engagement plan, and the materiality levels. This information is documented in our standard work papers entitled Engagement Planning Memorandum.
- Cycle Matrix, which links each of the accounts to a cycle, an accounting application, and a financial statement line item. The cycle memorandum sill document significant cycles or processes that will then be used to help identify significant internal controls within the cycle. This information is documented in our standard work papers entitled Engagement Planning Memorandum.
- Account Risk Analysis, which will bridge the internal control procedures to the substantive procedures in a narrative and table format. This document will identify, by account or financial statement line item, the relationship between identified internal control risks and the planned substantive procedures and assertions. This information is documented in our standard work papers entitled Engagement Planning Memorandum.
- Cycle Memorandum, which identifies the cycle transactions, each significant accounting application, and each significant financial management system included in the cycle. It describes the interfaces with other cycles and identifies financial statement line items and general ledger accounts in the cycle. It also describes the operating policies and procedures relating to

the processing of cycle transactions and major internal controls. This information is documented our standard work papers titled, Record of Application Controls, Record of Monitoring Controls, Assessment of the Control Environment, and Record of Computer Environment Controls.

- Special Control Evaluation Worksheet, which summarizes our evaluation of the effectiveness of the design and operation of specific control techniques for each significant accounting application or significant line item, including EDP controls. We will prepare a preliminary worksheet that will be updated in the internal control phase. This information is documented in our standard work papers entitled Engagement Planning Memorandum.
- Audit Programs, which document the specific objectives and procedures to be applied to each of WWV's significant financial statement line items and classes of transactions. These programs will help engagement staff organize planning procedures, perform system reviews and evaluations, perform sampling and computer assisted procedures, and summarize procedures by objective and applicable law and regulations.
- Sample Plans and Substantive Test of Details Worksheets will help determine the number of transactions to test in both statistical and non-statistical samples.

We will review the strategic engagement plan with WWV's management and audit committee and obtain approval of the strategic engagement plan.

Section 1.21 – Prepare a list of information needed for the audit. Bases on past WWV and government audit experience and our understanding of WORKFORCE WEST VIRGINIA, we will prepare a preliminary list of information needed for the audit (i.e., the PBC list and Client Assistance Package). We will try to use information already available to minimize WWV's efforts in preparing information for the audit. We will meet with WWV's management to discuss the timing of the information needed. We will maintain and update this list as the audit progresses.

Section 1.22 – Conduct periodic progress meetings. We will regularly communicate with the WWV's management and audit committee. We emphasize communication in our audit process because it is an important part of avoiding surprises, resolving questions, and meeting deadlines. We will hold periodic briefings with WWV's management and audit committee to discuss the progress of the engagement during every other week that we work on the engagement. At the periodic meetings, we will discuss any concerns of WWV's management and audit committee and the following:

- Progress to date compared to our audit timetable included in our proposal
- Significant issues and discrepancies, including audit findings, audit issues, and potential scope limitations
- Matters that could impact the deliverable due dates
- Recommended audit adjustments

Step 1.23 - Prepare monthly status or periodic meeting reports. We will prepare monthly progress reports for every month that we work on the engagement. We will also prepare reports summarizing the results of periodic meetings. The written reports will include summaries of the periodic meetings and list of participants and the following:

- Progress to date compared to our audit timetable included in our proposal
- Significant issues and discrepancies, including audit findings, audit issues, and potential scope limitations, and the proposed resolution
- Matters that could impact the deliverable due dates
- Recommended audit adjustments

We will submit these monthly reports to WWV's Management and audit committee no later than five business days after the end of the month.

Internal Control Phase

After completing the planning phase, we will begin the internal control phase. This phase will include reviewing, documenting, and testing internal controls, including EDP controls, as necessary. It will also, serves as the basis for our final risk assessments and lead to the development of our substantive and compliance test procedures.

