West Virginia Performance Review
Phase 1 Issue Docket

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I. Cross Cutting Issues

CC 1

EXPAND STATE EMPLOYEE DIRECT DEPOSIT USE

West Virginia should require all state employees to receive their paychecks via direct deposit or check cards.

Background

Direct deposit was introduced to West Virginia employees in the 1980s.[1] According to the West Virginia Auditor's Office, more than 23 percent of all state employees still do not receive their payroll checks via direct deposit, and another 46,937 retired state employees fail to take advantage of the option. The reasons for this are as varied as a cultural bias against banks, the tendency for low-income employees to resist banking accounts, and poor credit of some employees, leading to a low priority for using banks.[2]

Check cards are debit cards that can be issued by the state to current or retired employees who are considered unbanked and who do not have a federally insured depository institution account. These cards can be issued by the state and credited each pay period to employees who choose not to use direct deposit.[3]

Although there is currently legislation entitled "West Virginia Check Card,"[4] the lack of any state contract in place with a financial institution would prevent implementation of the legislation even if it were to pass.[5]

Findings

The following examples of expenditures by two important state agencies speak to the cost of distributing checks to employees:

- The Division of Highways has a total of 4,670 employees, 33 percent of whom do not use direct deposit.[6] The department reports that distributing checks to all highways employees statewide cost the agency $9,692.31 for the April 30, 2005 pay period.[7]

- The Division of Motor Vehicles has a total of 565 employees, 15.4 percent of whom do not use direct deposit.[8] The department reports that they pay an average of $1658.50 per pay period to send checks to employees.[9]

The West Virginia State Auditor has implement WV Code 12-3A-4ed a statewide marketing campaign to encourage employees to switch to direct deposit or begin using electronic benefits transfer cards to receive their paychecks.[10]

The state's Bureau of Child Safety Enforcement instituted a VISA debit check card program in February 2005. There were 44,519 active cards as of November of that year. The bureau reports that it is saving approximately $30,000 a month by requiring recipients to receive their money through check cards or direct deposit instead of issuing paper checks. The costs for various transactions are:

- $0.52 per paper check
- $0.39 per transaction using a check card
- $0.11 per transaction using direct deposit, plus a $10.00 fee to create an electronic file (historically per day). There is no limit on the number of entries per file.[11]

Large organizations issuing 100,000 checks or more per month – an amount comparable to the total checks issued by West Virginia – incur costs for various types of transactions according to accepted industry standards. These include $0.269 cost per paper check and $0.082 cost for direct deposit

Recommendation

> **The legislature should change Chapter 12, Article 3, Section 1b of the West Virginia Code to require state employees to receive their paychecks either through direct deposit or through the use of a check card. This requirement should take full effect within the next two years. All new employees should be required to have their paychecks received through direct deposit.**

Fiscal Impact

Based on active and retired employees who currently do not use direct deposit, and using the accepted industry standards for large organizations, West Virginia could save approximately $50,000 a year by switching to direct deposit or check cards. The five-year savings would reach $200,000.

No new costs are associated with expanding direct deposit.[12]

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$50,000		
2008	$50,000		
2009	$50,000		
2010	$50,000		

Footnotes

[1] Ross Guyer, Deputy Senior State Auditor
[2] State Auditor
[3] WV Code 12-3A-4
[4] WV Code 12-3A-4
[5] Ross Guyer, Deputy Senior State Auditor
[6] Report from Division of Highways
[7] Report from Division of Highways
[8] Report from Department of Motor Vehicles
[9] Report from Department of Motor Vehicles
[10] State Auditor
[11] Garrett Jacobs, Deputy Commissioner, BCSE
[12] State Auditor

CC-2

PROVIDE ELECTRONIC ACCESS TO LEAVE ACCRUAL DATA FOR STATE EMPLOYEES

State agencies should send via Internet/Intranet or email tools to provide electronic leave balances to employees, which will eliminate unnecessary paper production costs.

Background

West Virginia does not have a centralized system for recording state employee leave balances or time. Each agency maintains its own separate system for reporting this information. Employees in state government who accrue leave are provided balance sheets by their supervisors, some electronically and some on paper.

The agencies that provide their employees leave balances electronically use a mainframe system, internet/intranet, or email. Employees have access to their balances by logging onto the system or the internet/intranet site. Balances provided by paper are mailed to the different departments handed out to employees in the office.

There are no formal requirements for how agencies must communicate leave balances to employees and no standards in state law to provide leave balances to employees within specified time frames. These decisions are left to the discretion of each agency chief or personnel director. All that is required is that agencies maintain a record of leave balances that can be provided to the employee upon request, to the payroll office for payroll purposes, or when employees transfer to other agencies or end their state employment.

Findings

Thirteen state agencies were recently surveyed for this performance review, representing 70 percent of the state government work force.[1] Of the agencies surveyed, more than two-thirds (64 percent) reported that they provide leave balances in some type of electronic format, while 36 percent said they provide them in paper format. This information is provided either monthly, quarterly, or each pay period.

The Division of Personnel, the Higher Education Policy Commission, and the Department of Health and Human Resources provide employees access to their leave balance via the internet/intranet. Employees in these agencies can access their leave balance at any time. This eliminates paper costs and reduces taxpayers expenses associated with producing them. There are minimal costs for maintaining the system, including programming expenses and mainframe central processing unit time.

Leave balances aren't covered under the Privacy Act and can be posted on the Internet/Intranet for an employee's viewing.[2]

Recommendation

a.) The Division of Personnel should change Administrative Rule 14.14 to require agencies to provide leave balances to employees or their supervisors and leave coordinators in an electronic format, either by Internet/Intranet or email.

b.) State agencies should switch from providing their employee's leave balance on paper and begin providing them in an electronic format. Most state agencies maintain their employee's leave balance electronically, but 36 percent of the employees are still provided their balances on paper. Paper copies could be eliminated by posting the records on the agency's web site or Intranet site or by sending the leave balance to employees via email. For those employees who lack access to computers, leave balances can be communicated through their supervisors/leave coordinators.

Fiscal Impact

The taxpayers savings associated with this process are the paper costs, which come to approximately $5,710 per year.

Employee time spent on this process can also be reduced if leave balances are provided electronically. There are approximately 36,189 employees in state government, with an average salary of $31,190 at an hourly rate of $15. The time spent on processing a paper leave statement is 1.14 hours per employee each year. The estimated number of employees who receive their leave balances by the paper method is 12,913.

By these figures, agencies spend 14,721 hours each year to print and send paper leave statements to their employees. The estimated personnel cost incurred by the state to process paper leave statements is $220,746 each year. If state government implements the electronic method of providing leave balances to employees, the amount of time spent on this process will be dramatically reduced. The cost associated with this implementation will require staff from each agency to post the information on the agency web site each month or send it via email.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	n/a	n/a	n/a
2007	$5,710	n/a	n/a
2008	$5,710	n/a	n/a
2009	$5,710	n/a	n/a
2010	$5,710	n/a	n/a

Implementation Table

Task	Responsible Party	Start Date Month/year	Anticipated Completion
Change Admin Rule 14.14 to require agencies to provide leave balances electronically	Division of Personnel	December 9, 2005	April 15, 2006

Footnotes

[1] Wayne Armstrong, Division of Corrections; Benita Murphy, WV Parole Board; Nancy Olson, WV Fire Marshall; Steve Tucker, WV State Police; Hyden Martin, WV National Guard; Valorie Allen, Division of Protection Services; Jeff Black, DOT; Barbara White, Criminal Justice Services; Barbara Wimer, Dept. of Military Affairs; Tari Crouse, DOP; Margaret Buttrick, Higher Ed Policy Comm.; Mike McCabe, DHHR; Jimmy Gianato, Division of Homeland Security.
[2] Sandy Kee, DEP Human Resources Manager, 11/10/05, Phone.

CC-3

GIVE EMPLOYEES FLEX-TIME WORK OPTION

The state should adopt a statewide flexible work schedule policy to provide the ability to extend hours of operation and make it easier for customers to conduct business with their state government and reduce overhead costs of sick days and travel time.

Background

In recent years, employers in both the private and public sectors have adopted flexible work schedule programs. These programs often provide benefits to both the employer and the employee, because the programs extend an organization's operating or service hours and offer employees a more flexible and accommodating work schedule.

Flexible work schedules could be a viable option for several government agencies in West Virginia. Simply put, some state agencies would be able to expand their workload capacity without increasing staff. For example, the Department of Health and Human Resources could conduct more case visits by extending the workday to 10 hours. This would allow them to do more of their work when more of their clients were home from their jobs, thus getting permission to access their homes to follow-up on complaints or to complete inspections. Flexible work schedules might enable state agencies to use staff resources more effectively, and thus improve how the state serves its citizens.

Another advantage of flex-time work schedules is how they affect an employee's ability to enter or remain in the workforce. Parents returning to work, for example, sometimes are more willing to accept a position that allows for a balanced work-home life. The same is true for those who care for aging parents because they get the freedom to tend to their family needs as well as perform their job. Flexible work schedules, therefore, are another incentive that state government can use to attract and retain highly skilled, educated employees.

West Virginia Code Chapter 29-6-10 authorizes the Division of Personnel to implement an administrative rule regarding classification plans, pay plans, open competitive examinations, promotions, layoff and recall, appointments, dismissals, demotions, and other matters consistent with WV Code 29-6-1 et seq.[1]

The current administrative rule allows state agencies to establish their own work schedules in Section 14.2. Work schedules and changes must be submitted to the Director of Division of Personnel within 15 calendar days after employees commence work under the schedule.[2] This means that the current administrative rule already provides the flexibility agencies need to consider employing a flex-time work schedule program, and some already have.

Although most of West Virginia's government agencies have standard work hours of 8:00 a.m. to 5:00 p.m., the Departments of Transportation, Environmental Protection, Administration, Health and Human Resources, Division of Criminal Justice, Division of Forestry and Division of Rehabilitation Services do offer flexible work schedule programs to their employees. These agencies provide this benefit to give employees more control of their work schedules and to provide longer customer service hours.

Findings

Flexible work schedules benefit employees as well as the employer. From the employee's perspective, they gain:

- personal control over their own work schedules;
- an opportunity to adjust their work schedules to meet personal needs;
- less traffic congestion and fewer delays;
- an opportunity to work at personal peak times;
- the flexibility to take care of personal business; and
- less stress and greater job satisfaction.

From the employer's perspective, they benefit by having:

- expanded business hours that enable them to serve customers better;
- enhanced ability to work with other time zones;
- Increased ability to attract new employees;
- reduced employee tardiness and absences;
- less personnel turnover; and
- improved employee productivity and morale.

Thus, offering flex-time schedules can create a "win-win" situation for both the employee and the employer.[3]

Examples abound of governments that have instituted flexible work schedule programs and experienced many of these benefits as a result. California and Louisiana, for example, offer flexible work schedule programs for state employees consistent with the needs of providing state services.[4] A government employee in Louisiana finds that a flexible work schedules means that she uses less sick time, because she is able to schedule personal appointments on her time off. The city of Berkeley, California, also found a measurable decrease in sick time and overtime costs after implementing a flex-time schedule program.

Case studies in 2000 from the Washington State University Cooperative Extension Energy Program indicated that organizations experienced decreased absenteeism, expanded coverage;

production increases, increased employee performance, reduced space costs, and reduced overtime costs when a flexible work schedule was offered.[5]

The U.S. Environmental Protection Agency (EPA) also reports on their web site some results about a test conducted in San Francisco involving 6,000 employees from 23 different companies that participated in a flexible work schedule program. The test found that 60 percent of employees experienced "much less congestion" on their commute to and from work as a result of the flexible work schedule option. This notion also could apply to West Virginia's highways during peak hours, especially on the commute to and within the Capitol Complex. The Arizona Department of Environmental Quality also reports that voluntary alternative work schedule programs would reduce maximum 8-hour carbon monoxide emissions by as much as 1.9 percent in the Phoenix metropolitan area if at least 20 percent of the regional workforce participated.
In the EPA study mentioned above, one company found that a flexible work schedule increased productivity by three percent, and the program decreased sick time and personal leave an average of 3.5 days per year per employee. (State privacy laws prevented the EPA from naming the company or the state involved in the study.)

Other companies have found unexpected benefits as a result of offering a flexible work schedule option. For example, a Connecticut state official reported that a local company increased market share of their West Coast sales. They also found that workers, who were operating under variable work hours, stayed on the phones later in the evening and reached more West Coast buyers because of the time zone difference. [6]

According to the Boston College Center for Work and Family, research continuously confirms that flexible work schedules bring a range of positive results, including:

- reduced stress and healthcare costs;
- improved productivity and job satisfaction;
- increased retention;
- less absenteeism; and
- better employee loyalty and commitment to the job.

West Virginia's Division of Forestry recently implemented a multi-flexible work schedule, which allows the state to serve customers 10 hours more per week than it did under a standard work schedule. Half of the division's workforce works 10-hour days Monday through Thursday, while the other half works 10-hour days Tuesday through Friday. The reason for implementing a flexible work schedule was to save on fuel costs and vehicle maintenance, because the assumption is that one-day per week, their vehicles will be parked and not in-service. The division also expects to cut absenteeism and boost productivity.[7] This also will allow the division to serve its customers for 50 hours per week instead of the normal 40-hour week.

For fiscal years 2004 and 2005, the state spent $33,563,350 and $26,007,167 respectively in overtime costs.

The Department of Health and Human Resources (DHHR) Behavioral Health and Hospitals Facilities Division performed a rough calculation of the potential savings if they were to implement a flexible work schedule for certain positions. They estimated that approximately 12 percent, or $276,000 a year, of their current overtime budget (including extended hours) could be saved.[8]

The evidence shows that employees who are given more flexibility in establishing their work schedules are more satisfied with their jobs, more satisfied with their lives, and experience better work-family balance. [9] We believe flexible work schedules could provide West Virginia the ability to better serve its customers, while improving the working conditions for its employees and saving more taxpayer dollars.

Recommendation(s)

a.) The Division of Personnel should develop a policy that applies to all state agencies and allows for flexible work schedules. The policy should allow for multiple work schedules covering standard work hours five days per week of 8:00 a.m. – 5:00 p.m., as well as additional hours of service such as evening hours or weekend hours, depending on the need.

The policy should require employees to document their work schedules so that it becomes standard and routine. Whenever possible, employees should be given an option of choosing a work schedule that best meets their needs as long as it allows them to fulfill the responsibilities required of the job. The policy also should clearly define management and employee responsibilities to prevent confusion or misunderstandings of their roles. For example, management should be responsible for reviewing request prior to approval to ensure services are being provided. Employees should be responsible for ensuring they adhere to their scheduled hours and that any requests for changes in their schedule are requested timely to prevent disruption of services.

b.) The Division of Personnel should change WV Administrative Rule Section 14.2 to reflect a state policy on flexible work schedules.

c.) Agencies should submit any agency work schedule modifications that change and/or extend hours of operation to the Governor's office for review and approval prior to implementation.

Fiscal Impact

Implementing flex-time schedules means that the West Virginia state government will provide extended hours of operation to its customers – 10 hours more per week. In addition, flexible work schedules will reduce operating costs for some agencies, limit traffic congestion, and reduce carbon monoxide emissions, and promotes a cleaner environment. In addition, flex-time will make it possible for employees to schedule doctor appointments and other important personal appointments on their days off to reduce the number of days absent from their office.

According to the EPA study,[10] one company reported a reduced number of sick and personal days by 3.5 per employee per year. The only other available information on this recommendation is from the West Virginia Department of Environmental Protection (DEP). The sick leave usage in 1996 and 2004 shows a decrease of .30 days.[11]

There is a lack of data quantify direct savings through a flexible work schedule. But by using an average hourly wage of $15.00 X the number of days of sick time that could be reduced (based on the 3.5 days in the EPA study), we can estimate total per employee savings.

The number of fulltime state employees (FTEs), excluding the Legislature and Judicial branches, is 36,189. Once an estimate is reached for a per employee savings, we can multiply that number by the total number of FTEs and project a cost savings to taxpayers due to fewer sick days.

Since the amount of sick time that the EPA study found may not directly apply to state government, and with the only other information coming from DEP, it might be prudent to use .50 days per employee per year. This would result in approximately $271,417 cost savings per year in reduced sick days.

The total potential overtime savings is also difficult to determine, since all agencies may not be able to take full advantage of flex-time due to their unique services. Based on the overtime savings possible in the DHRR, BHHF, of 12 percent, and the fact that flexible work scheduling may not be applied to all employees, it seems reasonable to use 5 percent of the overtime. The possible savings from the overtime using this 5 percent base figure would be $1,300,358 annually. The total savings for sick days and overtime would total $1,571,775. These savings would be applied to the payroll budgets of participating agencies.

Despite a significant research effort, no other specific cost savings data was found. Still, an abundance of data strongly suggests that savings are realized in health care costs and productivity. Pending an extended review, it is not known how the savings are distributed between General Revenue and other revenue sources.

