



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
 BEP08064

PAGE
 1

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

RFQ COPY
 TYPE NAME/ADDRESS HERE

VENDOR

SHIP TO

BUREAU OF EMPLOYMENT PROGRAMS
 OFFICE OF ADMIN. SUPPORT-5302

112 CALIFORNIA AVENUE
 CHARLESTON, WV
 25305-0112 558-2634

DATE PRINTED	TERMS OF SALE	SHIP VIA	FOB	FREIGHT TERMS
04/30/2008				

BID OPENING DATE: 05/15/2008 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
***** ADDENDUM NO. 3 ***** THIS ADDENDUM IS ISSUED TO DISTRIBUTE THE ATTACHED QUESTIONS AND ANSWERS RESULTING FROM VENDOR INQUIRIES. NO ADDITIONAL QUESTIONS WILL BE ACCEPTED. THE BID OPENING REMAINS 05/15/08 AT 1:30PM ***** END OF ADDENDUM NO 3 *****						
0001	1	LS		946-20		
				AUDITING SERVICES		
***** THIS IS THE END OF RFQ BEP08064 ***** TOTAL:						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
-----------	-----------	------

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
-------	------	-----------------------------------

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

**GENERAL TERMS & CONDITIONS
REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL (RFP)**

1. Awards will be made in the best interest of the State of West Virginia.
2. The State may accept or reject in part, or in whole, any bid.
3. All quotations are governed by the *West Virginia Code* and the *Legislative Rules* of the Purchasing Division.
4. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required \$125.00 registration fee.
5. All services performed or goods delivered under State Purchase Orders/Contracts are to be continued for the term of the Purchase Order/Contract, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods, this Purchase Order/Contract becomes void and of no effect after June 30.
6. Payment may only be made after the delivery and acceptance of goods or services.
7. Interest may be paid for late payment in accordance with the *West Virginia Code*.
8. Vendor preference will be granted upon written request in accordance with the *West Virginia Code*.
9. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.
10. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.
11. The laws of the State of West Virginia and the *Legislative Rules* of the Purchasing Division shall govern all rights and duties under the Contract, including without limitation the validity of this Purchase Order/Contract.
12. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.
13. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, this Contract may be deemed null and void, and terminated without further order.
14. **HIPAA Business Associate Addendum** - The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, and available online at the Purchasing Division's web site (<http://www.state.wv.us/admin/purchase/vrc/hipaa.htm>) is hereby made part of the agreement. Provided that, the Agency meets the definition of a Covered Entity (45 CFR §160.103) and will be disclosing Protected Health Information (45 CFR §160.103) to the vendor.

INSTRUCTIONS TO BIDDERS

1. Use the quotation forms provided by the Purchasing Division.
2. **SPECIFICATIONS:** Items offered must be in compliance with the specifications. Any deviation from the specifications must be clearly indicated by the bidder. Alternates offered by the bidder as **EQUAL** to the specifications must be clearly defined. A bidder offering an alternate should attach complete specifications and literature to the bid. The Purchasing Division may waive minor deviations to specifications.
3. Complete all sections of the quotation form.
4. Unit prices shall prevail in cases of discrepancy.
5. All quotations are considered F.O.B. destination unless alternate shipping terms are clearly identified in the quotation.
6. **BID SUBMISSION:** All quotations must be delivered by the bidder to the office listed below prior to the date and time of the bid opening. Failure of the bidder to deliver the quotations on time will result in bid disqualifications.

SIGNED BID TO:

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

Response to Vendor Questions
RFQ: BEP08064
Addendum #3

Q. Can we obtain the prior year audit report and any management letter so we can make a reasonable cost proposal on the engagement?

A. Yes, see attached

Q. Can we get the prior audit cost?

A. Previous contract was for \$25,005.00

Q. Can we get copies of the following documents for the previous audit?

1. The complete audited financial statements to include auditor reports on compliance with laws and regulations, internal control, related MD&A of the agency, and additional financial information schedules required by FARS of WORKFORCE WV from its most recently completed audit.

Additionally we would request all proposed adjustments actually made to the financial statements as well as any adjustments considered immaterial to the financial statements.

A. Yes, see attached.

2. An estimate of the number of receipts and payments initiated by the agency in an average month.

A. There are approximately 100 receipts per month and 50,000 payments initiated by WORKFORCE WEST VIRGINIA in an average month.

3. A listing of all funding sources with budgeted receipts for the year ended 6-30-08.

A. Yes, see attached.

Q. Will there be travel required outside of the Charleston area?

A. No.

WORKFORCE West Virginia
Estimated FY 2008 Federal Grant Summary

Grant #	Grant Name	Grant Period	FY 2008 Available Funding
WIA			
14001	WIA Admin	07/01/06 - 06/30/09	4,886
15234	WIA Admin	07/01/07 - 06/30/10	764,397
14554	WIA Incentive Admin		9,922
	Total WIA		779,205
TAA			
14546	TAA Admin (FY07)	10/01/06 - 09/30/09	1,333,996
15796	TAA Admin (FY08)	10/01/07 - 09/30/10	286,168
14555	TAA Info Systems (FY07)		246,800
13163	TAA HCTC		37,927
	Total TAA		1,904,891
NEG			
13970	Applied Card		21,899
14008	Military Returnees	06/30/06 - 06/30/08	17,807
	Total NEGs		39,706
GGWF			
15281	GGWF	07/01/07 - 06/30/08	337,000
	Total GGWF		337,000
RAPID RESPONSE			
14002	Rapid Response - Admin	07/01/06 - 06/30/09	195,829
15237	Rapid Response - Admin	07/01/07 - 06/30/10	600,000
	Total Rapid Response		795,829
UNEMPLOYMENT COMPENSATION			
14242	UC Reg	10/01/06 - 09/30/09	3,235,897
14424	UC Trade	10/01/06 - 09/30/09	99,633
14243	UC QC	10/01/06 - 09/30/09	106,056
15650	UC Reg	10/01/07 - 09/30/10	9,042,640
15651	UC QC	10/01/07 - 09/30/10	525,069
15652	UC Trade	10/01/07 - 09/30/10	123,750
	Total UC & Reim.		13,133,045

WORKFORCE West Virginia
Estimated FY 2008 Federal Grant Summary

Grant #	Grant Name	Grant Period	FY 2008 Available Funding
WAGNER PEYSER/EMPLOYMENT SERVICES			
12233	ES 90%	07/01/05 - 06/30/08	162,704
12234	ES 10%	07/01/05 - 06/30/08	2,346
13868	ES 90%	07/01/06 - 06/30/09	377,109
13869	ES 10%	07/01/06 - 06/30/09	208,160
15372	ES 90%	07/01/07 - 06/30/10	5,115,487
15373	ES 10%	07/01/07 - 06/30/10	556,427
	Total ES		6,422,233
RIA			
12237	LMI	07/01/05 - 06/30/08	4,751
13870	LMI	07/01/06 - 06/30/09	6,444
15374	LMI	07/01/07 - 06/30/10	340,826
14331	CES	10/01/06 - 09/30/07	42,131
14332	LAUS	10/01/06 - 09/30/07	28,995
14333	OES	10/01/06 - 09/30/07	45,351
14334	ES-202	10/01/06 - 09/30/07	17,260
14335	MLS	10/01/06 - 09/30/07	1,787
14336	OSHS	10/01/06 - 09/30/07	8,697
15476	CES	10/01/07 - 09/30/08	120,655
15477	LAUS	10/01/07 - 09/30/08	71,873
15478	OES	10/01/07 - 09/30/08	163,564
15479	ES-202	10/01/07 - 09/30/08	219,191
15480	MLS	10/01/07 - 09/30/08	25,703
15481	OSHS	10/01/07 - 09/30/08	45,750
	Total RIA		1,142,978
VETS			
14329	DVOP Vets	10/01/06 - 09/30/09	112,078
14330	LVER Vets	10/01/06 - 09/30/09	236,681
15657	DVOP Vets	10/01/07 - 09/30/10	142,500
15658	LVER Vets	10/01/07 - 09/30/10	321,000
	Total Vets		812,259