Internal control is a process designed to provide reasonable assurance as to the reliability of financial information and compliance with applicable laws and regulations. During the planning phase, we will have obtained a preliminary understanding of the internal control policies and procedures that will enable us to develop audit procedures to assess and address control risk. Control risk is a factor that is used to determine the nature, timing, and extent of substantive procedures for the testing phase.

During the internal control phase, we will further our understanding of significant internal controls and procedures and determine whether internal control policies and procedures have been place in operation and are functioning properly. The specific procedures we will utilize to review and evaluate internal controls follow.

Step 2.1 – Understand, document, and evaluate the general control environment. We will use Balestra, Harr & Scherer, CPAs, Inc.’s control overview documents to gain an understanding of, document, and evaluate WWV’s current control environment over financial reporting. Balestra, Harr & Scherer, CPAs, Inc.’s control overview documents address the following:

- Risk assessment. Management’s process for identifying risk, entity-level objectives, and activity level objectives and managing change
- Control environment. Management’s attitude toward ethical values, fraud prevention and detection, commitment to competence, philosophy and operating style, organizational structure, assignment of WWV’s and responsibility, and human resources policies and procedures.
- Information and communication. Design of information systems and flow of communication
- Monitoring and control activities. Management review process, information system controls, physical controls, and internal controls.

Step 2.2 – Document and understand the system of internal controls (including control objectives and related control techniques). We will gain an understanding of internal controls and assess internal controls and related audit risk. We will examine the existing system documentation, written accounting policies and procedures, and any other related materials. We will also obtain and review the most recent reports in order to understand reported internal control weaknesses and corrective action plans.

We will interview the appropriate personnel involved in processing the data and study the systems to document the transactions cycles in the form of an overview of each accounting process. Specifically, we will trace the flow of financial information from its origination to its entry into the accounting system to the eventual reporting or use of the information. We will document the key internal controls for each accounting cycle and compliance process, considering the following controls:

- Financial reporting controls for each significant assertion in each significant process or accounting application
- Budget controls for each relevant restriction identified in the planning phase
- Compliance controls for each significant provision of materially applicable laws and regulations
- Cash and Investment management controls for each significant assertion in each significant process or accounting application
- Revenue management controls for each significant assertion in each significant process or accounting application
- Procurement management controls for each significant assertion in each significant process or accounting application
- Human Resource management controls for each significant assertion in each significant process or accounting application
- Federal Grants management controls for each significant assertion in each significant process or accounting application

In preparing the internal controls documentation, we will identify control objectives and determine the points in the process where a control should exist and which type of control. We will identify each significant accounting application included in the transaction cycles. We also will identify the significant EDP controls included in the transaction cycles. We will describe interfaces with other cycles and feeder systems, identify financial statement line items and general ledger accounts affected by the process, and describe the operating policies and procedures controlling the accuracy and completeness of transactions. We also will document our assessment of missing controls, if any.

WWV’s management should have designed and implemented internal control policies and procedures that provide for the WWV’s to (1) comply with significant provisions of laws and regulations and (2) monitor its overall compliance with such laws and regulations. We will obtain an initial understanding of the WWV’s compliance with internal controls by interviewing appropriate WWV’s management personnel.

Step 2.3 – Review and document EDP general and application controls. Our IS auditors will assist in conducting reviews of the overall EDP control environment and specific evaluations of application controls deemed significant to its financial statements. The results of our EDP controls assessment enables us to (1) determine whether general controls are properly designed and operating effectively and (2) consider application controls as part of the internal control assessment in the audit. We will document our understanding of EDP controls and systems and determine the extent of further audit procedures over EDP systems.