Fiscal Year	**Savings (State GR)**	**Savings (Federal)**	**Savings (Other)**	**FTEs**
2006				
2007			$1,571,775	
2008			$1,571,775	
2009			$1,571,775	
2010			$1,571,775	

Implementation Table

Task	**Responsible Party**	**Start Date Month/year**	**Anticipated Completion**
Develop a flexible work	Division of	December 20,	April 15, 2006

schedule policy that allows for various starting and ending times, as well as four 10-hour days.	Personnel	2005	
Change Administrative Rule 14.2 to reflect a flexible work schedule	Division of Personnel	December 20, 2005	April 15, 2006

Footnotes

[1] WV Legislature Website http://www.legis.state.wv.us/WVCODE/29/masterfrmFrm.htm
[2] WV Division of Personnel Website http://www.state.wv.us/admin/personnel/emprel/default.htm
[3] State of New Jersey Transportation Website http://www.nj.gov/transportation/commuter/rideshare/altwksched.shtm
[4] State of California Employee Benefits Website http://www.spb.ca.gov/Employment/benefits.htm
[5] Washington State University Cooperative Extension Energy Project and Commuter Challenge 2000 http://www.teleworkarizona.com/pdf/wficasestudy.pdf
[6] EPA Transportation Control Measures Website http://yosemite.epa.gov/aa/tcmsitei.nsf/0/cc28801da5d24468852565da006518b7?OpenDocument#cab
[7] News Release from Division of Forestry –10/25/05
[8] Doug Price, DHHR Behavioral Health and Health Facilities, Email 11/29/05
[9] Boston College Executive Briefings http://search.bc.edu/query.html?qp=&qt=executive+briefing+series&submit=Go
[10] EPA Transportation Control Measures Website http://yosemite.epa.gov/aa/tcmsitei.nsf/0/cc28801da5d24468852565da006518b7?OpenDocument#cab
[11] Sandy Kee, Human Resources Manager, DEP; email 11/1/405.

CC-4

ELIMINATE "GHOST" EMPLOYEES

Agencies should be required to fill vacant positions within 12 months so that unfilled vacant positions can be released to meet other budget needs.

Background

Every April, the State Budget Office sends agencies a hardcopy request for personal services that they will need for the upcoming fiscal year. Agencies that are establishing positions as either vacant or filled must complete a request document. To do this, an agency determines the number of positions that it needs along with the funding assigned to each position, and using red ink marks the paper request with their changes.

If an agency doesn't fill a vacancy throughout the fiscal year, the funds from that position can be moved into an "unclassified" line item and spent on equipment or services. The unused funds can also be moved into a temporary/overtime line item to be spent on overtime and temporary help.

The State Budget Office does not require agencies to submit a timeline for when it intends to fill a vacant position or provide justification if the vacant position goes unfilled for several months. Agencies can routinely reestablish positions only to hold them as vacancies, so that the unused funds may be redistributed at the agency's discretion to cover operational costs.

Moreover, a new position number is assigned to each position at the start of a new fiscal year by the agency or the Budget Office. This makes it difficult to determine whether the same vacant position that went unfilled during the previous fiscal year was reestablished at the start of the next fiscal year.

Findings

The State Budget Office reports that 409 positions in agencies within the Executive branch remained vacant for 12 months during FY 2005.[1] In FY 2004, there were 474 vacancies that remained unfilled for 12 months. Figures for fiscal year 2003 were not available from the Budget Office.

State government currently has no policy in place that limits the amount of time a vacancy may remain unfilled.

Some agencies continue to carry vacancies to cover overtime costs, compensate for revenue shortfalls, cover budget reductions, and offset unbudgeted expenses. Money appropriated for unfilled positions can be moved into the unclassified part of the budget to be spent on equipment or services. According to Bureau of Behavior Health in the Department of Health and Human Resources, it's a common practice to use vacant positions to cover overtime and temporary costs due to insufficient funding in their official budgets.[2]

Language in the budget bill indicates that if there are insufficient funds for employee benefits to cover costs, the remainder can be transferred from personal services, unclassified, or other appropriate line items. For example, if there are insufficient funds for the Board of Risk and Insurance Management, budget bill rules state that these shall be transferred from personal service, employee benefits, or unclassified to cover the costs. If the College Education Fund winds up with insufficient resources, other money can be transferred from unclassified line items.[3] This system encourages agencies to needlessly carry vacancies.

Recommendations

a.) The State Budget Office should establish a rule that a vacant positions below pay grade 18 remaining vacant for 12 months cannot be reestablished in the upcoming fiscal year.

Positions that remain vacant for 12 months that are above a pay grade 18 cannot be reestablished unless approved by the Director of the Division of Personnel. Any vacant position that represents matching funds for federal funds also would require approval from the Director of Division of Personnel. The justification for maintaining a vacant position over pay grade 18 or for matching federal funds for more than 12 months would outline the reasons for the delay in filling the position before approval would be granted.

b.) The Budget Office should provide reports at the beginning of the fourth quarter of each fiscal year to the Division of Personnel to begin communication with the agency on the determination of the position.

All vacant positions and the associated dollars that Division of Personnel determines meet the established criteria for deleting the position will be removed from agency budgets for the next fiscal year. No position that has matching funding attached should be eliminated. The agency should submit justification for approval to the Division of Personnel to reestablish the position as a vacancy the next fiscal year.

c.) The Budget Office should assign a permanent position number for the life of the position so that the position may be tracked throughout its history.

This will eliminate the need for renumbering each year and will make it easier for tracking of positions remaining vacant for more than twelve months.

Fiscal Impact

A total of 409 vacancies remained unfilled for the entire 2005 fiscal year. The total dollar amount associated with these vacancies was $12,164,202. A report received by the Budget

Office indicated the dollar amounts in each of the funding categories below. It may not be realistic to assume that the total vacancies from fiscal year 2005 will qualify for elimination the next year because some positions receive federal matching funds, while others are simply difficult to fill. We have used a conservative 25 percent figure to calculate possible taxpayer savings.

Fiscal Year	Vacancy Reduction	Savings to the General Revenue Fund	Savings to Federal Revenue	Savings to Special Appropriated	Savings to Special Non-Appropriated	Total Savings
2006						
2007	25%	$783,658	$627,142	$865,068	$765,182	$3,041,050
2008		$783,658	$627,142	$865,068	$765,182	$3,041,050
2009		$783,658	$627,142	$865,068	$765,182	$3,041,050
2010		$783,658	$627,142	$865,068	$765,182	$3,041,050

NOTE: The savings to federal revenue depend on whether a position is 100 percent funded or simply matched at a lower percentage of the total cost. There is some discretion on the spending of the funding if it's 100 percent. For instance, the money might be moved and used for program expenditures. If it is a position that requires matching funding, the agency may lose the funding by doing away with the position.

Since the agencies currently renumber their positions each year, it would be impossible to determine how many positions are associated with matching federal funds. The position numbers for fiscal year 2005 would not be the same numbers for 2006 fiscal year.

Implementation Table

Task	**Responsible Party**	**Start Date Month/year**	**Anticipated Completion**
Establish a policy or rule regarding the length of time a position may remain unfilled.	Budget Office	January 1, 2006	March 15, 2006
Assign permanent position numbers to positions	Budget Office	March 1, 2006	July 1, 2006

Footnotes

1 Average State Salaries Report – Roger Smith, State Budget Director, 11/4/05
2 Doug Price, Department of Health & Human Resources, Interview, 11/15/05
3 WV Legislature Website, http://www.legis.state.wv.us/Budgetdigest/budget_digest_2005.pdf

CC-5

ELIMINATE PAPER PAY STUBS

West Virginia should discontinue distributing paper pay stubs to employees who accept their pay in the form of direct deposit.

Background

Paper pay stubs and checks for state employees are currently printed by the state Treasurer's Office, which has the responsibility of transferring funds to pay warrants drawn by the State Auditor.[1]

Each agency is responsible for collecting the paper pay stubs and checks and delivering them to its respective employees. The distribution methods vary. Agencies either hand-deliver their paper pay stubs and checks to employees, mail them to those who work outside the main office, or actually have them driven to district offices, where they are then hand-delivered throughout the building or buildings

Paper pay stub and check distribution is a costly, time-consuming process. It requires the checks and pay stubs of all state employees to be printed on paper and physically distributed by each agency to state employees.

Findings

The state has approximately 46,716 employees[2] and processes checks to them twice a month via paper checks and paper pay stubs.

The cost-per-employee each pay period varies by agency, since some agencies incur greater costs by transporting pay stubs to division offices. The following are some examples:

- For the pay period of April 30, 2005, the Division of Highways reports that statewide distribution of checks and pay stubs to its 4,670 employees cost taxpayers $9,692.31.3 This results in cost-per-employee of $2.07 each pay period. The division also routinely drives many checks to division offices and is therefore not representative of most agencies.

- The Department of Motor Vehicles reports spending $1,658.50 every pay period to distribute checks and pay stubs to its 565 employees.[4] This results in a cost-per-employee of $2.94 each pay period.

- The Bureau of Child Safety Enforcement reports taxpayer costs for various check transactions come to $0.52 per paper check

Recommendation

> **The West Virginia's Auditor's Office should stop distributing paper pay stubs to state employees who receive their pay checks electronically through direct deposit and use e-mail or the intranet to send payroll information. This information could be sent to each payroll department and physically distributed to those employees who do not have email access.**

Fiscal Impact

There are a total of 71,878 active and retired employees using direct deposit. Calculating the cost per check at $0.269, the total expense per pay period of printing checks is $19,335. The total cost for 24 pay periods is $464,000. A conservative estimate, using 50 percent of that total, shows taxpayer savings of at least $232,000.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$232,000		
2008	$232,000		
2009	$232,000		
2010	$232,000		

Footnote

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[1] WV Code 12-1-9.
[2] Report from State Auditors Office.
[3] Report from Department of Highways.
[4] Report form Department of Motor Vehicles.

II. Health and Human Resources

HHR-1

INCREASE REVENUE THROUGH BETTER MEDICAID FRAUD INVESTIGATION

Background

West Virginia's annual Medicaid budget is $2.3 billion and is the largest single program and expenditure item in the entire state. The federal portion of the 2006 is $1.7 billion with the state picking up the remaining $621 million.

The Medicaid Fraud Control Unit (MFCU) operates within the Department of Health and Human Resources' Office of Inspector General (OIG). Based on the current organization chart, the unit has a chief investigator and five Investigators in its investigative branch. The MFCU is authorized under Chapter Nine, Article Seven, Section One of the West Virginia Code [§9-7-1], with the following powers and duties:

- The investigation and referral for prosecution of all violations of applicable state and federal laws pertaining to the provision of goods or services under the medical programs of the state, including the Medicaid program and the program known as Handicapped Children's Services
- The investigation of alleged abuse or neglect of patients in health care facilities that receive payments under the medical programs of the state
- To cooperate with the federal government in all programs designed to detect and deter fraud and abuse in the medical programs of the state
- To employ and train personnel to achieve the purposes of this article and to employ legal counsel, investigators, auditors, and clerical support personnel and such other personnel as are deemed necessary from time to time to accomplish the purposes herein.

Findings

According to the Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) Medicaid (www.cms.hhs.gov/states/fraud/reports.asp) fraud is widespread and is accomplished in a number of relatively simple, but costly ways:

- Billing for "phantom patients" who did not really receive services
- Billing for medical services or goods that were not provided
- Billing for old items as if they were new
- Billing for more hours than there are in a day
- Billing for tests the patient did not need
- Paying a "kickback" in exchange for a referral for medical services or goods

- Charging Medicaid for personal expenses that have nothing to do with caring for a Medicaid client;
- Overcharging for health care services or goods that were provided
- Concealing ownership in a related company
- Using false credentials
- Double-billing for health care services or goods.

The General Accounting Office (GAO) estimates that Medicaid error rates account for five percent of all payments to medical providers, while CMS estimates that as much as 10 percent of medical payments are fraudulent. West Virginia Medicaid payments for acute medical services averaged $1.6 billion over the past two of fiscal years. Incorrect payments, based on those expenditures, could be between $80 million to as much as $160 million a year.

The MFCU reported to HHS in its July 2005 annual report that the unit identified $5.5 million in Medicaid overpayments and collected $7.6 million during FY 2005. The dollar ratio of recovery per investigator was about $1.2 million to one. The unit's budget was approximately $890,000 in 2005, so the return on the amount spent was about eight to one. The MFCU director reports significant staff turn-over during the past few years.

As Medicaid funding is squeezed across the nation, states are looking for ways to make every Medicaid dollar count. National program statistics show that Medicaid spending is rife with fraud and the amount of unrecovered funds continues to balloon. Although West Virginia is making an effort to recover some of the potential funds, experts agree the state is only scratching the surface.

Recommendations

a.) West Virginia should commit to providing the necessary resources to detect "up front" fraud before the actual payment occurs.

A number of data processing packages employing artificial intelligent logic are available for Medicaid payment monitoring and fraud detection. Although initial up-front spending in technical data processing equipment and staffing is required, the cost of such investments can be recaptured within the first year of full implementation. Two states that have made such commitments are Illinois and Texas; both have reported significant Medicaid savings.

b.) West Virginia commit to additional staffing and position upgrading to improve "back end" fraud recoveries.

Recoveries are a by-product of proper staffing, knowledge, and experience. Personnel turnover and inadequate staffing erodes the ability to progressively manage this effort. The state should establish targets to assure that performance standards are set for the unit and each individual investigator.

Fiscal Impact

The estimated cost of software and equipment to implement these recommendations is $2.5 million. Additional staffing and administration would cost an additional $2 million annually. Total first year investments to reinforce this effort come to $4.5 million, with $2.5 million in fixed, one-time costs.

For analytical purposes, a conservative Medicaid recovery and savings estimate for the first full year is $20 million – a figure likely to improve during each of the following four years. Total projected savings after five years are $23.8 million in state funds and $87.9 million in federal funds.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal Funds
2006		
2007	$3,055,000	$11,315,000
2008	$4,434,750	$16,425,000
2009	$4,927,500	$18,250,000
2010	$5,420,250	$20,075,000

HHR-2

ALLOW TAXPAYERS TO RECOVER COSTS OF SERVICES IN LEGAL SETTLEMENTS

The Legislature should enact subrogation legislation to allow the Department of Health and Human Resources to recover costs from insurance or legal settlements that recipients may receive in relation to services paid for by the Commission.

Background

In 1999, the State Legislature created the James "Tiger" Morton Catastrophic Illness Commission to act as a last resort for those in dire need of medical assistance once all other resources are exhausted. The Commission, guided by a board appointed by the Governor and made up of citizens from across the state, is administered by the Department of Health and Human Resources (DHHR), which receives $940,000 in general revenue funds each year. The Commission may also accept tax deductible contributions from private and corporate donors, although such donations have been minimal.

Findings

DHHR has found that injured citizens whose medical care has been covered with Commission funds sometimes receive insurance or legal settlements at a later date. The state currently possesses no mechanism to prevent these recipients from receiving double payment – first from the taxpayer-funded Commission, then from an insurance or legal settlement.

Last year, the Commission could have recouped $52,000 in one case in which the recipient later received a settlement from a medical provider. Other state benefit programs, including Medicaid and Workers' Compensation, currently allow for subrogation. The number of opportunities for subrogation is likely to be small, but the potential recovery from any one case can be substantial. The average payout from the Commission is about $50,000 but can exceed $150,000.[33]

Recommendation

The State Legislature should pass legislation to allow the Department of Health and Human Resources to recover costs from insurance or legal settlements given to recipients whose medical care was paid for by the taxpayer-funded Commission.

A change in state law allowing subrogation will require a revision to the application for benefits from the fund. The revised application should include a notice that the Commission has a right to repayment for services from any future recovery in an insurance or legal settlement. Any legal action necessary to secure recovery can be handled through DHHR's current arrangement for legal services with the Attorney General's office.

Fiscal Impact

Fiscal impact calculations were performed by dividing the approximate value of the one known opportunity for subrogation by the number of years the fund has been in existence and then discounting that figure by half.

Year	Savings (State GR)	Saving (Federal)	Savings (Other)	Costs	Net Savings (State)	Net Savings (Federal)	Change in FTEs
2006	$2,500	$0	$0	$0	$2,500	$0	0
2007	$5,000	$0	$0	$0	$5,000	$0	0
2008	$5,000	$0	$0	$0	$5,000	$0	0
2009	$5,000	$0	$0	$0	$5,000	$0	0
2010	$5,000	$0	$0	$0	$5,000	$0	0

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
DHHR General Counsel and Legislative Liaison need to find sponsor to introduce proposed legislation and secure its passage.	Rocco Fucillo and John Law	1/2006	3/2006
Draft application for benefits which notifies recipients of DHHR's subrogation rights.	Rocco Fucillo and Garrett Jacobs	4/2006 (contingent upon passage of legislation)	4/2006
Publish notice in WV State Bar Journal informing practitioners of change in state law.	Rocco Fucillo and John Law	Month prior to effective date of statutory change.	

Footnotes

[33] Interview with Regina Hupp, Executive Director, Catastrophic Illness Commission, October 27, 2005.

HHR-3

CENTRALIZE BILLING FOR STATE HOSPITALS TO SAVE MONEY AND INCREASE ACCURACY

Each of the state-owned hospitals does their own billing of Medicare, Medicaid and Commercial Insurance for services provided in the facilities.

Background

The Bureau for Behavioral Health and Health Facilities (BHHF) operates four long-term care facilities, two psychiatric facilities, and one acute care facility. Each hospital handles its billing and tracks accounts receivables on-site. Together, the seven facilities employ 24 people whose primary purpose is to bill and track payments. Welch Community Hospital (WCH) alone maintains 12 full-time employees (FTEs) for this function. In an era when billing and accounts receivable have been automated with modern software to eliminate duplication and error, many hospitals and long-term care chains have centralized billing operations. State facilities should do so, too.