WORKFORCE West Virginia
Estimated FY 2008 Federal Grant Summary

Grant #	Grant Name	Grant Period	FY 2008 Available Funding
LWIBs			
	Reg 1 CM & Elib	07/01/07 - 06/30/08	162,500
	Reg 2 CM & Elig	07/01/07 - 06/30/08	158,758
	Reg 3 CM & Elig	07/01/07 - 06/30/08	120,347
	Reg 6 CM & Elig	07/01/07 - 06/30/08	250,560
	Total LWIBs		692,165
NAVIGATOR			
13162	Navigator		206,519
	Total Navigator		206,519
REED ACT			
15324	ES Reed Act	07/01/07 - 07/31/08	1,650,000
15325	UI Reed Act	7/1/2007 - 07/31/08	2,850,000
	Total Reed Act		4,500,000
WOTC/ALIEN LABOR			
12893	ES Wage Survey	10/01/05 - 09/30/08	1,025
12894	ES Labor Cert	10/01/05 - 09/30/08	37,380
12895	ES Reim Housing	10/01/05 - 09/30/08	1,183
14325	ES Wage Survey	10/01/06 - 09/30/09	165
14326	ES Labor Cert	10/01/06 - 09/30/09	15,524
14327	ES AG Reimb Hsing	10/01/06 - 09/30/09	1,283
15653	ES Wage Survey	10/01/07 - 09/30/10	2,750
15654	ES Labor Cert	10/01/07 - 09/30/10	38,679
15655	ES AG Reimb Hsing	10/01/07 - 09/30/10	2,227
14328	ES WOTC	10/01/06 - 09/30/09	8,118
15656	ES WOTC	10/01/07 - 09/30/10	103,263
	Total WOTC/Allen Lab.		211,597
PENALTY & INTEREST			
05761	Penalty & Interest		981,817
	Total P&I		981,817
MACC			
15219	MACC (WIBs only)		218,116
	Total MACC		218,116
Total WORKFORCE WV Available Funding			32,177,360

WORKFORCE WEST VIRGINIA
(An 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, 2007

(With Independent Auditors' Report Thereon)

WORKFORCE WEST VIRGINIA

Table of Contents

	Page
Independent Auditors' Report	3
Management's Discussion and Analysis (MD & A)	5 - 14
Basic Financial Statements	
Government-wide Financial Statements	16
Statement of Net Assets (Deficit)	17
Statement of Activities	
Fund Financial Statements	
Balance Sheet- Governmental Fund (Includes Reconciliation to the Statement of Net Assets (Deficiency))	18
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficiency) - Governmental Fund (Includes Reconciliation to the Statement of Activities)	19
Balance Sheet - Proprietary Fund	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22
Notes to the Financial Statements	23 - 35
Required Supplementary Information - Unaudited	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund	37
Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund	38
Other Financial Information	
Budgetary Comparison Schedule - Fund 3450	40
Budgetary Comparison Schedule - Fund 8835	41
Budgetary Comparison Schedule - Fund 3451	42
Budgetary Comparison Schedule - Fund 8888	43
Budgetary Comparison Schedule - Fund 0608	44
Budgetary Comparison Schedule - Fund 3459	45
Compliance and Internal Control Report	
Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	47
Schedule of Findings and Responses	49 - 52



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 (formerly the West Virginia Bureau of Employment Programs), as of and for the year ended June 30, 2007, 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, 2007 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, 2007, 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.

As discussed in Notes 7 and 8 to the financial statements, WORKFORCE West Virginia has a contingent liability due to the federal government and an unrestricted net assets deficit as of June 30, 2007. Management's plan to resolve the issues have also been outlined in Notes 7 and 8.

The management's discussion and analysis on pages 6 through 14 and the budgetary comparison information on pages 37 through 38 are not a required part of the basic financial statements but are supplementary information required by the 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 March 10, 2008 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 40 through 45 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.

Suttle & Stalvaker, PLLC

Charleston, West Virginia
March 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of the WORKFORCE West Virginia (the 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, 2007, WORKFORCE West Virginia consisted of four primary operating Divisions: the One Stop Operations Division (OS); the WIA Dislocated Worker and 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, 2007. 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, 2007 by \$262 million as compared to \$250 million for the fiscal year ended June 30, 2006.

Fund Level Highlights:

At the close of the fiscal year, the governmental activities of the Division reported a net assets deficit of \$9.1 million. This deficit is in part due to the Division's liability for compensated absences which were incorporated into the General Fund for the first time in fiscal year 2003 as part of the Division's implementation of the Governmental Accounting Standards Board (GASB) Statement No. 34. The federal grant programs that comprise the governmental activities of the Division provide funding for compensated absences as actual payments are made to employees; therefore, the Division anticipates that federal revenues will be available to pay these liabilities at the time they are due.

The business-type activities reported net assets of \$271 million for the Unemployment Compensation Trust Fund at June 30, 2007.

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 State.

- 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)

- *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, Parkways, Economic Development and Tourism Authority and Higher Education. 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.

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

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE

Net Assets

The Division's *combined* net assets (governmental and business-type) totaled \$262 million at the end of 2007, compared to \$250 million at the end of the previous year. (See table below).

	Statements of Net Assets (Expressed in Thousands)						% of Change Primary Government 2006-2007
	Governmental Activities		Business-type Activities		Total Primary Government		
	2006	2007	2006	2007	2006	2007	
Current and other assets	\$ 5,145	\$ 3,624	\$ 281,796	\$ 293,402	\$ 286,941	\$ 297,026	3.51%
Capital assets	597	376	-	-	597	376	-37.02%
Total assets	<u>5,742</u>	<u>4,000</u>	<u>281,796</u>	<u>293,402</u>	<u>287,538</u>	<u>297,402</u>	3.43%
Long-term debt outstanding	4,534	4,042	-	-	4,534	4,042	-10.85%
Other liabilities	12,945	9,062	19,761	22,499	32,706	31,561	-3.50%
Total liabilities	<u>17,479</u>	<u>13,104</u>	<u>19,761</u>	<u>22,499</u>	<u>37,240</u>	<u>35,603</u>	-4.40%
Net Assets:							
Invested in capital assets, net of debt	597	376	-	-	597	376	-37.02%
Restricted	13,673	13,842	262,035	270,903	275,708	284,745	3.28%
Unrestricted (deficit)	(26,007)	(23,322)	-	-	(26,007)	(23,322)	10.32%
Total net assets (deficit)	<u>\$ (11,737)</u>	<u>\$ (9,104)</u>	<u>\$ 262,035</u>	<u>\$ 270,903</u>	<u>\$ 250,298</u>	<u>\$ 261,799</u>	4.59%

The total net assets deficit of the Division's governmental activities decreased 22.43% to \$9.1 million. This is primarily due to the transfer in of general revenue dollars from the State of West Virginia to cover the USDOL disallowances. Some of those net assets either are restricted as to the purpose for which they can be used or are invested in capital assets. Consequently, unrestricted net assets show a \$23 million deficit at the end of the year. As described in the footnotes to the financial statements, management has implemented a deficit funding plan to address the issues and bring fiscal accountability to the program.

The total net assets' of the Division's business-type activities increased 3.4% to \$271 million. The restricted net assets increased 3.28% primarily due to an increase in revenues, primarily the employer contributions.

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

Changes in net assets

The Division's total revenues decreased by 4.37% to \$220 million. (See table below.) 25.2% 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 \$212 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 73% of the total expenses of the Division for the fiscal year ended June 30, 2007.