We will also review the following:

- | Management’s attitude toward and awareness of EDP
- | Organization and structure of the EDP function
- | Assignment of responsibilities and WWV’s
- | Management’s ability to identify and respond to potential risk
- | Function and relationship of systems

As part of our EDP control assessment, we will consider the following general control categories:

- | **Entity wide security program and management.** These controls ensure a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer related controls.
- | **Access Controls.** These controls limit or detect access to computer resources (data, programs, equipment, and facilities), thereby protecting these resources from unauthorized modification, loss, and disclosure. This includes controls to prevent unauthorized access to computer resources, including access control software, dial-in procedures, and controls over network interconnections.

| **Application software development and change controls.** These controls ensure that processes exist that prevent unauthorized programs or modifications to an existing program from being implemented.

| **Segregation of duties.** Policies, procedures, and an organizational structure are established so that one individual cannot control key aspects of computer related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

| **System Software.** These controls limit and monitor access to powerful programs and sensitive files that (1) control the computer hardware and (2) secure applications.

| These controls ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed and critical and sensitive data are protected.

Our application control assessment will include certain application controls from the following categories:

| **Automated input controls.** These controls ensure that only complete data are processed; errors or other rejected data are properly corrected in the system; data are controlled when converting data to machine form; only authorized transactions are processed; transactions are received from authorized sources; and transactions are captured for processing into the application in an accurate, complete, and timely manner. This includes the records that the system will process and the associated processes from origination to storage in the computer (any internal or external interfaces).

| **Processing and storage controls.** These controls ensure that data are processed correctly; any errors detected during processing are properly reported and monitored; transactions are processed by the programmed calculations completely and accurately and in accordance with user specifications; and the electronic information maintained on files remain authorized, complete, and accurate. This includes all computer processing after input has been accepted by the system and before output has been created, including the processing that matches or merges files, modifies data, updates master files, and performs file maintenance.

| **Automated output controls.** These controls ensure that output data is complete and reasonable; output reports are distributed only to authorized personnel; sensitive output is controlled properly; and files and reports generated by the application are complete, accurate, and distributed to authorized recipients on a timely basis. This includes the preparation of output and reports produced by the system and the associated manual process (automated or manual reconciliation) from the computer to the user.

Step 2.4 – Identify control objectives and evaluate internal controls. We will evaluate each internal control determined to be properly designed and placed in operation, in order to determine whether it meets the objectives of the control procedure and whether it is likely to be effective when properly performed (i.e., whether it would prevent or detect errors in financial data).

We will inform management of controls and procedures that have not been properly designed or implemented and controls determined to be ineffective even when properly performed.

Step 2.5 – Test of the WWV’s Internal Controls. We will determine the nature, timing, and extent of control testing necessary to ensure that controls are functioning as designed. We will test internal controls using a combination of non-sampling control tests (i.e., inquiry and observation) and sampling control tests (i.e., inspection and re-performance). We will determine appropriate sample sizes for internal control tests by considering the expected rate of error in the population, the desired confidence levels, and the desired precision limits in determining sample sizes.

We will develop and perform detailed test for testing the effectiveness of the internal control procedures. Test of internal controls will be designed to determine whether:

| Transactions are properly authorized, reviewed, and processed

| Source documentation exist to support transactions and assertions

| Assets are safeguarded against loss from unauthorized acquisition, use, or disposition

| Transactions are recorded in the proper accounts

| Transactions are summarized completely and properly in the financial statements

| Transactions are executed in accordance with (1) laws and regulations that could have a direct and material effect on determining on financial statements and (2) any other laws and regulations that the audit committee, WWV and Foundation management, or legal sources have identified as being significant, for which compliance can be objectively measured and evaluated

| Transactions are recorded in the proper budgetary accounts

Step 2.6 – Update the specific control evaluations. During the internal control phase, we will update the RCEC that we had preliminarily completed in the planning phase. Specifically, we will document the evaluation of control techniques and update other sections of the RCEC based on the procedures we performed in the internal control phase.

Step 2.7 – Update control risk assessment. After documenting and testing internal controls, we will reassess our preliminary control risk. We will use these control risk assessments to determine the nature, timing, and extent of substantive tests to be performed in the testing phase. We will document this assessment by updating the Engagement Planning Memorandum initial developed during the planning phase.