Findings

Long-term care billing staff is responsible for eligibility verification and census confirmation. They manage the facility's accounts receivables. In private sector long term care facilities, with as many as 120 beds, billing functions are provided by one FTE. This is possible because these facilities have modern computerized billing systems and centralized operations.

State-owned long-term care units should be considered as a part of a "chain" organization and reflect that with their billing practices. None of the state-owned facilities is certified for Medicare, simplifying the billing requirements. Billing for the 400 long-term care patients each month can be effectively performed by one or two people.

The billing department at River Park Hospital is able to take care of their billing – about 250 to 300 claims per month – with a staff of four. This claim load is similar to the combined claim load at Sharpe and Bateman, due to a high forensic population and longer lengths of stays. Our review concludes that billing for state-owned psychiatric services can be handled by four or five people.

Two critical access hospitals, whose activity mirrors that of WCH, are able to complete their billing with four or fewer people. There's no reason to expect that more than that number would be needed to improve collections for Medicare, Medicaid, and commercial billing. Four or five people can effectively take care of acute and clinical services at Welch.

BHHF is entering into a contract to install VistA software, produced by the Veteran's Administration, to comply with the federal government's desire to have electronic medical records for all citizens within the decade. Through this implementation, BHHF will acquire modern, third-party software for accounts receivable and billing. The billing software will be compatible with the VistA patient records system and will read much of the necessary information from patient files that must currently be entered manually, reducing the need for billing FTEs. Centralized servers for the VistA software will be located in Charleston. Within two years of the contract's initiation, there will be an opportunity to centralize the billing process at all seven facilities.

Recommendation

> **The Department of Health and Human resources should centralize and coordinate billing functions among state hospital operations to cut costs and increase accuracy.**
>
> If experienced staff is hired, the billing functions can be performed by nine to 12 people, cutting existing staffing in half. Some cross-training will be required to enable this reduction in staffing.

Fiscal Impact [343536]

The vast majority of the funding for labor comes from general revenue and tobacco funds. No federal funds are used for labor in the facilities.

We assume that this recommendation can begin to be implemented in the middle of FY2008, so half of annual labor cost and savings, and all of the training costs, are included in FY2008.

Taxpayer savings includes the total cost of labor, plus the state match of 27 percent of non-labor costs that will be avoided, such as rent at Welch, computers, and other investments. Federal savings are represented by 73 percent – the federal match – of the same non-labor costs.

Year	Savings (State GR)	Saving (Federal)	Costs	New Revenue	Net Savings (State)	Net Savings (Federal)	Change in FTEs
2006							
2007							
2008	$398,682	$ 15,549	($383,250)	$100,000	$115,432	$15,549	(6)
2009	$797,364	$ 31,098	($526,500)	$200,000	$470,864	$31,098	(12)
2010	$797,364	$ 31,098	($526,500)	$200,000	$470,864	$31,098	(12)

Implementation Table

Task	Responsible Party	Start Date	Anticipated Completion
Negotiation of VistA contract with MedSphere, the vendor selected to install VistA and the third party billing software.	Jerry Luck and Team	12/15/05	1/ 1/06
Identify appropriate Third Party software	Vendor	2/1/06	6/30/06

best suited for the billing requirements of the seven facilities, with an emphasis on functionality with VistA.	(Medsphere), Jerry Luck, John Bianconi, Vickie Jones		
Implementation, installation and training related to VistA and all accompanying software	Medsphere, Jerry Luck, Vickie Jones, Doug Price	2/1/06	1/31/08
Prepare preliminary plan for Reduction in Force for presentation to DOP; identify the location at which billing will be centralized. Identify the positions that will be needed to efficiently bill and track Accounts Receivable for all seven facilities.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price, Desmond Byrne, Mike McCabe	7/1/06	9/30/06
Present benchmarks, timetable, etc. for the Reduction in Force Plan to DOP	Desmond Byrne, Mike McCabe	4/1/07	6/30/07
Train Central Office Bureau personnel on the billing software as the personnel at the facilities are trained on the billing software (in order to ensure continuity in the event of unplanned vacancies occurring earlier than expected).	Medsphere, David Elyard, Doug Price	2/1/06	1/31/08
Implement Reduction in Force; Begin hiring and training personnel needed for centralization of billing.	John Bianconi, Vickie Jones, Doug Price, Desmond Byrne, Mike McCabe	10/1/07	11/30/07
Run parallel systems to test billing for two months	John Bianconi, Vickie Jones, Doug Price	12/1/07	1/31/07
Go "live" with new billing system	John Bianconi, Vickie Jones, Doug Price	2/1/08	2/1/08

All dates identified in the implementation plan above are contingent upon the timely implementation of the VistA software and can be adjusted if required.

Footnotes

[34] PIMS staffing reports
[35] Collections Data, per FIMS, from 2001 through 2005
[36] Surveys with private sector providers regarding billing staff needs

DRAMATICALLY EXPAND COVERAGE OF FEDERAL TITLE IV-E PROGRAMS

West Virginia's current coverage of federal Title IV-E programs is a mere 14.7 percent and should be dramatically increased to at least 65 percent.

Background

Title IV-E of the Social Security Act is the largest federal program for funding child welfare services. Title IV-E consists of the foster care and adoption assistance programs, which are available to all eligible children, and the Chafee Foster Care Independence Program, which is provided only as long as funds are available.

There are four categories of expenditures for which states may claim federal funds. Each of these is matched at a specific rate that varies from category to category:

- Foster care maintenance payments for eligible children matched at 72.99 percent for West Virginia
- Short- and long-term training for state and local agency staff who administer the title IV-E program, including those preparing for employment by the Bureau for Children and Families, as well as foster parents and staff of licensed child care institutions in which title IV-E eligible children reside (75 percent federal match)
- Administrative expenditures necessary for the proper and efficient administration of the program (50 percent federal match)
- Costs of required data collection systems (50 percent federal match).

With so many different categories of expenses, each matched at a different rate, states must accurately track spending in each of these categories and attribute how much of their efforts in each category are being made on behalf of eligible children. It's a cumbersome process and prone to dispute. Adding an additional layer of complexity, costs must be allocated to programs that benefit from the expenditures. A state's cost allocation plan is approved by the federal government and distributes expenses that relate to multiple programs and functions.

The categories of administrative and training expenses are typically the most difficult to document and the most often disputed. Federal regulations provide the following examples of allowable administrative expenses:

- eligibility determination and re-determination, plus related fair hearings and appeals
- referral to services

- preparation for the participation in judicial determinations
- placement of the child
- development of the case plan
- case reviews
- case management
- recruitment and licensing of foster homes and institutions
- rate setting
- a proportionate share of agency overhead
- costs of data collection systems.

Just as claiming rules are complex, requirements for children's title IV-E eligibility are also cumbersome. Several eligibility requirements must be met in order to justify the title IV-E claims made on a child's behalf. These criteria include:

- A child's removal from the home must be the result of a judicial determination that continuation in the home would be contrary to the child's welfare, or that a placement in foster care would be in the best interest of the child.
- The agency must obtain a judicial determination within 60 days of a child's removal from the home that it has made reasonable efforts to maintain the family unit as log as the child's safety is ensured. In addition, there must be ongoing documentation that the state is making reasonable efforts to establish and finalize a permanency plan in a timely manner (every 12 months).
- The state child welfare agency must have responsibility for placement and care of the child. Usually, this means the child is in the state's custody. Another public agency may have responsibility for the child's placement if there is a written agreement to with the child welfare agency.
- The state must document that the child was financially needy and deprived of parental support at the time of the child's removal from the home. Income eligibility and deprivation must be re-determined annually.
- A child must be placed in a home or facility that meets the standards for full licensure by the state.
- The state must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents and safety checks have been made regarding staff of child care institutions.
- If a child is placed in foster care under a voluntary placement agreement, title IV-E eligibility rules apply slightly differently. Determinations that remaining in the home is contrary to the child's welfare and the reasonable efforts have been made to prevent placement are not required in these cases. However, if a child is to remain in care beyond

180 days, a judicial determination is required by that time that continued voluntary placement is in the child's best interests.

That each child's eligibility depends on so many factors, some of which may change from time to time, makes title IV-E a potentially error-prone program to which there is recurrent pressure for accuracy, close procedural scrutiny, and the taking of disallowances.

Findings

West Virginia's current Title IV-E penetration rate is 14.7 percent for maintenance costs and 23.4 percent in administration costs. An estimated maximum penetration rate for West Virginia could be as high as 65 percent, according to Thomas Strawderman, Director of Resource Management, BCF, and DHHR. Mr. Strawderman has 17 years of experience in title IV-E claiming for the state of West Virginia. Mr. Strawderman hypothesizes there are several reasons why West Virginia's current claiming is so low. The national claiming average for Title IV-E adoption is 81.4 percent and for adoption is 65.64 percent for foster care.[1]

- Federal Regulations require the automation of Title IV-E in the SACWIS system, which West Virginia has done. The system isn't perfect, and the documentation required to determine eligibility has often proven difficult. As a result, caseworkers tend not to prioritize title IV-E documentation.
- Approximately one-third the children entering foster care arrive enter through the juvenile justice system. Many of these children come from family or economic backgrounds that are different from traditional child welfare children.
- The Resource Development Unit, which processes claims and determines eligibility for title IV-E programs, is understaffed and backlogged with pending claims for initial eligibility determination and re-determination. Public Consulting Group has assisted in processing claims in the past, but 1,891 initial pending claims remain, of which an estimated 926 children are eligible, representing a potential of $1,883.687 in revenue per month. More staff is needed to claim funding for pending cases and new determinations. The cost would be more than offset by the increased revenue.
- Annual judicial determinations of reasonable efforts to achieve permanency aren't consistent, in part because of a lack of understanding by some staff and judges.

More recently, West Virginia has looked toward other options to maximize Title IV-E revenue. The Division of Juvenile Services within the Department of Military Affairs and Public Safety has opened 48 staff-secure beds funded from state general revenue.[2] The beds aren't currently licensed to be eligible for Title IV-E reimbursement. The Federal Administration for Children (ACF) which is responsible for approving title IV-E claims, has advised that West Virginia should review the feasibility of converting these Juvenile Service facilities to IV-E reimbursable facilities by applying for a license through the Bureau for Children's Services and meeting the licensing requirements of 64CSR11. According to internal estimates, with 80 percent to 85 percent occupancy, the daily cost per juvenile would be approximately $260, of which 72.99 percent of the maintenance costs could be reimbursed by the federal government.

In addition, the Supreme Court of Appeals has submitted a proposal to ACF to claim administrative costs for foster care candidates for whom the juvenile probation officers provided services. This initiative would allow West Virginia to claim administrative costs for pre-placement services provided by the Juvenile Probation Officers to children who remain with their biological parents but are considered at risk for foster care placement. West Virginia's cost allocation plan would have to be amended to allow for this type of claiming. Texas DPRS pursued this option and estimated an increase in federal funding of $7 million per year.[3]

Recommendations

a.) West Virginia's current coverage of federal Title IV-E programs is a mere 14.7 percent and should be dramatically increased to at least 65 percent.

BCF should prioritize the design and implementation of the SACWIS system to simplify recording of information for case workers. An interim plan to recoup IV-E funding is to hire 10 additional Resource Development staff to assist in eligibility determinations. Resource Development staff would work directly with district courts to act as an onsite consultant. The yearly cost of 10 fulltime employees (FTEs) would be $313,706. BCF should draw from 10 vacant positions to expedite the hiring process. Due to time lapses in posting, hiring, and training, there would be no new revenue realized in FY2006.

The Division of Juvenile Services should submit an application for licensure to the Bureau for Children and Families for the Gene Spadaro and Robert Shell Juvenile Centers facilities and the Vickie Douglas facility when it comes on line in the spring.

b.) The Division of Juvenile Services should submit a proposal to ACF Region III through the Bureau for Children and Families with program descriptions that comply with federal requirements for foster care. No cost allocation plans are required. Claiming title IV-E for eligible children in care of DJS would pay 73 percent of the maintenance costs and 50% percent of administrative costs. Estimated IV-E maintenance federal revenue based on current penetration costs is estimated at $222,300 annually.

The Supreme Court of Appeals should submit a proposal to the Bureau for Children and Families that describes the process and documentation requirements consistent with federal requirements. No changes would have to be made to the cost allocation plan. The Supreme Court of Appeals will formulate their own cost allocation plan, which will become an addendum to the BCF plan. Revenue cannot be estimated at this time due to the need for a cost allocation plan, which is not yet completed by the Supreme Court of Appeals.

c.) The Bureau should continue to work with the Court Improvement Project to educate judges about the requirements of title IV-E including the documentation required in FACTS.

Fiscal Impact

Conservative estimates of the fiscal impact of these recommendations are based on an annual incremental increase to the penetration rate: 2007 at 30%; 2008 at 39%; 2009 at 45%; 2010 at 50%. In addition:

- Staff costs for 2006 include startup costs of $5,000 per employee.
- Net state revenue indicates the additional cost of staff at a 50/50 federal/state split.
- Net federal revenue is calculated by subtracting the required state match from the New IV-E revenue.

Each year's net federal revenue is calculated individually. For budgetary purposes, any prior year revenue should become current year projection plus the additional revenue anticipated that year based on the increased projected penetration rate.

The federal share for the 10 FTEs is not included in the estimated IV-E revenue. In addition, estimates do not include revenue from the Division of Juvenile Services or the West Virginia Supreme Court of Appeals.

Fiscal Year	New Revenues (Federal)	Costs	Net Savings (State)	Net Savings (Federal)	FTEs
2006	-0-	($313,706)	($156,853)	-0-	10
2207	$3,075,347	($527,410)	($263,705)	$2,811,642	10
2008	$4,251,631	($527,410)	($263,705)	$3,987,926	10
2009	$2,834,420	($527,410)	($263,705)	$2,570,715	10
2010	$2,362,017	($527,410)	($263,705)	$2,098,312	10

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
1. Post, hire and train IV-E staff utilizing vacant position number in order to have staff on board and trained by July 1, 2006.	Brenda McPhail	12/05	7/06
2. Analyze issues with FACTS	Kevin Henson	1/06	6/06
3. Develop a work plan to address FACTS	Kevin Henson	6/06	Ongoing

related issues			
4. Meet with Division of Juvenile Services to discuss the program needed	Margaret Waybright	12/05	Ongoing
5. License DJS beds, if possible based on programming	Charlie Young	6/06	12/06
6. Continued work with Court Improvement Board	Margaret Waybright	12/05	Ongoing
7. Develop in depth training for new workers and retrain tenured workers on the IV-E process. Include time study info in 8. training	Kevin Henson	2/06	5/06
9. Review current training contracts, training curriculum and claiming processes to ensure that BCF is maximizing claiming at the appropriate levels of reimbursement.	PCG	3/06	12/06

Footnotes

[1] Gary Koch, Region III Program Manager, Administration for Children and Families.
[2] Bruce Blackhurst, Assistant Director of Budget and Finance of the WV Division of Juvenile Services, the Division of Juvenile Services.
[3] Window on State Government, Title IV-E Funding, Carole Keeton Strayhorn, Texas Comptroller of Public Accounts.

HHR-5

IMPROVE SERVICE AND CUT COSTS IN STATE TRANSPORTATION PROGRAMS

West Virginia should establish management controls for the state's transportation programs to improve service and cut costs.

Background

The state's Non-Emergency Medical Transportation Program (NEMT) consists of cash payments made to Medicaid recipients or vendors on behalf of eligible recipients who need transportation to a medical facility.

Mileage is reimbursed when private automobiles are used. A small meal allowance is available when overnight lodging is required. Transportation may also be available via common carrier when travel by private automobile is not available.

Services provided under this program include reimbursement for transportation and certain related expenses necessary to secure medical services normally covered by Medicaid. Funding for this program is provided by three different federal sources:

- Title XIX funds for all Medicaid recipients, including foster children
- Title V funds for non-Medicaid eligible recipients of the Children with Special Health Care Needs Program (CSHCN)
- agency administrative funds for applicants for cash assistance or Medicaid who need a physical examination in order to complete the eligibility process.

Reimbursement for transportation and related expenses is available to Medicaid recipients who:

- require transportation to keep an appointment for medical services covered under the Medicaid plan for which they are approved
- receive scheduled Medicaid-covered services at a clinic, hospital, or doctor's office
- receive pre-authorization as necessary
- comply with the 60-day application submittal deadline.

Reimbursement is also available for Medicaid applicants who must travel to obtain necessary medical examinations and tests required to determine eligibility.

Findings

NEMT costs paid to transportation providers within West Virginia have nearly tripled since FY2000, when taxpayers spent a total of $2.5 million on the program. In FY2004, the cost escalated to $6.3 million. During the same period, the number of recipients receiving NEMT payments has grown by about 100 percent, from 8,200 to 16,700.

In FY2005, Medicaid NEMT payments totaled $7 million made on behalf of 16,700 Medicaid customers. These payments went directly to established transportation providers and don't include payments to individuals who transported Medicaid recipients directly. Payments made through the RAPIDS program directly to Medicaid customers in FY2005 accounted for another $11.2 million, making combined NEMT transportation payments of $18.2 million for FY2005.