	Change in Net Assets (Deficit) (Expressed in Thousands)						% of Change Primary Government 2006-2007
	Governmental Activities		Business-type Activities		Total Primary Government		
	2006	2007	2006	2007	2006	2007	
Revenues							
Program revenues:							
Charges for services	\$ -	\$ -	\$ 153,596	\$ 153,020	\$ 153,596	\$ 153,020	(0.38)%
Federal grants	65,753	55,296	-	-	65,753	55,296	(15.90)%
General revenues:							
Investment earnings	-	-	10,534	11,511	10,534	11,511	9.27%
Total revenues	65,753	55,296	164,130	164,531	229,883	219,827	(4.37)%
Expenses							
Program expenses:							
General government	76,098	58,001	-	-	76,098	58,001	(23.78)%
Unemployment Compensation Trust	-	-	147,308	153,663	147,308	153,663	4.31%
Total expenses	76,098	58,001	147,308	153,663	223,406	211,664	(5.26)%
Increase (decrease) in net assets before transfers	(10,345)	(2,705)	16,822	10,868	6,477	8,163	26.03%
Transfers	5,897	5,338	(5,768)	(2,000)	129	3,338	2487.60%
Increase (decrease) in net assets	(4,448)	2,633	11,054	8,868	6,606	11,501	74.09%
Beginning net assets (deficit)	(7,289)	(11,737)	250,981	262,035	243,692	250,298	2.71%
Ending net assets (deficit)	\$ (11,737)	\$ (9,104)	\$ 262,035	\$ 270,903	\$ 250,298	\$ 261,799	4.60%

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

Business-type Activities

For the Unemployment Compensation Trust Program, the Regular Unemployment Benefits expenditures increased \$6.4 million as compared with last year. As for revenue, the Regular Unemployment revenue categories naturally increased as well.

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 (deficiency) of \$(5,438), a decrease of \$2,362 from prior year.

Proprietary Funds

The Unemployment Compensation (UC) Program has a total of 82 measurements. West Virginia ranked in the top ten in 29 measurements and at or above the National Median in 67 measurements. 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 96.2% during Calendar Year 2006. Our proper payment rate was sixth highest in the Nation.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The original general fund budget of the Division was not amended during the year ending June 30, 2007. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the Division had invested \$376 in capital assets that consist entirely of office furniture and equipment. (See table below). This amount represents a net decrease of \$221 or -37.02% from last year.

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

	Governmental Activities		Total Percentage Change
	2006	2007	2006-2007
Governmental Activities	\$ 597	\$ 376	(37.02)%

The 37.02% decline in total assets from 2006 to 2007 is due to the normal disposal of equipment which is antiquated or no longer of use to the Division. More detailed information is presented in Note 1 to the financial statements.

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

Long-term Debt

At year end, the Division had \$4,042 in the long-term portion of compensated absences, a decrease of 10.9% as shown in the table below. More detailed information is presented in Notes 1 and 4 to the financial statements.

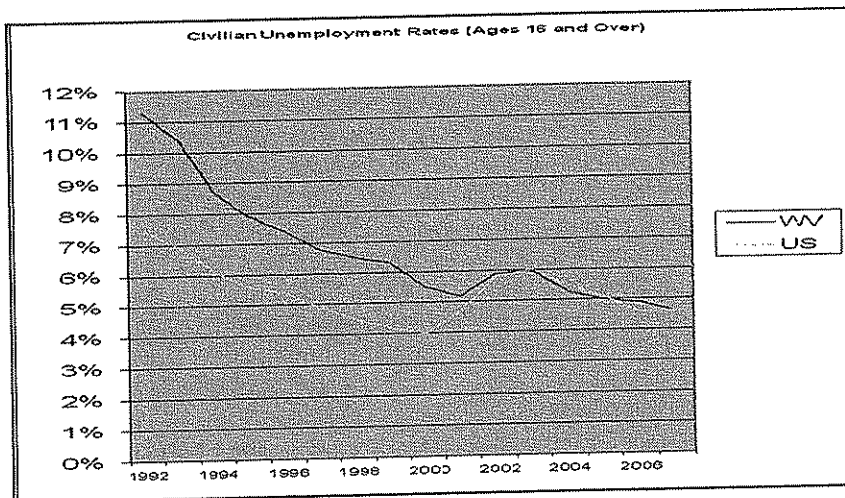
**Outstanding Long-Term Debt at Year-end
(Expressed in Thousands)**

	Governmental Activities		Total Percentage Change
	2006	2007	2006-2007
Compensated absences	\$ 4,534	\$ 4,042	(10.9)%

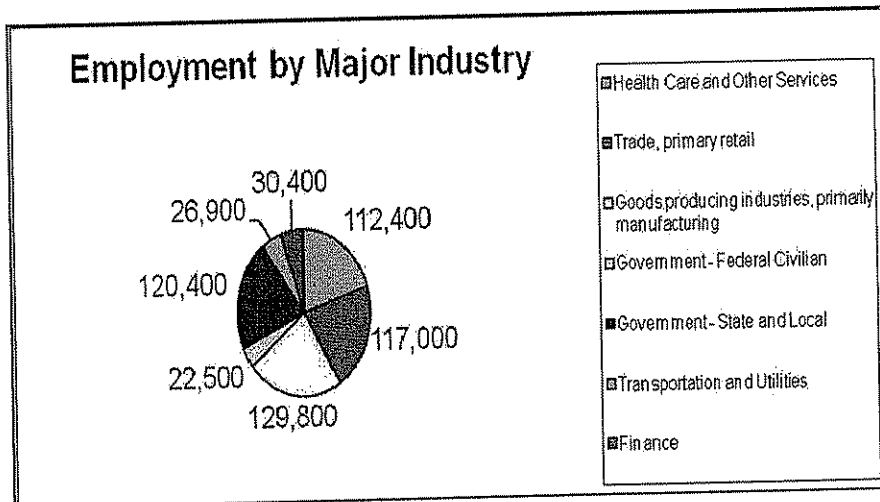
ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

These indicators were taken into account when adopting the Division's budget for 2007.

- Nationally, unemployment now stands at 4.9% in January 2008 compared to 4.6% a year ago. The current unemployment rate for West Virginia is 5.2% for January 2008.



- The chart shown includes projected information for FY 2007.



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

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
 EMPLOYMENT SERVICES DIVISION AND
 THE UNEMPLOYMENT COMPENSATION DIVISION
 STATEMENT OF NET ASSETS (DEFICIT)
 JUNE 30, 2007
 (In Thousands)

	Primary Government		
	Governmental Activities	Business - type Activities	Total
	General Fund	Unemployment Compensation Trust	
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,063	\$ 257,121	\$ 260,184
Receivables, net:			
Unemployment taxes	-	34,618	34,618
Other	464	-	464
Due from other governments	-	1,295	1,295
Due from other funds - primary government	97	368	465
Total current assets	3,624	293,402	297,026
Noncurrent assets:			
Capital assets, net	376	-	376
Total noncurrent assets	376	-	376
Total assets	4,000	293,402	297,402
Liabilities			
Current liabilities:			
Accounts payable	1,084	-	1,084
Accrued expenses and other liabilities	501	1,133	1,634
Due to other governments	6,315	6,604	12,919
Unemployment Compensation benefits payable	-	14,762	14,762
Compensated absences due within one year	1,162	-	1,162
Total current liabilities	9,062	22,499	31,561
Noncurrent liabilities:			
Compensated absences due in more than one year	4,042	-	4,042
Total noncurrent liabilities	4,042	-	4,042
Total liabilities	13,104	22,499	35,603
Net assets (deficit)			
Net assets (deficit):			
Invested in capital assets, net of related debt	376	-	376
Restricted for:			
Reed Act	13,842	-	13,842
Benefit payments	-	270,903	270,903
Unrestricted net assets (deficit)	(23,322)	-	(23,322)
Total net assets (deficit)	\$ (9,104)	\$ 270,903	\$ 261,799