Step 2.8 – Document findings. Throughout the internal control phase, and continuing through the testing phase, we will continually document and discuss all findings with the key members of the engagement team, WWV’s management, and the audit committee. We will use our standard form titled “Notice of Findings and Recommendations (NFR)” to document findings.

We have found that the use of NFRs is an effective and efficient method for communicating our findings as we identify them. It also provides for early management feedback, to ensure that the facts in the findings are accurate and our recommendations reasonable before we draft our report.

The NFR document includes;

- | **Source of information.** The source is a description of how we discovered the findings as well as a cross reference to the related process and attestation guide.
- | **Condition.** The condition is a description of the area examined and issued noted.
- | **Cause.** The cause is the underlying reason why the condition occurred, if know.
- | **Criteria.** The criteria is the authoritative literature that we used to determine that a condition exists.
- | **Effect.** The effect is what has resulted or could result from the conditions noted.
- | **Recommendation.** The recommendation is our suggestion for correcting the condition.
- | **Management Response.** The management response states whether management agrees with the NFR and its plan.

We will work with WWV’s management and audit committee to confirm each finding and develop cost effective recommendations. After we incorporate suggestions into the NFRs, we will obtain management’s and the audit committee’s approval of each NFR.

Through the engagement we will maintain a summary of NFRs issued, management’s response, and the disposition of the NFRs. At the conclusion of the audit, we will categorize the NFRs into three broad categories:

- | **Material weaknesses.** Conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being examined, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- | **Significant Deficiencies.** Significant deficiencies in the design or operation of the internal control structure that could adversely affect management’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.
- | **Management issues.** Deficiencies not serious enough to be considered significant deficiencies, but that require corrective action. The conditions could also represent opportunities to improve effectiveness and efficiency.

Based on the categories of the NFRs, we will cross reference the NFRs to our report or management letter.

Step 2.9 – Holding periodic progress meetings. We will hold periodic progress meetings with WWV’s management and audit committee to discuss the results of interim testing and an assessment of the status of the audit, including whether the remaining due dates can be met. We will discuss any additional items.

Testing Phase

The third phase of our engagement approach consists of performing substantive tests to determine the following:

- Accuracy of the amounts included in the financial statements
- Completeness and consistency of footnote data
- Compliance with the laws and regulations identified in the planning phase that could have a direct and material effect on the trust fund schedules

Substantive tests principally involve obtaining or examining corroborating evidence to verify the propriety of the WWV’s assertions related to the financial statements. The financial statement assertions include:

- **Existence or occurrence.** Assets and liabilities exist at a given date and recorded transactions have occurred during a given time period.
- **Completeness.** All transactions and accounts that should be presented in the financial statements are included.
- **Rights and obligations.** Assets represent rights of the entity at a given date and liabilities represent obligations of the entity at a given date.
- **Valuation or allocation.** Assets, liabilities, revenues, and expense components have been included in the financial statements in the appropriate amounts.
- **Presentation and disclosure.** Particular components of the financial statements are properly classified, described, and disclosed.

To ensure we meet the deadlines, we will perform certain testing-phase steps at the same time we perform certain internal-control-phase steps. For example, we will perform dual-purpose control and substantive testing of payroll and benefits.

The steps in the testing phase are summarized below.

Step 3.1 – Update audit programs. Based on our review and evaluation of the financial and EDP internal control structure and our resultant control-risk assessments, we will update our audit programs to include efficient substantive test procedures for each material financial statement account and line item. These audit programs will guide the tests of financial records and other source documents that provide evidence for the financial statement amounts.