According to the Centers for Medicare and Medicaid Services (CMS), West Virginia is one of only two states that have no limits on Medicaid transportation services. West Virginia doesn't require pre-authorization for intrastate transportation for NEMT and has liberalized procedures to allow a Designated Care Coordinator (DCC) to sign trip forms. The DCC may sign the transportation application in lieu of a doctor or a doctor's designee when the DCC has verified that the appointment was kept.

A 2005 report prepared by the National Conference of State Legislatures entitled "Coordinated Human Service Transportation" found the following savings in Georgia and Oregon:

- The non-emergency medical transportation program administered through the Georgia Department of Community Health and run by "a private sector entity" cut costs from $85 million to $43 million through a brokerage contract.
- Oregon estimates that it saves $11 million annually for the Medicaid program, providing more than three million rides under its transportation brokerage system.

Other states – including Colorado, Indiana, Massachusetts, Missouri, Oklahoma, and Vermont – report that they've gone to transportation brokering for NEMT and related transportation needs within their respective states, saving tax dollars in every instance.

A study completed by Community Transportation Association of America entitled "Medicaid Transportation: Assuring Access to Health Care, A Primer for States, Health Plans, Providers and Advocates" also found: "Brokerages represent the best known and most successful approach to managing Medicaid transportation that has emerged in recent years." (David Raphael, Project Director and Principal Investigator, www.ctaa.org/ntrc/medical).

Similar brokerage models have been praised in a number of recent national studies of Medicaid transportation. Even the federal watchdog agency that oversees state Medicaid expenditures has endorsed this approach, concluding that in addition to saving money, brokerages were effective in controlling fraud and abuse by both providers and recipients. In addition, the federal watchdog found that brokerage programs promoted the use of the least costly modes of transportation and, in the Medicaid program, served as "gatekeepers" to control costs and to guarantee consistent quality of transportation services and access to care.

Some states allow brokers to function as direct transit service providers, while others prohibit or discourage the practice. Typically, brokers are hired by state Medicaid agencies or local health plans to manage medical transportation programs. Nonprofit organizations, public entities, and private contractors currently operate successful brokerages.

Recommendation

West Virginia should move the brokering and administration of the NEMT function to the private sector and strengthen program requirements to include pre-authorization for all NEMT trips.

Many states have gone to transportation brokering for NEMT and other transportation efforts, resulting in savings in every instance.

The West Virginia program should incorporate the following components:

- Educate recipients about available transportation services and how to access them
- Establish a comprehensive network of providers and coordinated transportation resources
- Verify individual Medicaid eligibility, medical necessity, and need for transportation assistance
- Set up call-centers and serve as central points of contact with recipients
- Authorize transportation and schedule, and assign trips to covered services by the least costly transportation mode
- Contract with and pay transportation providers
- Monitor the overall system to assure uniform, quality services, and access to needed health care
- Track costs and services and report results to the contracting agency.

Fiscal Impact

Based on past increases, we project that in FY 2007 NEMT expenditures to transportation providers alone could reach $7.5 million. Of that, $1,650,000 would be state funds and $5,850,000 would be federal funds.

Payments made directly to Medicaid Customers through RAPIDS, although somewhat level over the past four fiscal years, spiked by 15 percent for FY2005, going from $9,782,715 in the previous fiscal year to $11,361,497. Conservative estimates based on a 25 percent reduction in transportation costs over the next five years shows that transportation brokering would result in potential state and federal savings for both funding streams of approximately $825,000 and $2,925,000, respectively.

These savings include the cost of brokering plus the issuance of NEMT payments to recipients for approved travel payments. Five-year savings funds could reach $5.8 million in state funds and $21.7 million in federal funds for cumulative NEMT payments.

Fiscal Year	Savings (State)	Savings (Federal)
2006		
2007	$ 825,000	$ 2,925,000

2008	$ 990,000	$ 3,510,000
2009	$ 1,188,000	$ 4,213,000
2010	$ 1,426,000	$ 5,056,000

HHR-6

REQUIRE INSURANCE COMPANIES TO JOIN CHILD SUPPORT LIEN NETWORK

The West Virginia Legislature should require all insurance companies to join the join the Child Support Lien Network to maximize state efforts to collect pending payments.

Background

The Child Support Lien Network (CSLN) is a group of insurance companies that voluntarily report to a central clearinghouse when a claim is made against a property and casualty or a Workers Compensation policy. The clearinghouse electronically matches this information against a list of support obligors that is provided by member states, and disseminates the match information to the submitting state. The state support enforcement agency is responsible for taking the appropriate steps to enforce against the potential insurance proceeds.

There is no cost for an insurance company to report claims to CSLN.

West Virginia currently collects an average of $10,000 per month since joining the network nine months ago. (Because the match is made against pending claims, it's likely that additional revenue will be received in the future on the claims made during this time period.) Approximately 15 percent of the money collected on CSLN claims goes to the state to reimburse previously paid benefits under the federal Temporary Assistance to Needy Families (TANF) program. The other 85 percent is owed to the caretaker of the child as a support arrearage.

Out of 473 insurers in the relevant lines licensed to do business in West Virginia, 356 (75 percent) aren't reporting claims to CSLN. Of the top four companies in the Multiple Peril and the Private Passenger Auto lines, only one company, Erie, voluntarily reports to the CSLN. State Farm Insurance, which has 26.9 percent of the Multiple Peril policies and 29.5 percent of the Private Passenger Auto lines in West Virginia, does not report. Neither do Nationwide and Allstate. State Farm, Nationwide, and Allstate together account for 53 percent of the Multiple Peril line policies in West Virginia, and 52 percent of the Private Passenger Auto line policies.[1]

If non-participating insurance companies were required to participate in the Lien Network the amount collected would increase by 50 percent, according to conservative estimates.

If support collections would increase by $120,000 per year, TANF reimbursements would go up by an additional $18,000. The state is allowed to keep approximately 25 percent of the TANF reimbursement, and the balance is returned to the federal government.

Recommendations

[1] WV Insurance Commission, 2003 Annual Report.

State lawmakers should enact legislation to require every insurance company doing business in West Virginia in the property and Workers Compensation lines to report pending claims to the Child Support Lien Network.

Fiscal Impact

	State TANF Recoupment	Federal TANF Recoupment	Increase in State Child Support Collctions to Families
SFY 2007	**$4,500.00**	**$13,000.00**	**$102,500**
SFY 2008	**$4,500.00**	**$13,000.00**	**$103,000**
SFY 2009	**$5,000.00**	**$14,000.00**	**$104,000**
SFY 2010	**$5000.00**	**$14,000.00**	**$104,000**

HHR 7

REQUIRE PRIOR AUTHORIZATION FOR MEDICAL SERVICES

The state should expand its prior authorization requirements to include chiropractic services, home health services, medical transportation, and specialty referrals.

Background

West Virginia currently requires prior authorization of certain medical services provided by the Department of Health and Human Services' Bureau for Medical Services (BMS). These include adult incontinent supplies, radiological procedures, and in-patient hospitalizations.

Servicechosen by BMS for prior authorization are consistent with prior authorization requirements used by private health plans. Out-patient surgery is on track for prior authorization beginning in 2006. BMS doesn't currently require reauthorization for such medical services as chiropractic, home health, medical transportation, and podiatry.[2]

Findings

BMS uses *InterQual Level of Care Criteria* to make prior authorization determinations. The *InterQual Criteria* products are considered to be the worldwide leader in "utilization decision support" for the healthcare industry and have been widely used for more than 30 years by government agencies, healthcare facilities, and private purchasers. The *InterQual Criteria* is applied as an objective, patient-specific screening tool to determine the medical necessity and appropriateness of services rendered to beneficiaries.[3]

Expanding prior authorization of other medical services and procedures isn't meant to be restrictive to beneficiaries. Indeed, the real intent is to ensure that individuals don't receive services they don't need and to help manage healthcare costs so that the state can safeguard vital services.

According to the BMS, in the first seven months of implementation of prior authorization for incontinent supplies, there has been a consistent denial rate of 30 percent. [4]

Prior-authorization for inpatient hospitalizations became effective in September, 2005. The denial rate for this service the next month (October 2005) was 14.

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[2]Shana Phares, Deputy Secretary, DHHR; Shelley Baston, Director, Office of Health Care Policy & Managed Care Coordinator, Bureau for Medical Services.

[3]McKesson Corporation, Internet Home Page

[4]Shelley Baston email to Ronald Forren dated 11/16/05

In-patient hospitalizations costs were more than $221.5 million in 2004. If the denial rate of 14 percent holds true or in-patient hospitalizations throughout the year, prior authorization should yield taxpayer savings of $31 million in state and federal revenue.[5]

In 2003, state spent the following on for which prior authorization isn't required:

- Home health services — $183.2 million
- Chiropractic services (included outpatient rehabilitation) — $6.4 million
- Total medical specialty referrals (e.g. cardiologist) — $145.9
- Outpatient surgeries — $40.5 million

Recommendations

BMS should expand its prior authorization requirements to include chiropractic services, home health services, medical transportation, and specialty referrals.

Fiscal Impact

We project a conservative savings figure of 10 percent per year once the expanded prior authorization requirements are fully implemented.

Fiscal Year	General Revenue Savings	Federal Savings
2007	$16 million	$48 million
2008	$16 million	$48 million
2009	$16 million	$48 million
2010	$16 million	$48 million
2011	$16 million	$48 million

Implementation Table

Task	Responsible Party	Start Date	Anticipated Completion
Implement prior authorization for outpatient	Shelley Baston	01/15/06	02/15/06

[5]Shelley Baston e-mail to Ronald Forren dated 11/16/05

surgery	w/WVMI		
Implement prior authorization for durable medical equipment	Shelley Baston w/WVMI	02/15/06	03/15/06
Review all Interqual criteria for additional services to be prior authorized	Nancy Atkins and Shelley Baston w/WVMI	05/01/06	07/01/06
SSI Population will be moved to either the PAAS program or the HMOs	Nancy Atkins	02/01/06	07/01/06

Task	**Responsible Party**	**Start Date**
For outpatient surgery - expenditures for 2004 will be re-run as the reporting format has changed	Tina Bailes	12/15/06
Comparision will be done between Medicare prior authorization criteria and Interqual criteria to recalculate savings for durable medical equipment	Shelley Baston	02/15/06
A report will be run to determine the expenditures associated with the SSI population and a conservative 7% savings rate (that experienced with the TANF population) will be used to calculate savings	Tina Bailes	02/01/06

REALIGN STAFFING AMONG STATE-OWNED FACILITIES TO REDUCE OVERTIME COSTS

The Department of Health and Human Resources should realign staffing in its seven hospitals to maximize efficiency, quality of care, and taxpayer savings.

Background

The Bureau for Behavioral Health and Health Facilities (BHHF) operates four long-term care facilities, two psychiatric facilities, and one acute care facility with a long-term care unit. More than 80 percent of the residents in the long-term care facilities have a diagnosis of mental illness, mental retardation, Alzheimer's, or dementia.

Table 1. Summary of State Operated Inpatient Facilities

Facility Name	Location	Type Facility	Population Served	Capacity	Census As of August 31, 2005	FTEs (Temporary Employees)
Hopemont	Terra Alta	LTC	Elderly (MI/MR)	98	98	180 (2)
Pinecrest	Beckley	LTC	Elderly (MI/MR)	199	113	205 (9)
Lakin	Lakin	LTC	Elderly (MI/MR)	114	102	180 (10)
Manchin	Fairmont	LTC/OP Clinic	Elderly (Total Care), Indigent Clinic	41	41	73 (1)
Welch	Welch	LTC/Acute/OP Clinic	Elderly, General Population	124	68 inpatient, 115 adjusted	307 (21)
Sharpe	Weston	Psychiatric	Adult Psych	150	149	430 (25)
Bateman	Huntington	Psychiatric	Adult Psych	90	97	332 (26)

Source: BBHHF data

Some of the state's hospitals seem to have more than enough staff to protect their patient's health and safety and to meet all appropriate accreditation and practice standards. Others appear to be understaffed in critical areas. In FY2005, the state paid more than $2.3 million in overtime and another $2.1 million for temporary employees, with more than half of that going to cover staff shortages at two facilities. Some 1,600 employees and 150 temps are employed to provide care and support for about 700 patients per day.

Findings

In FY2005, the state paid approximately $2.3 million in overtime at its seven facilities. More than $1.5 million in overtime costs were rung up at two facilities: Sharpe and Bateman. About $1 million of this cost was attributable to nursing overtime and $400,000 to physician and psychology services. In addition to overtime expenses, the state has paid more than $2.1 million for temporary employees to cover staffing shortages at some of its facilities. Again, the majority of these costs – nearly $1.3 million, – were at Sharpe and Bateman.

Welch Community Hospital (WCH) maintains a nursing staff of about 140 full-time equivalents (FTEs). This includes about 50 registered nurses (RNs), 60 licensed professional nurses (LPNs) and 30 nurse aides. Welch maintains an average acute care census, primarily in the Medical/Surgical Unit, of about 13 to 15 patients per day, and 50 to 55 patients in the long-term care. Welch also has about 36,000 Rural Health Clinic outpatient visits per year.

The Bureau for Behavioral Health and Health Facilities conducted a staffing survey in 2004 and found that WCH has 20 more nursing staff than necessary to meet accreditation and to provide quality care to patients. The standard for care among all state-owned facilities is higher than the minimum standards set for accreditation and is determined with the facility.

WCH staffing levels also significantly exceed those found in similar private-sector facilities. One critical access hospital in West Virginia that serves a patient population similar to WCH maintains a total nursing staff of 57 fewer employees than does WCH. Even when adjusted for state leave policies, WCH still exceeds the number of nursing staff found at the private hospital by 40 FTEs.

Our review found that a local critical access hospital with a 60-bed long-term care unit, a 12-swing bed acute care unit, and a rural health clinic, had 98 indirect care staff. For the purposes of this discussion, indirect care personnel are those who don’t provide any direct care nursing – such as the business office, housekeeping, maintenance, dietary, social work, nursing administration, radiology, and respiratory therapy. WCH has 158 indirect care positions. Overall, when adjusted for state employee leave policies, WCH still maintains an indirect care staffing level that is more than 20 percent above that found in a similar private sector facility.

Our review also found that the state’s long-term care facilities have much higher numbers of indirect care positions than other facilities in the private sector. We reviewed various cost reports and phoned approximately 10 percent of the private facilities in the state with more than 90 beds to determine the number of FTEs in these private facilities. The information compiled from the cost reports, containing both productive and non-productive hours, shows that a typical 120-bed facility should have approximately 120 total staff (nursing and non-nursing personnel).

We found approximately 70 percent of the staff, depending on overall acuity or seriousness of patient's conditions, would be in nursing or therapeutic services.

In contrast, indirect care staffing ratios at three state-owned facilities (Pinecrest, Lakin, and Hopemont) were approximately .95:1, compared to .31:1 in the private sector. The long-term care facilities have nearly twice the indirect care staff required of their counterparts in the private sector even if the same amount of annual and sick leave applied to each.

While Sharpe and Bateman are understaffed in nursing, leading to a higher prevalence of overtime and temporary employee usage, the Governor's performance review found that Sharpe and Bateman were overstaffed in terms of indirect staff. River Park Hospital, a private sector facility, has approximately 102 administrative and other non-nursing staff to support a 100-bed facility, compared to 195 administrative staff found at Sharpe and 196 at Bateman. River Park has 145 nursing staff, while Sharpe and Bateman have 221 and 135, respectively. When the staff-to-patient ratios and the leave policies of the state are taken into account, Sharpe and Bateman are both understaffed in nursing compared to River Park hospital.

Over the next five years, up to 1,000 employees will retire from DHHR. At least 50 administrative staff positions or other nursing positions at WCH could be transferred over the next year, primarily through attrition with minimal impact to employees, to reduce overtime and temporary employee expenses at Sharpe and Bateman.

Properly staffed facilities would improve quality of care while reducing the state's operating costs for these facilities. The facilities should seek the guidance of regulatory agencies, both federal and state, to arrive at appropriate staffing levels for nursing. In addition, the facilities need to objectively evaluate the need for indirect care staff while taking advantage of existing and emerging technologies to reduce duplicative administrative services. The staffing "models" in place at the facilities are outdated and need to be modernized to ensure that staffing for all positions is adequate, but not excessive.

The nursing needs for Sharpe and Bateman are not similar to those at Welch Community Hospital. Therefore, the same positions that may be eliminated at Welch wouldn't be required at the psychiatric facilities. At Bateman, in Huntington, there will be competition for nurses, especially for RNs and LPNs. It's possible that recruitment and retention at Bateman would be more difficult than at Sharpe, but neither facility should face difficulties in recruiting aides.

Recommendation

> **The Department of Health and Human Resources should transfer at least 50 FTEs from administrative positions throughout its state facilities and from nursing staff at Welch Community Hospital to William R. Sharpe, Jr. Hospital and to Mildred Mitchell-Bateman Hospital to reduce overtime and temporary employee costs.**
>
> Transferring the cost of approximately 50 FT's into nursing or physician positions at the two psychiatric facilities will offset overtime and temporary employee costs at Sharpe and Bateman. It will also reduce the stress on workers, increase the level of client care, and lead

to shorter stays for acute psychiatric patients. Because this would be a shift in budgeted money already allocated to the facilities, there would be no additional cost.