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
EMPLOYMENT SERVICES DIVISION AND
THE UNEMPLOYMENT COMPENSATION DIVISION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(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	\$ 57,780	\$ -	\$ 55,296	\$ (2,484)	\$ -	\$ (2,484)
Unallocated depreciation	221	-	-	(221)	-	(221)
Total governmental activities	58,001	-	55,296	(2,705)	-	(2,705)
Business-type activities:						
Unemployment Compensation Trust	153,663	153,020	-	-	(643)	(643)
Total business-type activities	153,663	153,020	-	-	(643)	(643)
Total primary government	\$ 211,664	\$ 153,020	\$ 55,296	(2,705)	(643)	(3,348)
General Revenues:						
Investment earnings				-	11,511	11,511
Fund balance transfers				2,000	(2,000)	-
Transfers in from the State of West Virginia				3,338	-	3,338
Change in net assets (deficit)				2,633	8,868	11,501
Net assets (deficit) - beginning				(11,737)	262,035	250,298
Net assets (deficit) - ending				\$ (9,104)	\$ 270,903	\$ 261,799

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2007
(In Thousands)

	Governmental Activities
	General Fund
Assets:	
Cash and cash equivalents	\$ 3,063
Due from other funds - primary government	97
Due from other governments	464
Accounts receivable - other	\$ 3,624
Total assets	3,624
Liabilities and Fund Balance (Deficiency):	
Liabilities:	\$ 1,084
Accounts payable	1,663
Accrued expenditures and other liabilities	6,315
Due to other governments	9,062
Total liabilities	9,062
Fund balance (Deficiency):	13,842
Reserved for Reed Act	(19,280)
Unreserved deficiency	(5,438)
Total fund balance (deficiency)	3,624
Total liabilities and fund balance (deficiency)	\$ (5,438)
Total fund balance (deficiency)	\$ (5,438)
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.	376
Long term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	(4,042)
Net assets (deficit) of governmental activities	\$ (9,104)

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIENCY)
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2007
 (In Thousands)

	Governmental Activities General Fund
Revenues:	
Grants	\$ 55,296
Expenditures:	
Employment training, statistics, and support	<u>58,272</u>
Excess (deficiency) of revenues over expenditures	(2,976)
Other financing sources and uses, including transfers	
Transfer in from the Unemployment Compensation Trust Fund	2,000
Transfer in from the State of West Virginia	<u>3,338</u>
Net change in fund balance	2,362
Fund balance (deficiency) - beginning	<u>(7,800)</u>
Fund balance (deficiency) - ending	<u>\$ (5,438)</u>
Net change in fund balance (deficiency) - total governmental funds	\$ 2,362
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.	(221)
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.	<u>492</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,633</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
BALANCE SHEET
PROPRIETARY FUND
JUNE 30, 2007
(In Thousands)

	Business-type Activities - Enterprise Fund Unemployment Compensation Trust
Assets:	
Current assets:	
Cash and cash equivalents	\$ 257,121
Receivables, net:	
Unemployment Compensation premiums	34,618
Due from other governments	1,295
Due from other funds - primary government	368
Total current assets	293,402
Total assets	\$ 293,402
 Liabilities and Net Assets:	
Current liabilities:	
Accrued expenses and other liabilities	\$ 1,133
Due to other governments	6,604
Unemployment Compensation benefits payable	14,762
Total current liabilities	22,499
Total liabilities	22,499
 Net Assets:	
Restricted for:	
Benefit payments	270,903
Total net assets	270,903
Total liabilities and net assets	\$ 293,402

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, 2007
(In Thousands)

	<u>Business-type Activities - Enterprise Fund Unemployment Compensation Trust</u>
Operating revenues:	
Unemployment Compensation premiums	\$ 147,029
Other operating revenues, net	<u>5,991</u>
Total operating revenues	<u>153,020</u>
Operating expenses:	
Unemployment insurance benefits	<u>153,663</u>
Total operating expenses	<u>153,663</u>
Operating income (loss)	<u>(643)</u>
Nonoperating revenues:	
Investment earnings	<u>11,511</u>
Total nonoperating revenues (expenses)	<u>11,511</u>
Income before transfers	10,686
Transfer out to General Fund	<u>(2,000)</u>
Increase in net assets	8,868
Total net assets - beginning	<u>262,035</u>
Total net assets - ending	<u>\$ 270,903</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007
(In Thousands)

	Business-type Activities - Enterprise Fund Unemployment Compensation Trust
Cash flows from operating activities:	
Received from employers	\$ 143,822
Received from federal and local agencies	11,476
Payments to claimants and providers	(152,611)
Net cash provided (used) by operating activities	2,687
Cash flows from non-capital financing activities:	
Transfers to other funds	(2,000)
Net cash provided (used) by non-capital financing activities	(2,000)
Cash flows from investing activities:	
Investment earnings	11,511
Net cash provided (used) by investing activities	11,511
Net increase (decrease) in cash and cash equivalents	12,198
Cash and cash equivalents - beginning	244,923
Cash and cash equivalents - ending	\$ 257,121
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (643)
Net change in assets and liabilities:	
Unemployment compensation premiums receivable	783
Due from other governments	(215)
Due from other funds - primary government	24
Accrued expenses and other liabilities	78
Due to other governments	3,481
Unemployment Compensation benefits payable	(821)
Net cash provided (used) by operating activities	\$ 2,687

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (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, 2007, consisted of four primary operating Divisions: the One Stop Operations Division (OS); the WIA Dislocated Worker and 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, 2006 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.

(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, 2007
 (In Thousands, Unless Otherwise Noted)

(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, 2007
 (In Thousands, Unless Otherwise Noted)

(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, 2007
(In Thousands, Unless Otherwise Noted)

(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) 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 \$1,861.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

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

(f) **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 \$221 for the fiscal year ended June 30, 2007. Accumulated depreciation relating to the capital assets approximated \$673 at June 30, 2007. 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, 2007, was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets:				
Governmental activities				
Office furniture and equipment	\$ 1,472	\$ -	\$ (423)	\$ 1,049
Accumulated depreciation	<u>(875)</u>	<u>(221)</u>	<u>423</u>	<u>(673)</u>
Governmental activities capital assets, net	<u>\$ 597</u>	<u>\$ (221)</u>	<u>\$ -</u>	<u>\$ 376</u>

(g) **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.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

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

(h) **Compensated Absences, Including Postretirement Benefits**

Employees fully vest in all earned but unused vacation and the Division accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Under the provisions of the West Virginia State Code, Division employees, upon retirement, may apply their accumulated annual and/or sick leave toward extending their health care insurance coverage, or they may alternatively choose to apply such accumulated leave toward additional credited service in the computation of their retirement benefits. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the Division. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit. The obligation associated with retiree health care benefits is funded on a pay-as-you-go basis. Using the termination payments method, the Division recognizes an obligation for unused sick leave as it is earned if it is probable that the employees will be compensated upon termination or retirement. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-retirement health insurance as a liability.

As of June 30, 2007, the Division had 67 retirees eligible for these benefits of which the Division paid approximately \$189 for post employment benefits.

(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, with employer contributions prescribed by PERS as a percentage of covered payroll.

(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.

The government-wide statement of net assets reports \$284,745 restricted assets.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

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

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, 2007. The UC expendable trust fund balance is fully reserved for benefit payments to claimants.

(k) **Recent Statements Issued By GASB**

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

The GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

The GASB has issued Statement No. 50, *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The Division has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

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

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.

(2) **Deposits**

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

	Amortized <u>Cost</u>	Estimated <u>Fair Value</u>
Cash on deposit with State Treasurer / State Auditor's Office	\$ 2,894	\$ 2,894
Cash in bank	1,118	1,118
Cash in U.S. Treasury	<u>256,172</u>	<u>256,172</u>
	<u>\$ 260,184</u>	<u>\$ 260,184</u>

Cash on deposit with the State Treasurer is a non-safeguarded deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*.