Step 3.2 – Perform substantive testing. Using the audit program guides, we will perform the substantive tests, which will provide reasonable assurance as to the validity of the information provided by the accounting system. Substantive testing involves obtaining or examining corroborating evidence to verify the propriety of reported balances and the related management assertions that are embodied in the Schedules. The substantive test procedures generally include third-party confirmations and other balance verification procedures, recalculations and other re-performance procedures, inspection of supporting documentation, analytical reviews, and financial analysis. We will document our test work, including the nature, timing, and extent of tests performed, and the conclusions reached. Our documentation will include the following:

- For tests involving sampling:
 - The sampling method used and any key factors regarding the sample selection
 - The sample size and the method for determination (PPC and AICPA Guidance)
 - The audit procedures performed
 - The results of tests, including evaluations of sample results and conclusions
- For substantive analytical procedures:
 - The model used to develop the expectation and the basis for the model
 - The data used and the data sources
 - The assessment of the reliability of the data used and the procedures performed to establish or increase the amount of reliability, if applicable
 - The amount of the tolerable limit and the criteria for establishing the limit
 - Explanations for fluctuations considered significant, sources of these explanations, and corroborating evidence obtained
 - Any additional procedures performed and related conclusions where misstatements are detected or the initial procedures are not considered adequate
 - The conclusions regarding findings, including proper treatment of any misstatements detected and assessments of any other effects of these misstatements.

Based on our analysis of the WWV’s fiscal year 2009 audited financial statements, we anticipate performing the following substantive procedures at a minimum.

Process	Other Substantive Procedures
Cash, Investments and Cash Equivalents	Re-perform December reconciliations, perform fluctuation analysis, detail tests of receipts and disbursements
Accounts/Property and Sales Taxes/Intergovernmental/Loans Receivable and revenue, Fixed Assets and other assets	Obtain support documentation and analytically review for reasonableness, perform substantive analysis of revenue
Accrued Liability, unearned and deferred revenue, Accounts Payable/ Expense, Debt and other liabilities	Obtain support documentation and analytically review for reasonableness, perform substantive analysis of expense
Changes in Restricted and Unrestricted Net Assets, Investments in Capital Assets, Net of related debt and Fund Equity	Roll forward and perform fluctuation analysis

Step 3.3 – Test compliance with laws and regulations. The testing phase will also include tests to determine compliance with laws that could have a direct and material effect on the financial statements and any other laws/regulations that the audit committee, WWV’s management, or others have identified as being significant to WWV’s. We will have identified these applicable laws and regulations as part of the planning phase. Our substantive tests of compliance with laws and regulations will include the following:

- Inquiries and observations
- Review of previously issued reports on compliance
- Discussions with WWV’s management and general counsel
- Inspection and re-performance

Step 3.4 – Review required supplementary information. We will perform the procedures described in AU558, “Required Supplementary Information,” of the *Codification of Statements on Auditing Standards* for the MD&A. Our audit approach will include at least the following procedures:

- Inquire of management regarding the methods of preparing the MD&A
- Compare the information for consistency with the WWV’s responses to information inquiries, audited financial statements, and other knowledge obtained during the audit of the financial statements.

Reporting Phase

Based on the work performed in the planning, internal control, and testing phases, we will form our final conclusions and prepare our reports.

Step 4.1 – Perform the final analytical review. We will perform a final overall analytical review. This will include comparing current-year amounts with comparative information and identifying and determining the reasons for significant fluctuations. These final analytical procedures will allow us to determine whether we have obtained from other procedures an adequate understanding of all fluctuations and relationships in the WWV's financial statements and whether our audit evidence is consistent with the analytical results.

Step 4.2 – Review the MD&A and supplementary financial management information. During the reporting phase, we will review the MD&A to ensure that is not materially inconsistent with the information contained in the principal financial statements and related footnotes.

Regarding reported performance measures, we will verify the mathematical accuracy of any computations, ratios, and the presented percentage of financial and non-financial data, and determine if such measures are supported by source documentation. However, under current OMB guidance, we are not responsible for determining the accuracy of reported performance measures.

Step 4.3 – Review the form and content of the comprehensive annual financial report. We will agree the basic financial statements to the general ledger and verify the mathematical accuracy of the basic financial statements. We will verify that the amounts in the footnotes are consistent with the amounts reported in the Schedules. In addition, we will use Balestra, Harr & Scherer, CPAs, Inc. and PPC checklists to verify that the financial statements and related footnotes are in accordance with financial accounting and reporting standards.