Fiscal Impact

The vast majority of the funding for labor comes from general revenue and tobacco funds. It doesn't appear that any federal funds are used for labor in the facilities.

The identified "savings" aren't intended to be reflected as a "reduction" in the budget, but are meant to assist the facilities in meeting their budgets and quality of care standards with existing staff.

In recent years, the hospitals have not been able to meet their budgets, due to unbudgeted overtime costs and unbudgeted diversion costs

Our assumption is that the facilities will not be expected to meet savings targets during FY2007. They'll be given one year to adjust their staffing through attrition.

While savings can be realized even before FY2006 is complete, if facilities begin the process now, no expectations will be required until FY2008.

We calculate that the transfer of FTEs to essential positions in the psychiatric acute care facilities could result in a decrease of up to $4.8 million in overtime and temporary costs over the next five years. No impact is projected for the first year. Savings will be realized beginning in the second year.

By providing roughly 40 to 50 new positions in the acute psychiatric facilities, we expect a decrease in overtime costs of more than $1 million per year (down from $1.5 million in FY2005) and in temp costs of nearly $175,000 per year (down from $1.275 million in FY2005). The scenario examined for this purpose would involve adding five physicians at Bateman and four LPNs, four RNs and 30 aides to Bateman and Sharpe, where appropriate, to reduce the reliance on overtime and temps.

In FY2005, there were 57,661 hours of overtime worked by physicians and nurses at Bateman and Sharpe. Adding these positions would make nearly 74,000 additional worked hours available, taking into account anticipated leave times. The assumption is that overtime would not be reduced entirely and that nursing and physician overtime would fall by 75 percent, with the remainder of the savings coming from less use of temps.

Physician and nursing temps worked 62,371 hours in FY2005. The fiscal estimate assumes a reduction of 7,500 temp hours. Therefore, this assumption conservatively estimates that adding nearly 74,000 hours in available worked hours will result in a reduction of about 50,000 overtime and temp hours. Temporary workers are less expensive than full time employees, but the decrease in the use of temps can result in higher quality of care for patients, decreased lengths of stay for clients, fewer diversion costs that cannot be quantified from this study.

Fiscal Year	Savings (State GR)	Saving (Federal)	Net Savings (State)	Net Savings (Federal)	Change in FTEs
2006					
2007					0
2008	$1,200,000				0
2009	$1,200,000				0
2010	$1,200,000				0

Implementation Table

Task	**Responsible Part**	**Start Date**	**Anticipated**
Evaluate unnecessary/non-essential positions in each facility. Arrive at a standardized methodology between the facilities to identify the number of vacancies that can be transferred from/to each facility without compromising patient services. This can include maximum, agreed-upon staff-to-patient ratios.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price	1/1/06	3/31/06
Identify vacancies that would have been filled under existing operating procedures and determine which positions do not need to be filled. Earmark those positions for eventual transfer to necessary positions to reduce overtime expense.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price	1/1/06	6/30/06
Transfer positions as identified; begin to fill nursing positions at Bateman and Sharpe in order to reduce overtime.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price	4/1/06	6/30/06
Prepare preliminary plan for Reduction in Force for presentation to DOP.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price, Desmond Byrne, Mike McCabe	4/1/06	6/30/06
Monitor the turnover at the facilities and track the progress in the accumulation of vacancies at each facility, comparing to the plan for reduction along the way; continue to fill positions, quarterly, at Bateman and Sharpe with those positions made available from identified non-essential positions.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price	7/1/06	6/30/07
Adjust Reduction in Force plan as natural attrition takes place; narrow down the facilities and positions to be affected should a Reduction in Force become	Facility CEO's, John Bianconi, Vickie Jones,	7/1/06	12/31/06

necessary.	Doug Price, Desmond Byrne, Mike McCabe		
Present benchmarks, timetable, etc. for the Reduction in Force Plan to DOP (to allow up to three months for approval).	Desmond Byrne, Mike McCabe	1/1/06	3/31/06
Implement Reduction in Force, if necessary, to arrive at targeted amount of staff at each facility and realize maximum savings.	Facility CEO's, John Bianconi, Vickie Jones, Doug Price, Desmond Byrne, Mike McCabe	7/1/07	7/1/07

Footnotes

PIMS reports for staffing at state-owned facilities.
Cost Reports for selected LTC facilities
Surveys of selected LTC facilities
Surveys of selected CAH Hospitals
Surveys of selected Psychiatric facilities
FIMS info for Overtime and Temp expenditures, in FY05.

HHR 9

MANAGE CHRONIC DISEASES BETTER TO IMPROVE PATIENT HEALTH AND CUT COSTS

The state should contract with a Disease State Management Organization to provide disease management services to Medicaid members with certain diagnoses as a means of improving their health and saving taxpayers money.

Background

Current enrollment in the West Virginia Medicaid Program is about 365,00 members, more than 78,000 of whom have a disability, according to the Social Security Administration.

West Virginia recently began using prior authorization for certain medical services, medications, and supplies. The state also reviews medical service utilization after services have been delivered via the Services Utilization Review System (SURS). These two practices help manage care on the front end, before services are delivered, and on the back end once services have already been received. Missing from the process is a disease state management system that could help manage services at the time of delivery.

Disease management employs a number of strategies, including improved information to providers and members, better disease monitoring, increased compliance with best practices for managing chronic diseases, and improved coordination and communication among providers, caregivers, and members. The goals of disease state management are to reduce direct costs, especially acute care hospitalization episodes, and to improve the quality of life of patients. In February 25, 2004, the Centers for Medicare and Medicaid Services advised state Medicaid directors that disease management programs, if structured correctly, qualify as a medical service for federal reimbursement purposes.

In late 2003, 19 states agreed to begin or expand disease management program during the next budget year, FY 04. Twenty-one state legislatures have recently considered legislation promotion of the creation or expansion of existing disease state management programs, including California, Colorado, Connecticut, Indiana, Mississippi, New Hampshire, New Mexico, and Texas.

Findings

West Virginia’s Medicaid program provides payment for medical services to more than 365,000 state residents. The budget for the Bureau for Medical Services for 2005 was $2,287,574,291. Treatments for chronic diseases accounted for approximately 70 percent of the medical costs of this program. Among the most prevalent disorders were cardiovascular diseases, diabetes, and asthma.

Some 24,000 people, or about eight percent of patients, are treated for diabetes. In a national study of Medicaid members, 39 percent of Medicaid-eligible patients are being treated for one or more conditions determined to be “chronic.” These 39 percent account for more than three-quarters of Medicaid expenditures nationwide.[6]

No numbers are available for West Virginia costs related to the treatment of asthma, but the national number of Medicaid recipients treated for asthma is significant — and rsising.[7]

Nearly 97 percent of private health care plans have implemented at least one disease management program.[8] There are a number of private disease management organizations (DMO) that contract with both state and private insurers to provide disease management services. These programs are often targeted to the most prevalent diseases for the population served. Some programs provide only educational and consultation services, while others provide direct patient services. Other services include case management, coordination of care, provider and beneficiary profiling, claims analysis, and chart audits. These initiatives offer state Medicaid programs a potential cost-containment strategy that could improve quality of care. A number of states are experimenting with such programs for a variety of diseases.

The Florida Medicaid program contracted with a disease management organization to provide services for Medicaid members with AIDS. In the agreement, the DMO is expected to realize a certain percentage of savings over historical FFS costs for this population. After these savings are achieved, a profit-sharing arrangement between the DMO and the state Medicaid program will kick in. Florida has also implemented Medicaid disease management programs for asthma, diabetes, and hemophilia.

Some of the most successful disease management initiatives have focused on treatment of asthma, diabetes, and premature infants. Studies have found that asthma disproportionately affects poor patients. After enrollment in a Blue Cross/Blue Shield of Western New York disease management program for Medicaid and SCHIP members, members reported the following results:

- Use of controller medication increased from 55 percent to 70 percent
- Inpatient admissions for asthma-related illness decreased by .5 percent.
- Emergency room visits for asthma-related illness decreased from 23 percent to 15.5 percent.[9]

Similar findings were reported by Health Net of California after that state implemented an asthma-related disease management program. A health insurer in the Philadelphia area also used an innovative program to target childhood asthma and reported that emergency room visits for members of the program were

[6]Center on an Aging Society, Georgetown University, Issue Brief #4, Disease Management Programs, Improving Health While Reducing Costs?, www.aging-society.org

[7]Interview with Shelley Baston, West Virginia Department of Health and Human Resources, Bureau for Medical Services, November 2005.

[8]Center on a Aging Society, Georgetown University, Issue Brief #4, Disease Management Programs, Improving Health While Reducing Costs?, www.aging-society.org

[9]Innovations in Medicaid Management Care, America’s Health Insurance Plans, www.ahip.org.

reduced from 40 percent to six percent and that asthma-related hospital admissions decreased from 10 percent to two percent.[10]

A North Carolina study on Medicaid recipients treated for pediatric asthma showed that disease management participants had 24 percent lower costs than those not enrolled in the program.[11]

In a study conducted on state employees in South Carolina, costs for treatment for diabetes and related conditions dropped from $1,591,03 to $343.41 after enrollment in a disease management program.[12]

A study conducted by the Florida Medicaid agency showed a 16 percent reduction in medical costs for patients diagnosed with congestive heart failure after participating in a disease management program.[13]

Recommendation

> **The state should contract with a Disease State Management Organization to provide disease management services to Medicaid members with certain diagnoses as a means of improving their health and saving taxpayers money.**

The Bureau for Medical Services should implement a targeted disease management program for cardiovascular disease treatment, asthma and diabetes through entering a contract with a disease management organization.

BMS should also consider contracting with the Public Employees Insurance Agency (PEIA) for its Face-to-Face disease state management program for diabetics. This program expanded statewide in July 2005, and preliminary performance measures show a 10 percent savings in claims paid for diabetics.

In addition, the PEIA release a request for proposals (RFP) in May for a contract with a disease state management organization. The RFP will include language to allow Medicaid to negotiate a contract with the successful bidder. Medicaid should pursue this option.

Fiscal Impact

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[10] Innovations in Medicaid Managed Care, America's Health Insurance Plans, www.ahip.org

[11] Innovations in Medicaid Managed Care, America's Health Insurance Plans, www.ahip.org

[12] Chaufournier, Diabetes Specturm, 2005 Spring Edition.

[13] Center on an Aging Society, Georgetown University, Issue Brief #4, Disease Management Programs - Improving Health While Reducing Costs?, www.aging-society.org

While BMS hasn’t calculated a proposed savings for this initiative, one vendor estimates that West Virginia could save between $10 million and $25 million by implementing one or more disease management programs.

Implementation is possible during 2007 if Medicaid develops a Memorandum of Understanding with PEIA for the Face-to-Face program and negotiates with the successful bidder for PEIA’s disease management program.

HHR-10

ELIMINATE T.R.I.P.
(TRANSPORTATION REMUNERATION INCENTIVE PROGRAM)

Background

The Transportation Remuneration Incentive Program, or TRIP, was implemented in 1974 through the joint efforts of the Community Services Administration, Commission on Aging, Department of Transportation, Department of Health, Education and Welfare, and the West Virginia Division of Human Services. The Department of Health and Human Resources' Office of Income Maintenance currently administers the program. Funding comes from general appropriations and partial contributions from the users.

The purpose of TRIP is to help eligible participants purchase transportation services with ticket coupons. Taxis and other providers must be approved by the state's Public Service Commission (PSC) and be registered with TRIP to participate. The PSC gives mass transit providers an exemption from registration, but they must be registered as a provider with the agency. TRIP tickets may be used to purchase transportation service for any purpose.

TRIP is administered through a process known as declaration eligibility. Participants must meet the requirements of residence, age, or handicap and financial eligibility. Eligible participants receive a monthly authorization card that allows them to purchase TRIP tickets. The value of TRIP tickets depends on the number of people certified to receive them. Each book costs $3.

The authorization cards may be redeemed in person or by mail. Most contacts take place at the local Division of Human Services office, but a few offices have local community action agencies helping with the issuance of tickets. A TRIP ticket book contains 12 50-cent and eight 25-cent coupons – a total value of $8. Coupons are removed by the client and given to the driver/ticket taker for payment of fares. All ticket books now feature expiration dates on the back of the books.

Findings

A team of DHHR Bureau of Children and Families' staffers recently recommended that TRIP be reviewed with an eye toward reducing the amount of staff time involved in processing paperwork associated with the program. This recommended review has not yet taken place.

TRIP requires a significant commitment of clerical support to administer, even though the program's statewide coverage is limited. Some 14,000 residents residing in about 25 percent of West Virginia's counties participate in the program each year. Many counties lack public transportation, making it impossible for residents to participate.

The program is also labor intensive, demanding a multitude of processing steps by both field level and the central office staff. TRIP's manager has recommended that the program be eliminated altogether as too costly and ineffective.

Recommendation

TRIP should be eliminated to save taxpayers money and free up state personnel to provide more vital services.

TRIP isn't covered under any federal or state mandate and requires no changes to state code. Brokered transportation could be implemented at a much lower cost if state officials determine some small continuing need for special transportation services.

Fiscal Impact

West Virginia taxpayers spend $180,000 per year on TRIP. Eliminating the program would bring five-year savings of $720,000.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal Funds
2006		
2007	$180,000	n/a
2008	$180,000	n/a
2009	$180,000	n/a
2010	$180,000	n/a

HH-11

REDESIGN MENTAL HEALTH FUNDING TO IMPROVE ACCOUNTABILITY AND EFFICIENCY

The state's Bureau for Behavioral Health and Health Facilities (BHHF) should redesign the current funding methodology to improve accountability and efficiency in its community mental health system.

Background

The West Virginia State Code states in Chapter 27 that the Department of Health and Human Resources (DHHR) shall "establish standards and criteria for reimbursing sponsoring groups for a portion of the cost of local mental health services which they may provide." The code authorizes DHHR to "establish standards for and supervise the operation of community mental health clinics and to determine and approve schedules of reasonable cost for reimbursement by the patient or responsible relative for mental health services rendered."

There are 13 different geographical areas identified for the provision of mental health services in West Virginia. The main providers within each area – Community Mental Health Centers (CMHC) – sign grant agreements each year in which they agree to provide five basic core services: crisis services, linkages with inpatient and residential treatment facilities, diagnostic and assessment services, treatment services, and support services.

Some $5 million in core block grants are distributed each year to provide these services to those with a diagnosis of mental illness and an income less than 200 percent of the federally defined poverty level who isn't otherwise eligible for Medicaid. There is no method in place to guarantee uniform and standardized implementation of core services and no effective measures of performance.

BHHF distributes more than $65 million per year through 134 grants to fund the state's community mental health system. The majority of these grants are directed to the CMHCs. As a grantee, CMHC is required to submit quarterly and annual reports detailing the costs to each program and the funding provided from other sources. Eighty percent of this funding is based on past records. If a provider received $1 million five years ago for a specific grant, that provider is likely to receive $1 million today for the same grant. When providers underspend, they can apply to transfer the remaining funds to a program on which they have overspent. But when a provider reports more cost than was allotted, there's no mechanism by which they can receive additional funding.

Some grants for specifically targeted services are distributed based on population. BHHF does not verify the funding provided to the CMHCs by Medicaid for services provided to Medicaid recipients. The possibility of "double dipping" or balance billing to support administrative costs exists.

A recent report on the unduplicated count of consumers served by community providers in West Virginia fixed the number at 67,000 for FY2005 and more than 70,000 for FY2006.

BHHF is composed of four behavioral health divisions: Adult Mental Health, Children's Mental Health, Substance Abuse, and Mental Retardation/Developmental Disabilities. Each division director decides which providers to fund and how much to allot to each. These decisions, as noted above, aren't based on the history of services provided or the eligibility or need of the consumers served, but on the recent history of funding.

The Federal Mental Health Block Grant (about $3 million) is distributed based on the recommendation of an independently appointed board composed of providers and advocates. This board has no affiliation to BHHF.

In recent years, the CMHCs and providers have maintained that the number of clients they can effectively serve drops as funding remains unchanged. Consumers with severe mental illness who aren't served by the CMHCs are often admitted to state psychiatric facilities or diverted to private psychiatric facilities for stabilization, costing taxpayers much more than less expensive outpatient treatment. An apparent gap in services for patients who ultimately require hospitalization isn't being addressed.

Findings

According to a survey by the National Association of State Mental Health Program Directors (NASMHPD):

- 25 states directly fund but don't operate community mental health centers
- 15 states provide funding to local county of city entities to provide community services
- Six states operate their own community mental health programs (four state didn't respond).

West Virginia falls into the first category, providing funding to non-profit CMHCs for a variety of programs designed to integrate treatment for severe mental illness, substance abuse, supported employment, family education, and other accepted strategies.

One practice not yet implemented in West Virginia is a medication management system. This system has been successfully implemented by other states, including Missouri, where officials reported taxpayer savings of $7.7 million in FY 2004, the first full year of the program.

Many states are moving toward this system and other evidenced-based practices to ensure that clients receive effective services designed to provide improved mental health. South Carolina has targeted 2009 as the year in which it will move to performance-based contracts. Oregon is phasing in Evidenced Based Practices (EBP) by requiring that 25 percent of all funds spent on mental health services be based upon EBPs by 2007, 50 percent by 2009, and 75 percent by 2011. Texas has also transitioned to performance based contracts with an emphasis on EBPs.