At June 30, 2007, the carrying value of amounts on deposit with the U.S. Treasury in the Federal Unemployment Insurance Trust Fund approximated \$256,172 while \$949 of deposits were 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.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

(3) Leases (Continued)

Future minimum rentals under operating leases for the Division at June 30, 2007 are as follows:

Rentals due in fiscal year:

2008	\$ 1,668
2009	1,266
2010	1,216
2011	1,149
Thereafter	<u>1,004</u>
Total minimum lease payments	<u>\$ 6,303</u>

Rental expense for the minimum rentals under operating leases for the year ended June 30, 2007 was \$2,119.

(4) Compensated Absences

The liability for compensated absences is generally liquidated in the fund for which the liability is recorded. Changes in compensated absences balances 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	<u>\$ 5,912</u>	<u>\$ (708)</u>	<u>\$ 5,204</u>	<u>\$ 1,162</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.

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

(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, 2004, 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, 2007, 2006, and 2005 were \$1,532, \$1,610, and \$1,475 respectively, equal to the required contributions for each year.

(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:

	General Fund	Unemployment Compensation Trust
Employer premiums revenue from other State agencies	\$ -	\$ 1,632
Employee benefits and other costs paid to other State agencies	\$ 7,884	\$ -

WORKFORCE WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (In Thousands, Unless Otherwise Noted)

(6) **Related Party Transactions (Continued)**

Due from other State Agencies:

	General Fund	Unemployment Compensation Trust
West Virginia Human Rights Commission	\$ 2	\$ -
West Virginia Department of Health and Human Resources, Bureau of Child Support	95	-
Supreme Court of Appeals	-	20
Rehabilitation Services	-	7
Motor Vehicles	-	9
WV Department of Highways	-	24
Governor's Office	-	7
Health & Human Resources	-	31
Natural Resources	-	18
Lakin State Hospital	-	14
William R. Sharpe Jr. Hospital	-	16
Bluefield State College	-	9
Marshall Division	-	16
West Virginia Division	-	33
Attorney General's Office	-	7
Environmental Protection	-	6
Regional Jail	-	32
Mt. Olive	-	10
Division of Juvenile Services	-	10
Others	-	99
Total	<u>\$ 97</u>	<u>\$ 368</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.

BRIM is a public entity risk pool that provides coverage for general, liability and property damage in the amount of \$1,000,000 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.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(In Thousands, Unless Otherwise Noted)

(7) Commitments and Contingencies (Continued)

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.

(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 WBRIM 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.

(c) Federal Funding Liability

During the year ended June 30, 2006, management of the Division discovered certain errors and issues regarding a potential liability to the Federal government. This matter is currently under review by certain State government agencies. As a result of the review, the Division recorded an additional estimated liability in the amount of approximately \$6.5 million during the year ended June 30, 2006, which management believes is adequate to cover the amounts which will be required to be repaid to the Federal government. This liability has resulted from a number of events that have involved the Division, the former Bureau of Employment Programs (the Bureau), the former Governors Workforce Investment Division, and seven subrecipient Workforce Investment Boards of the Division. The issues identified relate to the overexpenditure of federal grant funds, insufficient supporting documentation for qualifying expenditures charged to federal grants, improper charging of federal grant funds for non-allowable costs, and a lack of unrestricted monies to cover administrative costs related to the programs. In addition to these liabilities, the Division has \$3.3 million in commitments to fund existing contracts and subrecipient grant awards that are in excess of available Federal grant funding.

As of June 30, 2007, the Division agreed to replenish certain Federal grant funds from State general revenues in the amount of approximately \$3.3 million. Subsequent to year end the Division agreed to additional replenishing of Federal funds using State general revenues in the amount of approximately \$2.3 million. The Division had agreed to refund approximately \$238 to the USDOL. As of the date of this report the total amount of \$5.8 million was resolved and the Division received \$5.8 million (\$3.3 million as of June 30, 2007) in funds from the State of West Virginia general fund to cover the deficits.

The Division has a remaining \$700 thousand accrued for issues related to the Workforce Investment Boards. The USDOL and the Division are currently negotiating the liability for the year ended June 30, 2006 which is considered to range from approximately \$400 thousand to \$4.4 million. Furthermore, the Division through its internal monitoring identified significant issues with the Workforce Investment Boards for the year ended June 30, 2007.

WORKFORCE WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(In Thousands, Unless Otherwise Noted)

(7) Commitments and Contingencies (Continued)

The issues from the 2007 monitorings along with the issues for the year ended June 30, 2006 represent a contingent liability of the Division to the USDOL. As such, management is unable to estimate the amount to be disallowed for 2007 and is unable to determine the ultimate disallowance. Management has recorded \$700 thousand to cover disallowances for 2006 and 2007, which is estimated to be the low end of the range for both years combined.

The estimate recorded has been based upon information currently known by management. The amount that may ultimately be required to be repaid may be more or less than the amount recorded and the difference may be significant.

(8) Deficit Funding Plan

Since becoming aware of the issues discussed above, the Division has taken significant steps to strengthen internal controls within the organization and to improve fiscal accountability and monitoring of the local workforce investment boards. Procedures are being put into place to ensure that charges to programs are allowable and proper and that grant obligations do not exceed the current grant funds available. In addition, the Division has issued fiscal guidelines for the local workforce investment boards and has conducted fiscal training with their key fiscal personnel.

The Division is continuing to improve its budgetary process and is looking at various methods to control expenses; including, but not limited to, budget cutbacks, closing of offices, and the reorganization of various job responsibilities within the Division. In addition, the Division is developing a more comprehensive oversight program to monitor the seven subrecipient workforce investment boards in an effort to reduce non-allowable expenditures. Furthermore, management intends to perform a comprehensive review of the workforce investment board structure to determine if a more cost effective structure that delivers the same level of client service can be implemented.

In order to improve the fiscal condition, the Division has requested and received non-federal funds from the Legislature of the State of West Virginia. These funds have been/will be utilized to repay liabilities due to the Federal government as a result of the review. In addition, funding will be sought to eliminate future anticipated deficits as estimated by the management of the Division.