Step 4.4 – Determine the adequacy of audit procedures. Because the scope and procedures were determined based on materiality determinations made during the planning phase, as well as preliminary assessments of risk, we will consider whether the extent of the procedures performed was adequate. We will also consider the final risk assessments made and the effects of any limitations on the scope of the procedures.

Step 4.5 – Perform final audit steps. Final audit steps consist of the following:

- **Evaluate materiality of misstatements.** We will discuss the differences resulting from procedures completed with the audit committee and WWV's management. We will encourage WWV's to record adjustments for known errors and other misstatements. We will summarize any differences that are not recorded and evaluate these differences in relation to the financial statements. The senior, manager, engagement partner, and concurring review partner will review and approve the summary of unrecorded differences prior to issuing the report.
- **Question attorneys.** We will send general counsel legal inquiries to address any litigation, claims and assessments, and known noncompliance.
- **Review subsequent events.** Subsequent events are those events or transactions that occur after the end of the fiscal period, but before the report is issued. We will perform the following:
 - Gain an understanding of management's procedures for identifying subsequent events
 - Read relevant reports and documents (i.e., financial reports, regulations, agreements, etc.)
 - Inquire of management as to the significant financial developments, internal actions, and external events impacting WWV's
 - Request that general counsel update our previous inquiries on litigation, claims and assessments, and known noncompliance
 - For subsequent events that are identified, consider the effect of the events on the financial statements and related footnotes
- **Obtain management representations.** We will request written representations from management.
- **Consider related-party transactions.** Parties are considered related if one party has the ability either to control the other party or to exercise significant influence over the other party in making financial and operating decisions. We will inquire of management and be alert for the existence of related-party transactions during the engagement. We will consider the purpose, nature, and extent of related-party transactions to evaluate the presentation of related-party transactions in the Schedules.

Step 4.6 – Prepare summary of significant issues and decisions. We will prepare a summary memorandum (titled Matters for Attention) that summarizes the engagement results and demonstrates the adequacy of the procedures and the reasonableness of the conclusions reached. The Matters for Attention document is intended to bring together the significant decisions made after the preparation of the engagement plan. The Matters for Attention document is an internal document that describes or refers to other work papers describing the following items:

- Significant changes in the planned procedures and the results of the procedures
- The critical objectives, the procedures completed, and the results of these procedures
- Conclusions on other significant and/or unusual accounting and reporting matters
- Conclusions related to the involvement of specialists
- Assessments and conclusions of any differences or findings discovered
- Assessment of overall financial statement presentation

- Evaluation of significant subsequent events
- Assessment of the risk of material misstatement on the financial statements due to any fraud or errors identified
- Conclusions on whether evidence obtained and our work papers are adequate to support our reports on the financial statements, internal control, and compliance with laws and regulations
- Conclusions on whether our procedures and our independent auditors' reports are in compliance with Firm and professional standards
- Statement acknowledging the responsibilities of each engagement team member
- Confirmation that the work papers were reviewed by the appropriate engagement personnel

Step 4.7 – Complete our quality-control review of the work papers. The audit manager, audit manager and engagement partner will review the work papers to ensure they meet professional standards and are sufficient to support our reports. The engagement partner will review all areas considered critical to the engagement prior to the issuance of the reports. In addition, the Director of Quality Assurance/AA will function as a concurring reviewer and will review selected work papers for quality-control purposes. In accordance with Balestra, Harr & Scherer, CPAs, Inc.'s policy, we will ensure that all work papers are reviewed by the preparer's supervisor. The audit manager, audit manager and engagement partner will supervise the team to verify that all review comments are addressed prior to issuance of the reports.