There's much room for improvement in West Virginia's uniform use of these accepted best practices. For example, no method of medication management currently exists among CMHCs and only two have an active assertive community treatment program, with no standardized criteria for judging the effectiveness of the programs. Supported employment is practiced by all CMHCs, but the effectiveness of the concept hasn't been measured. Family education and illness self management are done independently by CMHCs and consumer associations.

Contracts should be developed with the CMHCs that require them to provide services based on these scientifically proven evidence-based best practices, with specific goals in specified areas.

Performance-based contracting for mental health services is the recommended avenue to enforce the implementation of evidence-based practices. Performance-based contracting is difficult to monitor and implement. We encourage the use of financial incentives and disincentives to ensure the achievement of performance-based outcomes. New York, for example, completed a two-year demonstration project in 2002 using performance-based contracts for supported employment to help people with psychiatric disabilities acquire and keep competitive jobs in the workforce. This project, based on a system developed in Oklahoma, provides financial incentives for specific outcomes. New York's Office of Mental Health pays providers based on six outcomes achieved by the consumer:

- completion of life skills assessment
- career planning and initial job placement
- job skill acquisition
- job retention at three months
- job retention at six months
- job retention at nine months.

Additional research is required to determine the success of New York's program and its expansion beyond a demonstration project.

Increased hospitalization due to mental illness is a growing problem in West Virginia. In 1996, William R. Sharpe, Jr. Hospital and Mildred Mitchell-Bateman Hospital were at 70 percent of capacity. By 2000, they had both reached 90 percent, and the next year saw the first instance that a patient from either hospital was diverted to a private psychiatric facility for lack of space. In each succeeding year, occupancy has exceeded 96 percent overall, and diversions to other facilities have increased. In 2005, the Sharpe and Bateman were each at 99.5 percent of capacity, with an additional 1,760 patients diverted for a total of 17,399 days.

When Medicaid or commercial insurance doesn't cover the cost of a diverted stay for patients, BHHF covers the cost. The total tab for FY2004 and FY2005 was more than $6 million.

Performance-based contracts can be used to reward those CMHCs whose areas show a drop in hospitalization rates. Additional research could determine the effectiveness of performance-based contracts that have addressed this particular topic.

Research concludes that a high rate of hospitalization is one sign of an unsuccessful community provider system. Other states have found that the majority of hospital admissions were for people who hadn't previously been in care, raising questions about prior lack of access to community services. This highlights the need to develop policies for reaching people earlier, before their illnesses became critical.

West Virginia providers have also identified this as a common problem. There's no effective method in place to ensure that patients, upon discharge from a private- or state-owned psychiatric facility, receive the follow-up they need to attend doctor's appointments and receive appropriate medication. A collaboration of efforts among community providers and representatives of the state hospital system could ensure that patients receive necessary treatment prior to requiring hospitalization and to ensure that consumers receive proper follow-up upon discharge.

The federal New Freedom Commission on Mental Health identified "fragmentation" as a critical and chronic problem facing the restructuring of mental health services. Fragmentation often alienates individuals who need help and produces duplicative administrative structures and procedures. Our review of West Virginia's system reflects such fragmentation, with a lack of uniformity in core services and the application of practices, and a lack of communication among community-based programs and hospitals.

Other proposals for "best practices" should include the adoption of a single accounting system, through improved data management and information systems, to monitor and manage all spending on mental health among different state agencies. Funds are allocated to address mental health from DHHR (Bureau for Medical Services, Bureau for Children and Families, BHHF), the Department of Corrections, and the Department of Education. A complete accounting of all state spending for mental health services would provide a method to truly measure the effectiveness of a behavioral health management system. To measure and control spending, knowledge of what is being spent is crucial.

These reforms will not be easy nor their implementation quick. In other states, such reforms have taken two to three years and required the cooperation of many different stakeholders, including providers, consumers, advocates, and DHHR, which has already contracted with a consultant to develop a strategic plan.

The ultimate goals of developing a mental health delivery system predicated upon EBPs and performance-based contracting should be: (1) better efficiency within the delivery system based on (2) measurable outcomes for consumers resulting in (3) financial savings for the state through the use of (4) reliable data management.

General economic impact of mental health.

Inadequate treatment of mental illness can result in greater economic costs to society in the areas of crime and criminal justice, homelessness, and uncompensated care. Worker productivity and average income is lower among those with a diagnosed mental illness. Use of the medical system and emergency room visits is higher among those with mental illness. Those who receive effective treatments show increases in incomes, increases in employment, decreases in the use of welfare, decreases in homelessness, and decreases in substance abuse. Evidence suggests that an effective and efficient mental health system can have an impact on these varied economic societal indicators.

Recommendation

> **The state's Bureau for Behavioral Health and Health Facilities (BHHF) should redesign the current funding methodology to improve accountability and efficiency in its community mental health system.**
>
> The Governor and the Secretary of DHHR should support a measure to implement a more functional, performance-based contract system based on scientifically proven evidence-based practices. This will allow for accountability, ensure quality care, ensure equitable funding to providers, ultimately increase the number of clients receiving adequate treatment, and provide an avenue for taxpayer savings. Adoption of best practices methods of management that support a consolidated reporting of mental health care expenditures from all bureaus should be promoted.

Fiscal Impact

Additional research must be done to arrive at a specific savings figure. But taxpayers can expect to save more than $1 million per year once the redesign of the Behavioral Health system is complete.

Fiscal Year	Savings (State GR)	Saving (Federal)	Change in FTEs
2006			
2007			0
2008	$1,000,000		0
2009	$1,000,000		0
2010	$1,000,000		0

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Evaluation of current delivery system of behavioral health services in WV. Utilize state-wide user group meetings to involve stakeholders in the process of deciding on necessary	Bureau Mgt, PCG	1/1/06	12/31/06

services and method of delivery to improve the quality of behavioral health care. Evaluate and identify best practices utilized throughout the state, as well as some maybe not yet practiced within the state. Develop methods to reward and incentivize providers to adopt best practices. Recommend funding methodology to provide more federal funding to the Community Behavioral Health System.			
Next steps?	???	???	???

Footnotes

NASMHPD website and links
South Carolina DMH Website, articles and phone contact
Oregon DHS Website, articles and phone contact
New York OMH Website, articles
"Turning the Corner: Toward Balance and Reform in Texas Mental Health Services"
Numerous articles to be referenced later; additional phone contact will be needed.

HHR-12

STRENGTHEN PROVIDER ENROLLMENT PROCEDURES TO ENSURE EFFECTIVENESS

West Virginia should strengthen enrollment procedures to ensure that Medicaid providers can provide the services for which they bill.

Background

West Virginia's Medicaid program reimburses medical service providers on behalf of recipients. To receive reimbursement, providers must be enrolled in the program.

Many states have identified fraudulent practices that severely drain the resources of the Medicaid program, including over billing and claiming reimbursement for more expensive procedures than were actually provided.

Efforts to screen providers in many states don't provide the accountability and level of scrutiny needed to identify these unscrupulous providers, and many have instituted more stringent screening processes to combat this problem. West Virginia should follow suit.

Findings

Independent firm Unisys currently processes the provider enrollment applications for West Virginia under a n agreement with the state's Bureau of Medical Services as the Medicaid fiscal agent. Generally, providers are required to supply the following: completed enrollment application, current license, curriculum vitae or Board Certification for Specialty, and W-9 or IRS documentation verifying their tax identification number. Licensure is checked upon enrollment, along with yearly verification. There is no field visit or desk audit performed along with enrollment, nor does the state currently have any bond requirements.

Providers can be removed from the network if a consent order to close is received from the Board of Medicine or the Center for Medicaid/Medicare Service (CMS). Letters requesting updated licenses are sent to providers annually, prior to the date their licenses are set to expire. If the updated licenses aren't received, providers are removed from the eligible list. Providers can also be removed at their request or if they fail to comply with the provider contract after being notified of non-compliance.

In an effort to strengthen its enrollment practices, Florida instituted a re-enrollment program in 1996. In revamping the process, the Medicaid agency worked closely with representatives from all categories of providers and representatives of appropriate advocacy groups. Florida providers were required to re-enroll under a more comprehensive contract, which authorized the state to require a $50,000 surety bond. The state initially required the bond only for durable medical equipment providers and home health agencies – categories of providers that had been identified as the most egregious offenders.

During the initial re-enrollment, the number of providers in these categories fell significantly. Florida reported no complaints, appeals, or lawsuits resulting from the new contract, a fact attributed to the participation of providers in the redesign effort.

Recommendations

a.) DHHR should revise the existing Medicaid contract to require that all providers undergo a criminal background check and, for certain categories, require a surety bond that can be called in when needed to reimburse the agency for malfeasance or abuse.

Criminal background checks would provide decision makers relevant information in a timely fashion during the enrollment process. Requiring a bond from certain categories of providers would increase accountability and guarantee that taxpayers will be reimbursed for any malfeasance.

Other states that have required criminal background checks and surety bonds have seen a drop in the number of providers re-enrolling, which they attribute to increased accountability. They have not reported any complaints, appeals, or lawsuits resulting from the new contract. Nor does it appear that Medicaid services have been diminished as a result.

The Medicaid agency should identify categories of providers that may be particularly susceptible to fraud. The new contract should include a process for the Medicaid agency to call in a bond.

b.) The Governor should issue an executive order requiring all agencies that maintain lists of approved medical providers to share information regarding provider fraud.

The affected agencies should execute cooperative agreements to outline processes and procedures for the sharing of pertinent information and to protect the confidentiality of the information shared. Medical providers that break the law in one arena should be prohibited from continuing to provide services and reap benefits in other state programs. The pooling of bad provider information will aid all agencies to ensure the integrity of their programs.

Fiscal Impact

The fiscal impact from this recommendation is reflected in HHR 1.

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Identify and draft letter to Agency heads who may maintain lists of eligible medical providers.	Rocco Fucillo and Garrett Jacobs	1/2006	3/2006
Meet with involved Agencies to develop process for shared "bad list",	Rocco Fucillo, Shelly Baston and	4/2006 (contingent upon	6/2006

draft Memos of Understanding outlining agreed process, confidentiality issues, contact persons, users, etc., and execute such agreements.	Garrett Jacobs	passage of legislation)	
Work with IS&C and Governor's Technology Office to implement agreed mechanism.	Rocco Fucillo, Garrett Jacobs and Shelly Baston	6/2006	As soon as practicable based on factors relating to technology needed to facilitate agreed solution.

NOTE: Issues of surety bond for vendors and criminal background check have been combined into HHR 91.

Footnotes

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[1] Responses provided by Shelley Baston, RNC, MBA, Director, Office of Healthcare Policy and Managed Care Coordination, Bureau for Medical Services, November 15, 2005.

[2] Florida Statewide Grand Jury Report, Medicaid Fraud: Medical Clinics, July 7, 1997, In the Supreme Court of Florida; Case No. 86,726.

[3] Florida Statewide Grand Jury Report, Medicaid Fraud: Medical Clinics, September 3, 1996, In the Supreme Court of Florida; Case No. 86,726.

[4] Interview with Sally Edge, Director, Claims Resolution Department, Workers' Compensation Commission, November 16,2005.

HHR-13

ENACT FALSE CLAIMS LEGISLATION

State lawmakers should enact a Medicaid Fraud False Claims statute to discourage Medicaid fraud.

Background

A number of states have come up with innovative ways to identify and root out fraud in vital public programs, using false claims acts modeled after federal law to recover money stolen from state governments. Arkansas enacted a specialized statute to directly address Medicaid fraud. The Arkansas statute provides a financial incentive to individuals who report fraud by awarding them 10 percent, up to a maximum of $100,000, of the actual recovery.

In addition, many states levy administrative penalties against providers for false claims. These penalties can range from $1,000 to $10,000 for each unlawful act, and some allow for an additional penalty of twice the amount of money taken.

Findings

West Virginia law currently provides for criminal penalties for Medicaid fraud. In FY2002, the state prosecuted 12 criminal Medicaid fraud cases. However, there are no financial incentives for individuals to report fraud and no administrative penalties.

The Arkansas Medicaid Fraud False Claims Act is more comprehensive than West Virginia's general law relating to criminal penalties for Medicaid fraud. The Arkansas statute specifically provides access for Medicaid officials and the Attorney General's office to providers' records for investigations and discovery purposes. The Arkansas statute also allows the court to authorize payments to whistleblowers of amounts not to exceed 10 percent of recoveries, up to a maximum of $100,000 for information which leads to detection, trial, and punishment of violators.

In West Virginia, any person convicted of a criminal health care violation or who pays a fraud related civil settlement is barred from participation in any federally funded health care program for at least 10 years, including Medicaid. But a settlement with the state's Medicaid Surveillance and Utilization Review (SUR) unit, which is classified as a "mistake" and not "fraud", carries no penalty. Instead, the provider simply repays the "mistaken" money. In FY2005, the SUR unit reviewed and made settlements in 1,608 cases. The number of cases with settlements in FY2004 was 2,128. The amount recouped under these settlements totaled more than $7.1 million in each fiscal year.

West Virginia currently has no administrative penalties for Medicaid fraud. In order to discourage fraud, most states assess an administrative penalty per incident. Other states impose administrative penalties of $1,000 to $10,000 per incident. This is permissible under federal law.

Recommendations

a.) The Legislature should pass a Medicaid Fraud False Claims Act to discourage Medicaid fraud.

West Virginia should model its statute on the Arkansas law. By offering a financial incentive to those who report Medicaid fraud, we project that the number of fraud reports will increase significantly.

Also, the new statute must be drafted to ensure that state employees aren't exempt from eligibility for the benefits, because state employees are in the best position to be uncover such fraudulent practices. State employees whose normal job is to identify and prosecute Medicaid fraud should be exempt.

b.) The Legislature should establish administrative penalties for false Medicaid claims filed by providers.

Allowing the state's Medicaid Surveillance and Utilization Review unit to assess an administrative penalty in addition to merely recouping funds paid erroneously will provide additional financial resources to the Medicaid agency and act as a deterrent to providers.

Fiscal Impact

The fiscal impact of this recommendation cannot be determined at this time.

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Identify task team to further explore what components to include in legislation.	Garrett Jacobs and Nancy Atkins	12/15/05	12/15/05
Meet with task team to further analyze develop issues relating to nature/scope of the act, effect on quantity of service providers, additional personnel, etc and draft proposed legislation for introduction during 2007 Legislative Session.	Nora Atlake, Jeanne Cress, Ron Montgomery, Sam Cook, Alva Paige, Shelly Baston and Garrett Jacobs	1/2006 (contingent upon passage of legislation)	9/2006
DHHR General Counsel and Legislative Liaison need to find sponsor to introduce proposed legislation and secure its passage.	Rocco Fucillo and John Law	12/2006	3/3007

NOTE**:** Issues of surety bond for vendors and criminal background checks from HHR 90 have been combined into this issue.

Footnotes

[1] Arkansas Medicaid Fraud False Claims Act, AK Code §20-77-901, et seq.
[2] Interview with Molly Jordan, DHHR, Inspector General; Samuel P. Cook, Director, WV Medicaid Fraud Control; and other members of the DHHR Office of Inspector General, November 1, 2005.
[3] Interview with Samuel P. Cook, November 9, 2005.
[4] West Virginia Code §9-7-5. Bribery; false claims; conspiracy; criminal penalties.

III. Transportation and Motor Vehicles

T-1

STREAMLINE MOTOR VEHICLES DIVISION

The West Virginia Division of Motor Vehicles should streamline personnel to save tax dollars, reduce overhead, and eliminate duplication.

Background

The West Virginia Division of Motor Vehicles (DMV) has grown significantly over the past six years. In January 1999, the DMV had 379 regular full-time employees on the payroll; as of November 1, 2005, the number was 548.

Since 1999, the DMV has created 13 new regional offices employing 119 men and women. As part of this growth, the agency absorbed 35 driver exam testing sites and 95 full-time positions from the State Police, most of were consolidated into the new regional offices. This consolidation doesn't account for the runaway growth in the agency, particularly among management positions.

With regards to management levels, In January 1999, the DMV had 72 positions classified as management jobs. With a total of 379 employees, the percentage of those in management positions was 18.9 percent. By mid-November 2005, the agency had 167 regular full-time positions classified as management, or 30.5 percent of the agency's total 548 full-time employees – nearly one-third of the agency's work force.

In some service areas, such as is the case with the Regional Office and Dealer Services sections, this has resulted in a top heavy organizational structure with a large number of management layers between the Service Line director and the external customer.

From our review of positions classified as direct service versus overhead, it is clear that the DMV employs a large number of staff who don't provide direct services to the public. As of November 1, 2005, the agency had 101 positions, or 18.2 percent of all regular positions on the payroll categorized as overhead. These staff positions primarily provide support to the direct service line units rather than to the external customers. Many of these positions are provided in duplicative functions also covered under the agency's parent Department of Transportation (DOT). Other overhead service lines may be unnecessary due to their low volume of work or because their responsibilities are already covered by administrative fees paid for by the DMV or are provided through other contractual agreements.

Findings

Several DMV service lines do not have the volume of work needed to justify dedicated management positions. Due to the high levels of management and overhead positions in the agency, three position examples were cited as unnecessary.