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, 2007
(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 7/1/06	\$ -	\$ -	\$ 4,224,910	\$ 4,224,910
2007 FY Gross Revenue and Appropriations	-	-	40,107,123	40,107,123
Estimated Revenue FY 2007	93,534,594	93,534,594	-	(93,534,594)
Amounts Available For Appropriation	93,534,594	93,534,594	44,332,033	(49,202,561)
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	23,064,600	23,064,600	14,290,118	8,774,482
004-Annual Increment	528,187	528,187	389,389	138,798
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	208,230	208,230	86,113	122,117
011-Social Security Matching	1,788,346	1,788,346	1,078,415	709,931
012-Public Employees' Insurance	3,153,392	3,153,392	2,513,206	640,186
013-Other Health Insurance	66,891	66,891	-	66,891
014-Workers Compensation	204,583	204,583	64,207	140,376
015-Unemployment Compensation	49,892	49,892	19,095	30,797
016-Pension & Retirement	2,449,886	2,449,886	1,532,283	917,603
Current Expenses:				
020-Office Expenses	659,331	659,331	312,055	347,276
021-Printing and Binding	594,270	594,270	207,454	386,816
022-Rental Expense	4,551,406	4,551,406	1,731,103	2,820,303
023-Utilities	383,055	383,055	106,917	276,138
024-Telecommunications	1,150,735	1,150,735	491,152	659,583
025-Contractual and Professional	4,800,620	4,800,620	781,958	4,018,662
026-Travel	1,407,650	1,407,650	447,815	959,835
027-Computer Services	3,379,330	3,379,330	1,001,757	2,377,573
029-Vehicle Rental	48,645	48,645	8,737	39,908
030-Rentals (Machine and Miscellaneous)	364,229	364,229	155,580	208,649
031-Association Dues and Professional Memberships	85,538	85,538	28,830	56,708
032-Fire, Auto, Bond, and Other Insurance	510,780	510,780	228,876	281,904
034-Clothing, Household and Recreational Supplies	34,464	34,464	9,133	25,331
035-Advertising and Promotional	33,778	33,778	38,520	(4,742)
036-Vehicle Operating Expense	57,936	57,936	16,735	41,201
038-Routine Maintenance Contracts	769,737	769,737	287,947	481,790
041-Cellular Charges	28,908	28,908	9,895	19,013
042-Hospitality	137,610	137,610	58,595	79,015
043-Educational Training (Stipends)	32,741	32,741	14,401	18,340
051-Miscellaneous	3,657,229	3,657,229	(97,190)	3,754,419
052-Training and Development	119,642	119,642	32,467	87,175
053-Postal and Freight	102,205	102,205	48,505	53,700
054-Computer Supplies	222,793	222,793	333,257	(110,464)
056-Attorney Legal Service Payments	30,843	30,843	9,139	21,704
058-Miscellaneous Equipment Purchases	48,381	48,381	30,344	18,037
061-Office & Communication Equipment Repairs	189,828	189,828	10,443	179,385
063-Building & Household Equipment Repairs	21,547	21,547	-	21,547
064-Routine Maintenance Of Buildings	25,697	25,697	11,884	13,813
065-Vehicle Repairs	4,200	4,200	1,126	3,074
068-Other Repairs and Alterations	8,400	8,400	-	8,400
070-Office and Communication Equipment	380,390	380,390	(17,750)	398,140
074-Building Equipment	18,000	18,000	-	18,000
075-Vehicles	9,567	9,567	-	9,567
078-Other Capital Equipment	9,566	9,566	-	9,566
083-Grants, Awards, Scholarships, and Loans	78,740	78,740	8,543	70,198
089-Bank Costs	-	-	542	(542)
096-Other Interest and Penalties	7,741	7,741	209	7,532
100-Fund Transfers	711,249	711,249	259,877	451,372
124-Cost Allocation Adjustment/Settlement	485,740	485,740	(1,285,445)	1,771,185
128-Federal Subrecipient Disbursement	36,700,344	36,700,344	16,093,338	20,607,006
143-Building Improvements	-	-	60	(60)
170-Computer Equipment	138,974	138,974	2,208	136,766
171-Computer Software	18,748	18,748	85,941	(67,194)
Total Charges To Appropriations	93,534,594	93,534,594	41,437,784	52,096,810
Budgetary Fund Balance, June 30, 2007	\$ -	\$ -	\$ 2,894,249	\$ 2,894,249

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, 2007
 (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, 2007, on the budgetary basis to the GAAP basis for the General Fund follows:

Net change in fund balance - budgetary basis	\$ 2,894
Basis of accounting differences (budgetary to GAAP)	(6,039)
Unbudgeted funds	169
Transfers	<u>5,338</u>
Net change in fund balance - GAAP basis	<u>\$ 2,362</u>

OTHER FINANCIAL INFORMATION

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 3450 Administration and Service
Year Ended June 30, 2007
(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 7/1/06	\$ -	\$ -	\$ 891,352	\$ 891,352
2007 FY Gross Revenue	-	-	20,924,920	20,924,920
Estimated Revenue FY 2007	48,618,941	48,618,941	-	(48,618,941)
Amounts Available For Appropriation	48,618,941	48,618,941	21,816,272	(26,802,669)
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	21,301,104	21,301,104	12,770,643	8,530,461
004-Annual Increment	507,337	507,337	366,347	140,990
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	196,230	196,230	39,109	157,121
011-Social Security Matching	1,668,346	1,668,346	970,401	697,945
012-Public Employees' Insurance	3,003,392	3,003,392	2,308,910	694,482
013-Other Health Insurance	66,891	66,891	-	66,891
014-Workers Compensation	183,583	183,583	60,501	123,082
015-Unemployment Compensation	49,892	49,892	14,387	35,505
016-Pension & Retirement	2,289,886	2,289,886	1,381,584	908,302
Current Expenses:				
020-Office Expenses	630,884	630,884	272,876	358,008
021-Printing and Binding	567,022	567,022	198,167	368,855
022-Rental Expense	4,431,672	4,431,672	1,229,469	3,202,203
023-Utilities	379,305	379,305	93,419	285,886
024-Telecommunications	1,128,238	1,128,238	412,521	715,717
025-Contractual and Professional	388,981	388,981	488,834	(99,853)
026-Travel	1,228,870	1,228,870	359,814	869,056
027-Computer Services	2,569,983	2,569,983	809,871	1,760,112
029-Vehicle Rental	46,445	46,445	7,650	38,795
030-Rentals (Machine and Miscellaneous)	336,730	336,730	143,190	193,540
031-Association Dues and Professional Memberships	59,992	59,992	26,783	33,209
032-Fire, Auto, Bond, and Other Insurance	447,038	447,038	190,369	256,669
034-Clothing, Household and Recreational Supplies	30,964	30,964	8,743	22,221
035-Advertising and Promotional	29,028	29,028	(4,771)	33,799
036-Vehicle Operating Expense	54,186	54,186	14,678	39,508
038-Routine Maintenance Contracts	754,739	754,739	260,427	474,312
041-Cellular Charges	25,158	25,158	6,564	18,594
042-Hospitality	69,668	69,668	23,076	46,592
043-Educational Training (Stipends)	7,741	7,741	13,760	(6,019)
051-Miscellaneous	3,638,229	3,638,229	8,482	3,629,747
052-Training and Development	112,143	112,143	29,742	82,401
053-Postal and Freight	90,956	90,956	43,669	47,287
054-Computer Supplies	170,300	170,300	170,201	99
056-Attorney Legal Service Payments	27,093	27,093	8,092	19,001
058-Miscellaneous Equipment Purchases	48,381	48,381	25,409	22,972
061-Office & Communication Equipment Repairs	166,430	166,430	9,755	156,675
063-Building & Household Equipment Repairs	13,547	13,547	-	13,547
064-Routine Maintenance Of Buildings	13,547	13,547	11,366	2,181
065-Vehicle Repairs	-	-	1,126	(1,126)
070-Office and Communication Equipment	363,823	363,823	(17,750)	381,573
083-Grants, Awards, Scholarships, and Loans	-	-	2,345	(2,345)
096-Other Interest and Penalties	7,741	7,741	195	7,546
124-Cost Allocation Adjustment/Settlement	485,740	485,740	(1,366,066)	1,851,806
128-Federal Subrecipient Disbursement	899,981	899,981	89,511	810,470
143-Building Improvements	-	-	60	(60)
170-Computer Equipment	127,725	127,725	1,155	126,570
171-Computer Software	-	-	76,776	(76,776)
Total Charges To Appropriations	48,618,941	48,618,941	21,581,390	27,037,551
Budgetary Fund Balance, June 30, 2007	\$ -	\$ -	\$ 234,882	\$ 234,882

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 8835 Consolidated Federal Funds
Year Ended June 30, 2007
(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 7/1/06	\$ -	\$ -	\$ 484,085	\$ 484,085
Estimated Revenue FY 2007	4,257,657	4,257,657	-	(4,257,657)
2007 FY Gross Revenue	-	-	1,960,936	1,960,936
Amounts Available for Appropriation	<u>4,257,657</u>	<u>4,257,657</u>	<u>2,445,021</u>	<u>(1,812,636)</u>
Charges to Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	-	-	281,996	(281,996)
Employee Benefits				
010-Personnel Division & Public Employees Insurance	-	-	26,450	(26,450)
011-Social Security Matching	-	-	16,210	(16,210)
012-Public Employees' Insurance	-	-	30,130	(30,130)
015-Unemployment Compensation	-	-	3,878	(3,878)
016-Pension & Retirement	-	-	22,249	(22,249)
Current Expenses				
022-Rental Expense	-	-	417,220	(417,220)
023-Utilities	-	-	12,969	(12,969)
024-Telecommunications	-	-	39,112	(39,112)
025-Contractual and Professional	4,257,657	4,257,657	17,280	4,240,377
026-Travel	-	-	29,610	(29,610)
027-Computer Services	-	-	52,000	(52,000)
042-Hospitality	-	-	139	(139)
054-Computer Supplies	-	-	103,643	(103,643)
058-Miscellaneous Equipment Purchases	-	-	2,012	(2,012)
124-Cost Allocation Adjustment/Settlement	-	-	245,341	(245,341)
Total Charges To Appropriations	<u>4,257,657</u>	<u>4,257,657</u>	<u>1,300,239</u>	<u>2,957,418</u>
Budgetary Fund Balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,782</u>	<u>\$ 1,144,782</u>