Step 4.8 – Prepare and submit the draft reports. We will prepare and submit the following draft reports:

- Report on whether the financial statements present fairly, in all material respects, in conformity with accounting principals generally accepted in the United States of America, the financial position, net costs and changes in net position, budgetary resources and reconciliation of nets costs to budgetary obligations for the fiscal year under audit
- Report on Compliance and Internal Controls Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The audit manager, engagement partner, and the Director of Quality Assurance/concurring reviewer, who is not directly involved in the engagement but who also has experience with WWV and government audit engagements, will review the reports to verify they are in accordance with the reporting standards, Balestra, Harr & Scherer, CPAs, Inc. standards and professional standards. We will submit the draft and final reports to the WWV for review.

Step 4.9 – Prepare the draft management letter. We will also prepare a management letter, if necessary, that includes any findings/comments that are not required to be included in the reports noted above. For each comment we will include (1) a description of the comment; (2) the criteria used to assess the comment; (3) the cause of the comment; (4) any negative or potentially negative effects resulting from the comment; (5) Balestra, Harr & Scherer, CPAs, Inc.'s recommendation for correcting the comment; and (6) management's response, including action plan.

Step 4.10 – Prepare and submit final reports. We will prepare and submit the 15 copies of the final reports to the Director of GAM. Also, an electronic copy of the report must be provide in a PDF or similar format for public review on the agency's website. We will complete the report production, binding, and delivery by the October 16th deadline.

Step 4.11 – Hold an exit conference. We will coordinate with the audit committee and WWV's management to schedule an exit conference to discuss engagement results and any pending matters.

Step 4.12 – Maintain files. We will develop complete and accurate work papers that document all work performed and support conclusions reached in accordance with document requirements included in the Yellow Book, Balestra, Harr & Scherer, CPAs, Inc. guidance, and AICPA standards, specifically Statement of Auditing Standards 96, *Audit Documentation*. We will provide the Auditor of State representatives easy access to our work papers during the course of the engagement. At the end of the engagement, we will store engagement work paper files and other pertinent reference documents under secured conditions for a minimum of five (5) years after the issuance of our final reports.

Of

IDENTIFICATION OF ANTICIPATED AUDIT PROBLEMS

Based on our review of the Request for Proposal and discussions with the WWV's personnel, Balestra, Harr & Scherer, CPAs, Inc. does not anticipate any audit problems at this time. While we currently do not anticipate any problems, should problems occur we will communicate them to the appropriate WWV personnel before proceeding. Under the authority of Section 5A-2-23 of the State Code, we will give the Director of the Financial Accounting and Reporting Section (FARS) of the Department of Administration, and immediate, written report of all irregularities and illegal acts of which we become aware.

REPORTS TO BE ISSUED

Following the completion of each audit of the fiscal year's financial statements, we shall issue the following reports:

9. A report on the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America (including, as applicable, a report on the supplementary schedule of federal awards expenditures).
2. A combined report on the Compliance and Internal Controls over Financial Reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
3. A management letter, separate from other electronically submitted reports.

Additionally, a copy of all such reports will be given to the Executive Director of Workforce West Virginia and the Director of FAM in writing of each of the following:

9. The auditing firm's responsibility under generally accepted auditing standards.
2. Significant accounting policies.
3. Management judgments, accounting estimates and projections.
4. Significant audit adjustments and significant revisions of past and current estimates and projections.
5. Other information in documents containing audited financial statements and/or estimates and projections.
6. Disagreement with management.
7. Consultation with other accountants and actuaries.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.

Any issues that arise during the course of the audit that could cause delays in the issuance of the report or have an adverse impact on the audit opinion must be immediately communicated to the Executive Director of Workforce West Virginia and the Director of FAM in writing within 24 hours.

Management Communication

Workforce West Virginia's financial statements are to be included in the financial statements of the State of West Virginia. The auditing firm will provide special assistance to Workforce West Virginia, the State's auditors, and Financial Accounting and Reporting Section of the West Virginia Department of Administration.