In August 2005, a new position was created: Director of Facilities Management. Prior to this time, work activities for all DMV off-site locations were coordinated among the site manager, the leaser and the Division's purchasing department. Other responsibilities that fall under this new position include the coordination for new construction, although only one new construction project is planned, at the Charlestown Regional Office in Jefferson County. Other aspects of this job, such as meeting OSHA and other safety requirements, are duplicated under the agency's Information, Safety and Security Services section.

The majority of these job duties were satisfactorily handled prior to the creation of this new position, which also has an assigned secretary, vehicle, and cell phone.

By contrast, at the West Virginia Department of Environmental Services, an agency with approximately 859 full-time employees, the agency has an Administrative Services Manager I who is responsible for managing five administrative functions for the agency statewide: *Leasing, Safety, Inventory, Mail and Insurance*. In addition to providing safety and ADA checks of all 17 facilities and agency employees, this position is responsible for investigating complaints, incidents and accidents as well as providing cost savings measures to lower Workers' Compensation rates and cases. This person also serves to supervise inventory controls and determines the agency's structure and content value for insurance purposes and works closely with BRIM to communicate any changes. At the DMV, Safety, Inventory, Mail and Insurance are all functions covered in other service areas.

Another position with low work volume is the Director of Marketing position, which currently shares responsibility with the Commissioner's executive assistant for creating and producing new specialty plates. In calendar years 2003-04, the DMV issued 20 such plates. In 2005, the agency is releasing only five – and demand is expected to continue to fall. This position could be combined with another to save taxpayers money and streamline the bureaucracy.

A third exempt management overhead position is one of two executive assistants to the Commissioner. This duplicative position was created in February 2004 even though the DMV's executive office already has two executive secretaries, another executive assistant, the Commissioner, and a new Deputy Commissioner scheduled to be hired early in 2006. According to the job duties for this one position, the primary purpose is to disseminate information, coordinate projects, and provide assistance to the Commissioner – primarily a clerical function that could be handled by either of the two existing executive secretaries already in the office.

The second biggest job duty for this position is acting as a liaison with the Department of Transportation for human resource management issues. The DOT has absorbed most of the functions from the state's Personnel Division. In addition, the DMV already has a director who serves to facilitate personnel issues, and the agency has a dedicated EEO officer to handle various discrimination issues. Thus, these personnel job duties are redundant and already performed by the current staff.

Other minor responsibilities for this position include acting as a liaison with the agency's regional offices and handling the communications needs of the Commissioner. Again, these are redundant functions already performed by regional office managers.

Referring again to the organizational structure for West Virginia's Department of Environmental Protection, the Cabinet Secretary is responsible for oversight of 859 full-time employees, with four major divisions. This position has no role for a deputy and only one administrative assistant providing high-level clerical support. The Department's General Counsel has a secretary who also works with the Cabinet Secretary when the administrative assistant is absent or workload demands.

Recommendation

> **Eliminate non value-added management positions (Executive Assistant to the Commissioner, Director of Facilities Management, Director of Marketing) to reduce excess management levels and reduce personnel costs.**

Fiscal Impact

The savings generated in the table are from all salaries, benefits, and operating costs associated with eliminating the identified non value-added or duplicative positions.

Savings from the elimination of the three non value-added management positions and one secretary were calculated by multiplying the actual salary for each position by .34 percent for benefits to obtain a total savings per position. Each of the three positions savings were then calculated to derive a total potential salaries-plus-benefits savings amount. The second part of the analysis details the operating cost for the Director of Facilities Management. Costs were estimated for a vehicle lease, gasoline and maintenance, and a cell phone.

Fiscal Year	Savings to the Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	0	0	4
2007	247,583.00	0	4
2008	247,583.00	0	4
2009	247,583.00	0	4
2010	247,583.00	0	4

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

T-2

CHARGE FOR LATE VEHICLE REGISTRATIONS

The Division of Motor Vehicles should charge a penalty for late vehicle registrations to encourage compliance with state law and eliminate the cost of issuing new tags.

Background

The Division of Motor Vehicles requires motorists to renew their vehicle registrations annually (Code Chapter 17A, Article 3). Yet every year, thousands of drivers let their vehicle registrations lapse for months at a time before renewing them. In FY05, 62,188 vehicles were re-registered after their expiration dates.

Under current policy, the agency doesn't charge motorists for the months they have allowed their vehicles to go without updated registrations. Moreover, because West Virginia plates are coded by the month the registration is required, the agency regularly issues new plates for vehicle owners who have allowed their lapsed registrations to linger for longer than two months.

Findings

The current practices of the DMV with respect to late vehicle registration cost taxpayers money because of a failure to recoup registration revenues for the months these vehicles were in operation with expired tags the cost of issuing new plates.

Recommendations

To remedy the inequities in current practice for handling late registrations, DMV should:

a.) **Stop rewarding late registrations and start charging for months in arrears.**

b.) **Stop issuing new plates for late registrations and enforce state statutes that require motorists to renew annually using the date of their existing plate.**

c.) **Implement a late registration fee.**

Fiscal Impact

The savings outlined in the table below come from two sources: estimated annual revenues from lost months in arrears and the estimated number of free plates distributed to late customers.

Estimated late registrations are calculated from subtracting the average number of new vehicle titles (236,597 titles, Class A only) for calendar years 2004 and 2005, from the FY2005 new vehicle plates (275,674 plates, Class A only) to derive the estimated figure of late registrations per year: 39,077.

Potential annual revenue increases from months currently lost in arrears was calculated by multiplying the estimated late registrations per year (39,077) by $2.50 (one-and-one-half of $30 lost per month) to equal $97,500 per year. This estimate is conservative it assumes only one month lost in arrears.

Charging a $10 penalty for each late registration would bring in an additional $390,770 per year.

To estimate the number of Class A plates distributed at no cost to motorists for late vehicle registrations, we multiplied the estimated late registrations per year (39,077) by .25 (assuming only 25 percent of additional plates given away for late vehicle registrations) to equal 9,769 plates. We then multiplied 9,769 by $1.88 (cost of Class A plate to the DMV) to equal $18,366, the total amount lost on these plates per year.

The total potential revenue increase for the DMV is $506,636 per year ($97,500 plus $390,770 plus 18,366).

Fiscal Year	Increase to Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	506,636.00	0	0
2007	506,636.00	0	0
2008	506,636.00	0	0
2009	506,636.00	0	0
2010	506,636.00	0	0

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

T-3

ADJUST STAFFING AT DMV REGIONAL OFFICES TO REFLECT CURRENT WORKLOADS

Staffing levels in several of Division of Motor Vehicles regional offices should be reduced based on current operations and workloads to save tax dollars and bring the bureaucracy more in line with industry standards.

Background

Prior to 1979, West Virginians had to travel to Charleston to complete transactions involving their driver's licenses, vehicle titles, and other requirements of the Department of Motor Vehicles. Today, the agency has 22 regional offices that provide a range of vehicle services throughout the state. These offices are designed to offer customer service in the geographical areas where taxpayers live. Such long-term expenses as leases, personnel, technology, office supplies, inventory and other program costs require the commitment of considerable resources to start-up and maintain these offices.

Findings

Staffing and Business Volume

In 2005, these regional offices employed approximately 250 staff members, including several management positions and a large number of front-line customer service representatives (CSRs) and driver's examiners. Staff levels very form one regional office top another based on workload, office capacity, and other considerations. There is no standard staffing plan that determines how CSRs or management positions should be allocated.

Most of the cost for maintaining regional offices is in fixed building leases, salaries, and benefits. Many offices have a high number of management and front-line employees for the relatively low revenues they produce and the low numbers of transactions they process. For example, in FY2005, the average number of cash register transactions and average revenues at the Kanawha City Office were 71.08 and $3,041, respectively**.** During the same period at the Franklin Office, the averages were ONLY lower at 13.77 and $928. There are also many management positions in each of the regional offices, regardless of their workloads. No consistent methodology or staffing plan exists for adjusting these wide variations and reducing the overstaffing that now characterizes low-volume offices.

Proximity of Regional Offices

Some regional offices are located near each other and have low volumes and corresponding revenues. The Spencer, Point Pleasant, Franklin, and Welch regional offices generated less than $2 million in revenues each office in FY2005. In addition, all four of these offices averaged fewer than 36,000 total transactions per office during the same period.

Management Personnel

There are six management layers between the DMV Commissioner and the front-line CSR. It would be prudent to cut out some of these high-level layers to flatten the organizational structure, provide greater response time in decision making, and provide greater management accountability at the Regional Office sites.

Following are the various management levels/positions within regional office services, starting with the lowest and moving up to the highest management level. Positions are listed first by their organizational title, followed by their civil service classification:

Lead CSRs (Lead Customer Service Representatives). They have the authority to conduct voids, correct errors, and override the camera system. In the absence of a supervisor, they have supervisory authority over employees. At the end of each work day, they help to help to balance the cash registers and reconcile the inventory.

Supervisors (Transportation Supervisor III). They do all of the lead CSR tasks. In addition, they handle daily tasks such as verification and preparation of the bank deposits, reconciliation of the inventory, and preparation of the payroll. In addition, they supervise staff and conduct first level disciplinary actions.

Regional Office Managers (Transportation Services Manager I). They perform the duties of the lead and supervisor positions. In addition, they make hiring recommendations, schedule employees, make the final calls for all questionable transactions, interpret policy as it pertains to individual transactions, and are responsible for the overall operations of the office.

Call Center Manager and Assistant to the Regional Offices Director (Transportation Services Manager I). She oversees two lead CSRs for the call center operations, where approximately 23 CSRs work. In addition, she provides support for the regional office director.

Regional Office Operations Managers (Transportation Services Managers II). They oversee and supervise half the state's regional offices. They monitor use of overtime and prepare management reports. They approve requests for purchases and make recommendations for new hires.

Regional Offices Director (Director II). They are responsible for the call center and all regional office operations. They make final hiring decisions of all staff for these areas.

In addition, the following position is not in the direct supervisory chain of the regional offices, but is classified as a management employee in the regional office operations.

Special Projects Coordinator (Transportation Supervisor II). This employee works on special projects assigned by the Commissioner and provides support for the regional office management staff, as well as working on resolving problems associated with title issues.

These management levels and overhead costs fail to increase accountability. Strategies to collapse the number of management layers would increase efficiency, flatten the organization, and shift control and accountability to those on the front lines in the regional offices.

One other consideration is the number of non-cross trained CSRs and driver examiners in the regional offices. Approximately 100 of the 240 CSR/driver examiners are not fully cross-trained to provide maximum flexibility in staffing.

Kiosk and Online Service

Kiosk devices have effective at reducing waiting times for customers and providing an alternative method to deal with the DMV. In southern Nevada, kiosk devices helped cut the overall waiting time from 87 minutes to 55 minutes in one office. About 1,000 people per month have used the kiosk system since it was installed in that state in 2004. According to Nevada officials. It now takes an average of just two minutes for a taxpayer to renew a car registration at a kiosk. Other features, such as accommodating foreign languages, can be added as well. The California Department of Motor Vehicles also tested kiosk machines to dispense vehicle registration license plate tags and registration cards.

Increasing the use of providing online services has also been an effective tool for the Texas Department of Public Safety, which now provides various online services such as renewing driver's licenses, completing changes of address, registering vehicles, and requesting driver records.

Recommendations

a.) The DMV Commissioner and regional office director should allocate the number of CSR personnel in accordance with a reasonable average daily transaction workload.

b.) DMV officials should systematically allocate the number of supervisors based on ratios of one per 100,000 annual transactions.

c.) DMV officials should also require mandatory cross-training of all CSRs/driver examiners to achieve maximum flexibility of staffing and improve overall customer service.

d.) In addition, DMV officials should re-evaluate all regional office transaction volumes on an annual basis and readjust staffing levels accordingly.

e.) Finally, the DMV Commissioner should research and evaluate the feasibility of implementing a kiosk system in high-volume offices or other public areas as well as expanding use of online services to maximize delivery of services.

Fiscal Impact

The savings outlines in the table come from reducing two types of regional office positions: customer service representatives and supervisors.

For CSR reductions, the total productive and non-productive (failed drivers test) transactions for FY2005 were collected and reviewed for each regional office. The average total transactions per work day were calculated. (The total work days was adjusted for the two offices open on Saturdays: Kanawha City and Martinsburg.)

Based on the total CSR staff for each office, *the average transactions per CSR staff per work day* were calculated by dividing the average total transactions per work day by the total CSR staff for each office. Then the top six offices with the highest average transactions per work day were reviewed. To be conservative, the highest office was thrown out, and the next five offices were averaged to determine a high standard average transactions per CSR staff per work day of 49.33. Then *all* offices were averaged to determine an overall average transactions per CSR staff per work day, which equaled 41.86.

In balancing the goal of operating at peak efficiency with the reality of staff shortages and employee turnover issues in regional offices, we calculated an acceptable average transactions per CSR staff per work day. This was done by taking the average of the higher performing offices (49.33) and the overall average of all offices (41.86) to determine a new standard transactions for all offices that equaled 46 transactions. This new standard was applied across all offices by dividing the average transactions per work day by 46 to determine the number of CSRs to be allocated to each office. (Minimum staffing levels were left at the low-volume regional offices, and additional staff were factored in for the two regional offices that operate on Saturday. In addition, CSRs and a supervisor were allotted to both the Clarksburg and Moundsville regional offices to help with the staffing they provide for the Fairmont and Wheeling testing sites, respectively.)

Through applying the new standard, we recommend cutting CSR staff by 11 positions. With a minimum CSR salary of $18,800 plus .34 percent benefits, total taxpayers' savings from this recommendation total $277,112 per year.

For Supervisor reductions, we applied a simple ratio of one supervisory position for every 100,000 annual transactions. This ratio was determined by reviewing the supervisor staff levels for the heaviest volume regional offices by annual total transactions. Although both Kanawha City and Martinsburg had well over 200,000 transactions during FY2005, only one of these offices employed two supervisors while the other handled the workload with a single supervisor. Our recommended supervisory reductions total four, with a minimum salary of approximately $20,776 plus .34 percent in benefits, for annual taxpayer savings of $111,359.00.

Total annual savings from eliminating CSR and supervisor positions comes to $388,471.

For the years 2007 through 2010, we included in our calculations 100 CSRs/driver's examiners who are not currently fully cross-trained. Since many of these staffers have been with the agency for years, an annual salary of $20,000 was used as the basis for the increase. The DMV's current practice is to pay an additional 7 percent over the salary once the CSR/driver's examiner is fully cross-trained, a process that takes about one year. The average estimated cost for cross training 100 staffers is $1,400, or a total $140,000 beginning in 2007. This cost was deducted from the $388,471 noted above for net yearly savings of $248,471 from 2007 on.

We developed two separate plans to achieve additional savings over and above the savings made possible by reducing CSR and supervisor positions:

Alternative Scenarios

In Plan B, eliminating two transportation manager II positions, which oversee all 22 regional offices and report to the director of the regional offices, would create an additional $128,190 in annual savings and benefits). In this plan, all regional office managers would report directly to the regional office director and assistant regional office director as described above.

In Plan C, all regional offices could be divided equally between two regional office directors for a net additional annual savings of $45,110/yr (including salary + benefits).

In Plan B and Plan C, additional research is needed to confirm the calculations.

Fiscal Year	Savings to the Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	0.00	0	0
2007	$248,471	0	(15)
2008	$248,471	0	(15)
2009	$248,471	0	(15)
2010	$248,471	0	(15)

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

T-4

CALIBRATE SALT AND CINDER SPREADERS

The Division of Highways should institute strict calibration controls on its of 970 spreaders for applying snow removal and ice control materials to cut waste and provide more training to maximize efficiency.

Background

Materials used to treat snow and ice conditions are expensive. The price of salt is generally around $50 per ton, and the accompanying cinder materials usually run more than $10 per ton. In addition, the salt used is injected with calcium chloride to improve its melting capabilities at lower temperatures. Overall, the snow and ice materials applied by the DOH cost an average of $30 per ton.

The agency spends more than $30 million each year on snow removal and ice control. Materials alone surpass $11 million in taxpayer costs. The snow removal and ice control expenses are about one-eighth the total annual DOH maintenance budget of $250 million.

The agency's equipment division is responsible for maintaining the snow removal and ice control equipment. The division meets periodically with each district's equipment supervisor. These individuals should be responsible for insuring that spreaders are calibrated and that after major component repairs are completed, the spreaders are recalibrated.

Findings

The DOH lacks an adequate plan to train employees on the proper calibration of salt and cinder spreaders under different weather conditions and after major component repairs.

The agency doesn't carefully monitor the use and calibration of salt and cinder spreaders to minimize the waste of expensive materials. The DOH should be reviewing the application of materials regularly to insure that operators are using the correct mixture and application rates.

According to DOH personnel, proper calibration of spreaders may actually cut the amount of time spent on snow removal and ice control activities.

Recommendation

The Division of Highways should annually train equipment operators on how to disperse snow removal and ice control chemicals.

The DOH should advise the managers that this is the most expensive function undertaken by the agency and thus stress to employees that the proper application of chemicals is critical.

Each time a major component is replaced on snow removal and ice control equipment, the equipment should be recalibrated. Each district should have mechanics with the training to recalibrate snow and ice control equipment, and all employees should involve those trained mechanics in making sure the fleet is appropriately calibrated.