WORKFORCE WEST VIRGINIA
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 3451 Interest on Employers Delinquent Contributions Fund
 Year Ended June 30, 2007
 (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 7/1/06	\$ -	\$ -	\$ 45,443	\$ 45,443
Estimated Revenue FY 2007	904,500	904,500	-	(904,500)
2007 FY Gross Revenue	-	-	252,425	252,425
Amounts Available For Appropriation	<u>904,500</u>	<u>904,500</u>	<u>297,868</u>	<u>(606,632)</u>
Charges To Appropriations (Outflows):				
020-Office Expenses	2,200	2,200	-	2,200
021-Printing and Binding	8,500	8,500	-	8,500
025-Contractual and Professional	11,500	11,500	-	11,500
026-Travel	6,300	6,300	-	6,300
027-Computer Services	10,000	10,000	-	10,000
029-Vehicle Rental	2,200	2,200	-	2,200
030-Rentals (Machine and Miscellaneous)	20,000	20,000	-	20,000
034-Clothing, Household and Recreational Supplies	3,500	3,500	-	3,500
035-Advertising and Promotional	1,000	1,000	-	1,000
042-Hospitality	4,200	4,200	-	4,200
043-Educational Training (Stipends)	25,000	25,000	-	25,000
051-Miscellaneous	19,000	19,000	-	19,000
061-Office & Communication Equipment Repairs	8,400	8,400	-	8,400
063-Building & Household Equipment Repairs	8,000	8,000	-	8,000
064-Routine Maintenance Of Buildings	8,400	8,400	-	8,400
065-Vehicle Repairs	4,200	4,200	-	4,200
068-Other Repairs and Alterations	8,400	8,400	-	8,400
070-Office and Communication Equipment	16,567	16,567	-	16,567
074-Building Equipment	18,000	18,000	-	18,000
075-Vehicles	9,567	9,567	-	9,567
078-Other Capital Equipment	9,566	9,566	-	9,566
100-Fund Transfers	700,000	700,000	259,877	440,123
Total Charges To Appropriations	<u>904,500</u>	<u>904,500</u>	<u>259,877</u>	<u>644,623</u>
Budgetary Fund Balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,991</u>	<u>\$ 37,991</u>

WORKFORCE WEST VIRGINIA
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 8888 Workforce Investment Act
Year Ended June 30, 2007
(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 7/1/06	\$ -	\$ -	\$ 969,606	\$ 969,606
2007 FY Gross Revenue	-	-	18,800,369	18,800,369
Estimated Revenue FY 2007	39,733,496	39,733,496	-	(39,733,496)
Amounts Available For Appropriation	39,733,496	39,733,496	19,769,975	(19,963,521)
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	1,758,496	1,758,496	1,237,050	521,446
004-Annual Increment	20,850	20,850	23,042	(2,192)
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	12,000	12,000	20,554	(8,554)
011-Social Security Matching	120,000	120,000	91,720	28,280
012-Public Employees' Insurance	150,000	150,000	174,167	(24,167)
014-Workers Compensation	21,000	21,000	3,707	17,293
015-Unemployment Compensation	-	-	831	(831)
016-Pension & Retirement	160,000	160,000	128,450	31,550
Current Expenses:				
020-Office Expenses	26,247	26,247	39,179	(12,932)
021-Printing and Binding	18,748	18,748	9,286	9,462
022-Rental Expense	119,734	119,734	84,415	35,319
023-Utilities	3,750	3,750	529	3,221
024-Telecommunications	22,497	22,497	39,518	(17,021)
025-Contractual and Professional	142,482	142,482	275,843	(133,361)
026-Travel	157,480	157,480	56,007	101,473
027-Computer Services	799,347	799,347	139,886	659,461
029-Vehicle Rental	-	-	1,086	(1,086)
030-Rentals (Machine and Miscellaneous)	7,499	7,499	12,390	(4,891)
031-Association Dues and Professional Memberships	25,546	25,546	2,048	23,498
032-Fire, Auto, Bond, and Other Insurance	63,742	63,742	38,507	25,235
034-Clothing, Household and Recreational Supplies	-	-	389	(389)
035-Advertising and Promotional	3,750	3,750	43,291	(39,541)
036-Vehicle Operating Expense	3,750	3,750	2,057	1,693
038-Routine Maintenance Contracts	14,998	14,998	7,520	7,478
041-Cellular Charges	3,750	3,750	3,331	419
042-Hospitality	63,742	63,742	35,380	28,362
043-Educational Training (Stipends)	-	-	641	(641)
051-Miscellaneous	-	-	(105,672)	105,672
052-Training and Development	7,499	7,499	2,724	4,775
053-Postal and Freight	11,249	11,249	4,836	6,413
054-Computer Supplies	52,493	52,493	59,413	(6,920)
056-Attorney Legal Service Payments	3,750	3,750	1,047	2,703
058-Miscellaneous Equipment Purchases	-	-	2,924	(2,924)
061-Office & Communication Equipment Repairs	14,998	14,998	688	14,310
064-Routine Maintenance Of Buildings	3,750	3,750	519	3,231
083-Grants, Awards, Scholarships, and Loans	78,740	78,740	6,198	72,542
089-Bank Costs	-	-	542	(542)
096-Other Interest and Penalties	-	-	14	(14)
100-Governors Workforce Investment Act	11,249	11,249	-	11,249
124-Cost Allocation Adjustment/Settlement	-	-	(164,720)	164,720
128-Federal Subrecipient Disbursement	35,800,363	35,800,363	16,003,827	19,796,536
170-Computer Equipment	11,249	11,249	1,053	10,196
171-Computer Software	18,748	18,748	9,170	9,578
Total Charges To Appropriations	39,733,496	39,733,496	18,293,384	21,440,112
Budgetary Fund Balance, June 30, 2007	\$ -	\$ -	\$ 1,476,591	\$ 1,476,591

WORKFORCE WEST VIRGINIA
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 0608 Governor's Workforce Investment Office
 Year Ended June 30, 2007
 (In Dollars)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/06	\$ -	\$ -	\$ 1,831,527	\$ 1,831,527
2007 FY Appropriation	-	-	(1,831,527)	(1,831,527)
Estimated Appropriation FY 2007	-	-	-	-
Amounts Available For Appropriation	-	-	-	-
Total Charges To Appropriations	-	-	-	-
Appropriation Balance, June 30, 2007	\$ -	\$ -	\$ -	\$ -

WORKFORCE WEST VIRGINIA
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 3459 Katrina Evacuation September 2005
 Year Ended June 30, 2007
 (In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/06	\$ -	\$ -	\$ 2,898	\$ 2,898
2007 FY Gross Revenue	-	-	-	-
Estimated Revenue FY 2007	20,000	20,000	-	(20,000)
Amounts Available for Appropriation	<u>20,000</u>	<u>20,000</u>	<u>2,898</u>	<u>(17,102)</u>
Charges to Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	5,000	5,000	429	4,571
Employee Benefits:				
011-Social Security Matching	-	-	84	(84)
Current Expenses:				
026-Travel	15,000	15,000	2,385	12,615
Total Charges to Appropriations	<u>20,000</u>	<u>20,000</u>	<u>2,898</u>	<u>17,102</u>
Budgetary Fund Balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COMPLIANCE AND INTERNAL CONTROL REPORT



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

The Commissioner
WORKFORCE West Virginia
Charleston, West Virginia

We have audited the 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, 2007, and have issued our report thereon dated March 10, 2008, which contained a matter of emphasis paragraph regarding a contingent liability with the federal government and an unrestricted net asset deficit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-01 and 2007-02 to be a significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2007-01.