PROPOSED ENGAGEMENT TIMETABLE
FOR THE AUDIT OF THE FINANCIAL STATEMENTS
OF THE WORKFORCE WEST VIRGINIA
FOR THE CONTRACT PERIOD OF JULY 1, 2010 TO JUNE 30, 2011

	Date
1. IPA and representatives of public office entrance conference	Before June 24, 2011
2. IPA provides detailed audit plan and list of schedules to be prepared by public office	July 18, 2011
3. IPA begins fieldwork at public office	July 18, 2011
4. Draft of financial statements for review	September 2, 2011
5. Revised Draft with all changes and modification for review	September 9, 2011
6. Draft submitted to FARS with copies to ED of WWV	September 15, 2011
7. Unsigned final draft with all modifications to WWV for final review	October 11, 2011
8. Final Signed Report submitted to WWV and FARS	October 11, 2011

We acknowledge the penalty for failure to deliver the required reports by the dates specified above in accordance with WV State code 5A-3-4(8).

WWV requires the accounting firm to be available to assist with accounting issues and new reporting requirements as they arise on as needed basis. The bid includes a firm fixed fee for the services discussed above as well as an hourly rate scale for accounting and auditing consulting services. The total cost submitted for bid includes all travel and out of the pocket expenses.

Balestra, Harr & Scherer, CPAs, Inc.

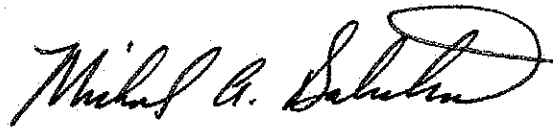
Cost Bid

TOTAL ALL-INCLUSIVE MAXIMUM FEE
FOR THE AUDIT OF THE FINANCIAL STATEMENTS OF
THE WORKFORCE WEST VIRGINIA

For the period July 1, 2010 Through June 30, 2011

Total all-inclusive fixed fee: \$ 39,400.00

I certify that I am entitled to represent this firm, empowered to submit the bid and authorized to sign a contract with the Workforce West Virginia. Further, the total all-inclusive fixed fee for this audit engagement shall be thirty nine thousand four hundred dollars.



Michael A. Balestra

Shareholder/Director
Title

October 14, 2010

Date

BALESTRA, HARR & SCHERER, CPAS, INC.

COST BID

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES
TO SUPPORT THE TOTAL ALL-INCLUSIVE MAXIMUM FEE
FOR THE AUDIT OF THE FINANCIAL STATEMENTS OF
THE WORKFORCE WEST VIRGINIA

FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011

Estimate Hours/Cost by Classification	Hours	Hourly Rate	Total Cost
Engagement Partner	56	\$150.00	\$ 8,400.00
Audit Manager	80	\$110.00	\$ 8,800.00
Audit Supervisor	120	\$ 90.00	\$ 10,800.00
Staff Auditor	120	\$ 75.00	\$ 9,000.00
IT Auditor	16	\$125.00	\$ 2,000.00
Other Support/Clerical	8	\$50.00	\$ 400.00
Total Fixed Fee Bid for Fiscal Year 2011	400		\$ 39,400.00

COST QUOTE FOR ADDITIONAL ACCOUNTING AND AUDITING SERVICES

Cost by Classification	Hourly Rate
Engagement Partner	\$150.00
Audit Manager	\$110.00
Audit Supervisor	\$ 90.00
Staff Auditor	\$ 75.00
IT Auditor	\$125.00
Other Support/Clerical	\$50.00

NOTE: ALL HOURLY RATES INCLUDE TRAVEL AND OUT-OF-POCKET EXPENSES.



January 30, 2009

To the Shareholders of
Balestra, Harr & Scherer, CPAs, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of Balestra, Harr & Scherer, CPAs, Inc. (the firm) in effect for the year ended May 31, 2008. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under Government Auditing Standards. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests, therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Balestra, Harr & Scherer, CPAs, Inc. in effect for the year ended May 31, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

J. D. Cloud & Co. L.L.P.

Certified Public Accountants