WORKFORCE West Virginia's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit WORKFORCE West Virginia's response and, accordingly, we express no opinion on it.

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 March 10, 2008.

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.

Scott I. Stalman, PLLC

Charleston, West Virginia
March 10, 2008

WORKFORCE WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2007

2007-01 FINANCIAL ERRORS AND FUNDING DEFICIT (Prior Year Finding)

Criteria: Grantee agencies are required to develop procedures, including internal control and financial and programmatic monitoring procedures, to ensure that the grantee complies with the provisions of the federal award programs. Furthermore, management of the Division is required by OMB Circular A-102 to have a "grantee financial management system, which shall provide accurate, current, and complete disclosure of the financial results of each grant program." 29 CFR 97.20(a)(1) and (2), July 1, 2005, provides in part, that States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports and be able to trace funds to a level of expenditures adequate to establish that such funds have not been used in violation of applicable laws and regulations. In addition, 20 CFR 667.410 (b)(2)(iii) and (4) requires that the State's monitoring system must enable the Governor to determine if subrecipients have demonstrated substantial compliance with WIA requirements and the Governor must require that prompt corrective action be taken if any substantial violation of identified standards is found. Also 29 CFR 97.40(a), July 1, 2005, states in part, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements..."

Criteria: Grantee agencies are required to develop procedures, including internal control and financial and programmatic monitoring procedures, to ensure that the grantee complies with the provisions of the federal award programs. Furthermore, management of the Division is required by OMB Circular A-102 to have a "grantee financial management system, which shall provide accurate, current, and complete disclosure of the financial results of each grant program." In addition, 20 CFR 667.410 (b)(2)(iii) and (4) requires that the State's monitoring system must enable the Governor to determine if subrecipients have demonstrated substantial compliance with WIA requirements and the Governor must require that prompt corrective action be taken if any substantial violation of identified standards is found.

Condition: During the 2006 audit, we became aware of certain errors and issues regarding a potential liability to the Federal government. This matter was investigated and is currently being resolved with the U.S. Department of Labor (USDOL). As of June 30, 2007 in accordance with their agreement with the USDOL, management had replenished federal grant funds from State general revenues in the amount of approximately \$3.3 million. Subsequent to year end, through the date of our report, management had replenished or provided for repayment of an additional \$2.5 million.

In addition to these amounts, the Division is currently negotiating a settlement with the USDOL regarding certain issues identified at the seven subrecipient Workforce Investment Boards during 2006. The issues identified relate to the over expenditure of federal grant funds, insufficient supporting documentation for qualifying expenditures charged to federal grants, improper charging of federal grant funds and certain state programs for non-allowable costs, violation of the Federal cash management act, and a lack of an approved indirect cost rate or cost allocation plan. Further, as a result of internal monitorings, the Division has also identified numerous issues during 2007 with the Workforce Investment Boards that may result in questioned costs.

Furthermore, the Division's unrestricted net assets continue to be in a deficit position which has been the result of the over expenditure of various grant awards.

WORKFORCE WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2007

2007-01 FINANCIAL ERRORS AND FUNDING DEFICIT (Prior Year Finding) (Continued)

Context: As disclosed in the notes to the financial statements, the Division has settled \$5.8 million of the original \$6.5 million liability recorded in 2006. The Division is still negotiating the liability regarding the Workforce Investment Boards for 2006 and is unable to determine a range of liability for the 2007 fiscal year. The range of the 2006 liability is between \$400 thousand and \$4.4 million and the 2007 range has not been estimated but could be similar in nature. As such, the Division has not recorded an additional liability other than the original \$700 thousand recorded. The estimate recorded has been based upon information currently known by management. The amount that may ultimately be required to be repaid may be more or less than the amount recorded and the difference may be significant.

The unrestricted net asset deficit decreased to \$19 million as of June 30, 2007. Total assets of the general fund are approximately \$3.6 million and total revenues are approximately \$55 million.

Cause: Adequate controls were not in place at the Division or at the subrecipient level to ensure expenditures and commitments were only made for allowable costs and do not exceed the available funds.

Effect: Federal funds were used for potentially unallowable activities and the Division will need alternative funding sources to satisfy its obligations.

Recommendation: We recommend that management finalize their review and negotiations with the USDOL. Any disallowances should be repaid in a timely manner to the USDOL. In addition, management should ensure that policies and procedures are implemented to address all identified internal control issues. Management should ensure that subrecipient monitorings are performed in a timely manner covering all aspects of the WIA program. Issues identified during these monitorings should be investigated and resolved in a timely manner. Also, follow-up monitorings should be conducted when issues have been identified to verify that corrective action plans submitted have been followed. Furthermore, management should ensure that alternative funding sources are available and that expenditures and commitments do not exceed budgeted revenues.

Management's Response: As of December 11, 2007, WORKFORCE West Virginia has settled \$5,825,607 of the \$6.5 million in audit findings. These funds were provided by the State Legislature to resolve the findings as needed. Out of the total \$5.8 million, only \$238,374 needed repaid to the USDOL, the remaining amount was replenished into WORKFORCE West Virginia's funds for continued use. WORKFORCE West Virginia is currently working with USDOL and the Local WIBs to resolve the second Agreed Upon Procedures Report.

WORKFORCE WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2007

2007-02 INTERNAL CONTROL

Criteria: Management of the Division is responsible for establishing an internal control structure that reduces to an acceptable level the risk of errors and fraud occurring and not being detected. Furthermore, management is responsible for preparation of the financial statements and related footnote disclosures. Specifically, 29 CFR 97.20(a)(1) and (2), July 1, 2005, provides in part, that States must have financial management systems in place to account for the expenditure of grant funds, prepare accurate financial reports and be able to trace funds to a level of expenditures adequate to establish that such funds have not been used in violation of applicable laws and regulations.

Condition: We reviewed the original trial balance and draft financial statement note disclosures and noted the following errors:

- The original trial balance did not have the audit adjustments posted from the 2006 audit. The 2006 audit adjustments required an audit adjustment in the amount of \$6.5 million.
- The original trial balance had an error in the general fund accounts payable accrual which required adjustment. The accounts payable audit adjustment reduced accounts payable by approximately \$500 thousand.
- The original draft notes to the financial statements did not disclose the Division's contingent liability or provide explanation for how the Division would address the deficit fund balance. Furthermore, several of the amounts in the note disclosures were not updated from the 2006 numbers to reflect the 2007 activity.

Context: The 2006 audit adjustments required an audit adjustment in the amount of \$6.5 million. The accounts payable audit adjustment reduced accounts payable by approximately \$500 thousand.

Cause: Management did not have adequate internal control to ensure that the financial statements and related note disclosures are not materially misstated.

Effect: The financial statements required audit adjustments and additional note disclosures and revisions to accurately reflect the financial position of the Division.

Recommendation: We recommend that management develop internal control policies and procedures to ensure that the financial statements and related note disclosures are accurate and reflective of the actual results of the financial position of the Division.

WORKFORCE WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2007

2007-02 INTERNAL CONTROL (Continued)

**Management's
Response/Views
of Responsible
Officials:**

WORKFORCE West Virginia has spent in excess of a year resolving audit findings that spanned from FY2000 to FY2006. This took time away from all current assignments including the Financial Statements and Single Audit preparation. In addition to resolving these audit findings, the Division has created internal controls to ensure these findings do not occur in the future.

Also, 5 of the Division's top Finance members left for other employment, these were the individuals who had taken care of the Single Audit and Financial Statements in the past. The files and back-up documentation from past completion of the financial statements was not concise or easy to find. The Division is working to ensure files are more concise and located centrally.

The Division is currently putting policies and procedures in place to ensure that the completion of the Financial Statements and preparation for the Single Audit will be more timely and process smoothly for the upcoming and future years.