DOH managers should monitor and assess how snow removal and ice control chemicals are being applied by local organizations. Data should be collected to make sure all countywide crews are using the same mix ratio and application rates.

This recommendation requires no legislative action and can be accomplished via a memo from the Commissioner to managers and users of snow removal and ice control materials.

Fiscal Impact

Our original analysis showed that taxpayer savings of between one percent and five percent are likely if this recommendation is adopted. Officials with two private companies that have supplied equipment to DOH estimate that savings could reach as high as 25 percent. Some of the equipment, they point out, has never been recalibrated since it left the factory.

There's a cost to training DOH operators and mechanics as well as a small number of laptop computers to get access to the computerized spreader information. However, at this time it is appropriate for managers to incorporate this training into their regular training.

Fiscal Year	Savings to the Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$0		0
2007	$3,500,000.00		0
2008	$3,500,000.00		0
2009	$3,500,000.00		0
2010	$3,500,000.00		0

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Discuss Implementation			
Made sure Chief Engineer of Operations agreed.	Fred Thomas	12-1-05	
Review calibration with Director of Equipment Division Fleet	Fred Thomas	12-15-05	
Chief Engineer holds District Manager Meeting, Scheduled for January	John Walker	1-10-06	
District Managers review policy with County Administrators and	10 District Managers	1-15-06	1-25-06

Maintenance Staff			
District Equipment Staff recalibrating spreaders after major repairs, District Maintenance Assistants reviewing information on SRIC application rates.	Maintenance Assistants, District Equipment Supervisors	2-06, 3-06	3-31-06
Include instructions on about SRIC mixes and calibration on SRIC Dry run for winter of 2006-2007.	DOH Management	9-06	10-31-06

T-5

CONSOLIDATE DIVISION OF HIGHWAYS DISTRICT OFFICES

The Division of Highways has operated under 10 different districts for decades and should begin consolidating offices to save taxpayers money and take advantage of modern travel and communications efficiencies.

Background

The Division of Highways (DOH) operates under a system of 10 districts across the state to oversee county operations, with each district organization has jurisdiction over several counties. These districts were set up in a different era, before the construction of the nation's Interstate system or the Appalachian highway.

Consolidation may be easier in some parts of the state than in others. Where the Interstate has shortened travel times or new advances in technology have made communications more efficient, consolidation seems to make sense.

There is currently considerable redundancy in district operations. Most district headquarters have between 150 and 200 employees. All district offices have switchboard operators, secretaries, and other administrative office personnel that perform the similar functions. In addition, district offices perform accounting, equipment, right-of-way, construction, bridge, sign shop, maintenance, and other duties that may be duplicative.

Findings

By combining districts, it will be possible to streamline personnel and achieve taxpayer savings.

Any potential displaced employee within the districts could fill vacancies that may exist at other locations within the agency, including in the central headquarters, the equipment division at Buckhannon, or other district offices close to their residences. They would also be available to fill county vacancies for certain payroll classifications.

Most citizens will continue to be served by their local county DOH office because the duties available for consolidation are largely internal DOH positions that will not affect customer service.

Due to the physical plant and location of the District Four headquarters, it should be transformed into the new district headquarters for the combined district offices.

Recommendation

The Division of Highways should consolidate two districts within the next year to achieve efficiencies in operations. This consolidation can occur by a Commissioner's order within the agency.

Realigning other counties into different districts may be more operationally efficient to the Division of Highways. This consolidation effort should also consider moving some counties into different districts based on the possibility of achieving other efficiencies. Exploring the feasibility of relocating the District Headquarters to allow for further economic development at the Meadowbrook Interchange is a potential item.

Fiscal Impact

The consolidation should free up at least five percent of the combined personnel. During the course of 18 months, DOH can expect to completely close the District Seven office and save additional funds.

Additional savings will come from the elimination of utilities and other expenses associated with closing a large physical plant in Weston.

The consolidation will combine positions such as district comptrollers, district right-of-way Agents, district bridge engineers, district maintenance engineers, district building and grounds supervisor, district engineer, and district equipment supervisor.

Fiscal Year	Savings to Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$0		(17)
2007	$1,000,000		(17)
2008	$1,000,000		(17)
2009	$1,000,000		(17)
2010	$1,250,000		(17)

This change can be affected by a Secretary's or Commissioner's order and will require no legislative action.[40]

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
DOH create and empower Implementation Team.	Secretary Ellis, Commissioner Mattox	1-11-06	
Implementation Team make Recommendations to DOH, provide copy to Governor's Office	Implementation Team	2-15-06	

Commissioner Mattox issue Commissioner's Order and provide District Manager with Authority to Consolidate Districts	Commissioner	4-15-06	
District Manager start personnel actions and streamlining positions within the two districts.	District Manager	4-1-06	6-30-06
Reassess effectiveness of combination and make additional changes based on need to create maximum efficiency and effectiveness.	Commissioner Mattox and District Manager	12-1-06	12-31-06

Footnote

[40] During interviews with the employees of the DOH Budget Division, the Budget Director indicated overall employees of both districts could be cut by 20 percent.

T-6

SAVE TAX DOLLARS BY USING MORE STATE INSPECTORS FOR HIGHWAY PROJECTS

Because inspections by outside consultants cost more than inspections by state employees, the Division of Highways should change its internal policies to achieve better regional balance for inspection workloads by state employees.

Background

Each Division of Highways district is now assigned state employees to perform construction contract inspections. During the past five years, the agency has turned to outside consultant inspectors to help accommodate the districts whose workloads have increased. The current practice is to hire consultant inspectors when state-employed inspectors are not available within a district.

The availability of state-employed DOH inspectors is limited by policies that require them to report directly to the district engineer in each district. In some instances, there may be a need for DOH inspectors in one district while DOH inspectors in another district are underused.

Further complicating the current practice is the fact that most challenges related to the construction inspection process are eventually resolved by the contract administration section within the central office and not at the district level.

Findings

The current system for assigning state employee construction inspectors is inefficient and results in the unnecessary hiring of outside consultant inspectors. A better approach would be to have state construction inspectors assigned regionally. This regionalization would help to eliminate district borders as a restraint for using state inspectors efficiently, thus reducing the cost to taxpayers.

With most construction projects problems resolved by the contract administration section of the DOH, it makes sense to have regionally assigned DOH inspectors report to that section, rather than to district engineers. Having the inspectors assigned to the contract administration section will also aid in standardizing how inspections are handled and help to create one set of rules for handling inspections without district interpretation of policies and procedures.

Recommendation

DOH inspectors should be assigned regionally to reduce the need for more costly outside consultant inspectors.

DOH inspectors should report to the contract administration section of DOH rather than to district engineers, though good communication at the local level will remain essential for effective management of projects.

Fiscal Impact[41]

This recommendation will bring no reduction in fulltime employee positions. In fact, it's possible that some hiring may be necessary to handle the workload while still saving taxpayers money, according to the DOH Deputy Commissioner.

Additionally, the DOH should initiate action with the Parkways Economic Development and Tourism Agency, which administers the turnpike. District 10 is currently at least seven inspectors over quota, and the Turnpike may be using consultant inspectors to perform construction inspections. Thus, DOH could allow the Turnpike inspections to be performed at a lesser cost and reimburse the agency for employees performing these functions.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$500,000.00		
2007	$500,000.00		
2008	$500,000.00		
2009	$500,000.00		
2010	$500,000.00		

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Evaluate listing of current and expected construction projects and current work force.	Paul Turman II, Deputy Commissioner and Darrell Allan, Acting State Highway Engineer Construction	07-01-05	11-1-05
Evaluate use of consultant inspectors by DOH, and do to cost try to use DOH inspectors instead of more costly consultant inspectors.	Paul Turman II and Darrell Allan	07-01-05	11-1-05
Consult with Secretary of Transportation, Commissioner and District Managers about transferring employees, redesign District	Paul Turman II and Darrell Allan	1-01-06	1-01-06

Organization Charts			
Meet with Economic Development and Parkways Authority to have DOH inspectors assigned to Turnpike construction projects.	12-1-05	Potential agreements and discussions are initiated.	3-1-06
Issue Commissioner's Order that moves the reporting of construction inspectors from the District Managers to the Construction Division Director	3-1-06	3-1-06	6-30-06
Standardize the operations of the construction inspectors as towards assignments and methods of inspection	7-1-06	1-01-06	12-31-06

Footnotes

[41] The Division of Highways is planning to meet with a representative from the Governor's Office about using DOH inspectors for the Turnpike's construction projects. The savings from using five to 10 DOH inspectors may be as high as $500,000 per year. The Parkways Economic Development and Tourism Agency will also save money because the DOH inspectors will cost them 50 percent to 75 percent of what the outside consultants currently charge.

T-7

STOP LEASING UNUSED SPACE FOR WINFIELD TRAINING CENTER

The West Virginia Division of Motor Vehicles should terminate its lease for unused space in the Winfield Training Center and renegotiate the agreement to rent only the space necessary for the regional office.

Background

The WV Division of Motor Vehicles leases space that combines its Winfield regional office with a large training center area. This center has been used primarily to conduct EEO training and, less frequently, customer service representative training.

Officials recently decided to renegotiate the lease for this facility, combining the regional office and the training center under one agreement. The agency pays $13.75 per square foot under the terms of the annual lease payment for both the training center and regional office – a total of $167,488.80 per year, one of the agency's most costly regional offices.

The original intent of the training center was to provide training during a period when DMV was opening several regional offices. Now, newly opened regional office personnel are trained at existing regional facilities near the new offices. Personnel at the Weirton regional office, for example, were trained at Moundsville. This is a more effective and cost-efficient way to provide critical training.

More recently, the training center has been used to conduct EEO seminars and other infrequent meetings. Occasionally, the DMV makes the facility available to other state agencies or even private companies at no charge.

From January 2005 through October 2005, a total of 24 DMV-related trainings were scheduled – an average of just 2.4 per month. With the rising cost of gasoline, and with existing training space in the Charleston Capitol Complex, it has become more attractive to hold various DMV trainings in the Charleston offices.

Recommendation

Dissolve the lease for the Winfield training center and regional office Lease and renegotiate a lower rate for only the space necessary for the regional office.

Fiscal Impact

The savings generated in the table are from the amount currently paid for the training center only ($13.75 sq ft. x 3,996 total sq ft.). The DMV has a need to continue to lease the remaining space for the Winfield regional office.

Fiscal Year	Savings to the Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$0	0	0
2007	$54,945	0	0
2008	$54,945	0	0
2009	$54,945	0	0
2010	$54,945	0	0

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

T-8

INCREASE PRIVILEGE TAX AND DMV COMPLICANCE ON MOTOR VEHICLE SALES

The Department of Motor Vehicles should establish a system for regular audits of West Virginia vehicle dealers to make sure all revenues owed to the state are being collected.

Background

There are some 1,700 motor vehicle dealers throughout West Virginia. During the most recent fiscal year, these dealers collected $200 million in revenues from the state's privilege tax, as well as from registration and title fees. As a service to their customers, dealers collect and remit these fees to the state, but can use them for other purposes if not remitted to the state.

The state fails to collect the full measure of privilege tax and other revenues through unintentional errors in bookkeeping and revenue reporting, fraud, and unreconciled records or deposits from dealers who neglect to submit revenue to the state within the statutorily prescribed period.

Reporting of revenues owed to the state by dealers is conducted on the "honor" system. West Virginia has no auditors assigned to regularly review dealers' records for proper remittance of privilege tax and other fees. In 2002 and 2003, only three audits were performed, all on bankrupt dealerships. No audits have been performed since,

Findings

The Department of Motor Vehicles has no detectives or auditors regularly assigned to monitor and investigate dealer sales throughout the state. This staffing levels means that oversight of dealer sales is virtually non-existent.

Based on estimates from other states that have implemented compliance programs, motor vehicle transactions that occur in this unregulated environment may be costing West Virginia taxpayers in lost revenue from unremitted privilege tax and other fees.

Other states have developed initiatives to help combat this problem:

- In Arizona, implementation of a "registration compliance" program targeting individual dealers by adding enforcement employees and computer programming to track sales resulted in an estimated $3.5 million in additional revenues in FY 04. The cost of the program was about $700,000.
- The state of Washington has saved $2 million per year as a result of its "automated valuing system" to track vehicle sales.

Given that West Virginia currently lacks any compliance effort, it is likely that taxpayers could receive an even greater return if state government instituted an auditing schedule.

Recommendation

The Department of Motor Vehicles should establish a system for regular audits of West Virginia vehicle dealers to make sure all revenues owed to the state are being collected.

Strengthening oversight and auditing of motor vehicle sales will reduce fraud and mistakes in revenue collection by dealers.

The state should hire enough auditors to efficiently review dealer records and insure proper remittance of the privilege taxes and other fees they collect. The auditors should develop policies and procedures for dealers to follow in conducting vehicle sales and timely reporting and remittance of revenues to the state.

The auditors should also develop inspection and auditing procedures to be used during visits to both new and used dealers, and audits should be conducted on a regular basis.

In addition, the DMV should develop a plan for addressing unauthorized vehicle sales by non-dealers.

One year after implementation of these recommendations, the success of the increased staffing should be measured to make sure the program is effective and to determine if additional staff is needed to maximize collections.

Fiscal Impact

Fiscal Year	Savings to the General Revenue Fund	Cost of additional FTE's	Change in FTEs
2006	$0	$0	6[1]
2007	$1,300,000	$300,000	6
2008	$1,300,000	$300,000	6
2009	$1,300,000	$300,000	6
2010	$1,300,000	$300,000	6

Implementation Table

Implementation Table for T-36 was combined with T-80 and T-102 for implementation. See T-102 for implementation schedule.

Footnotes

[1] The cost of theses FTEs would be approximately $300,000.

T-9

TRANSFER CAR INSPECTION DUTIES TO DMV

Oversight of the state's automobile inspection stations should be transferred from the State Police to the department of Motor Vehicles to provide more effective focus and save taxpayers money.

Background

Current state law requires that a uniformed officer perform an inspection of each state inspection station every 45 days. The State Police report that they are currently reviewing each station more often, about every month.

The Department of Public Safety reports 21 employees performing this task to meet the 45-day inspection requirement. The State Police took in revenues last fiscal year of $1.6 million and spent $1.8 million from the fund for state inspections, according to a report from the Department of Motor Vehicles.

Legislation has been introduced in the past to transfer this inspection function to the DMV, but the proposed bill also kept the 45-day inspection requirement. As a result, DMV requested an additional 20 employees to take on this responsibility.

Findings

There is no clear rationale for maintaining the 45-day inspection requirement. State inspection station reviews could more appropriately be correlated to the number of inspection stickers issued by the inspection station.

While some inspection stations receive citations for non-compliance, the Department of Public Safety reports that many violations are judged to be minor and don't result in the inspection station being officially discredited. There are no clear criteria for measuring the seriousness of violations. Without such criteria, nothing triggers appropriate penalties, suspension of activities, or additional inspections. In most cases, a new inspection is simply made according to the regular 45-day schedule.

By reducing the number of inspections – at the reported rate of every 30 days, inspection stations would be inspected 12 times a year – and focusing on problem stations, the number of staff needed to perform this function could be cut. Moving the responsibility from the state police to DMV would also free up police resources for other public safety activities.

Recommendation

Oversight of the state's automobile inspection stations should be transferred from the State Police to the department of Motor Vehicles to provide more effective focus and

save taxpayers money.

This transfer should be completed within six months. The law requiring inspection stations to be inspected every 45 days should be changed to require inspections once every six months or once a year, depending on the volume of business at the inspection station.

The office of transportation auditing should be used to make sure a risk-based assessment is conducted to help determine how often inspection stations should be inspected. Inspections should be more frequent when problems are uncovered at specific stations.

Records of inspections should be kept electronically. The State Police currently is able to access past inspections only by sorting through paper records.

The state should also limit the number of inspection stations in heavily populated areas to reduce required inspection visits and other related costs.

Fiscal Impact

This results from moving all 21 current positions (15 civilian positions, 6 state troopers) to DMV and reducing the overall number of FTEs by 10 positions.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$750,000		(10)
2007	$750,000		(10)
2008	$750,000		(10)
2009	$750,000		(10)
2010	$750,000		(10)

Implementation Table

This issue, along with T-36, where combined with T-102. See T-102 for implementation.

Footnotes

T-10

DOWNSIZE THE DEPARTMENT OF MOTOR VEHICLE'S DEALER SERVICES SECTION

The Dealer Services section of West Virginia's Department of Motor Vehicles is overstaffed and should be reduced to reflect its current workload and save taxpayers more than $1 million over the next four years.

Background

West Virginia has approximately 1,770 vehicle and other transportation-related dealerships throughout the state. These dealerships are subject to rules outlined in State Code 17A-6-1 through 17A-6D-12, which includes various requirements for dealers operating in West Virginia. To ensure dealership compliance with this section of the Code, the state created a Dealer Services section in the Department of Motor Vehicles to enforce accountability.

The responsibilities of the Dealer Services section include:

- Issuing motor vehicle dealer licenses and license service operation permits
- inspecting all state licensed dealerships (including dealerships that sell new and used vehicles)
- inspecting reconstructed vehicles
- overseeing temporary registration plate issuance by dealers and license services
- ensuring compliance with the Code for new applicants who wish to open dealerships in West Virginia
- conducting various types of inspections such as salvage, pre-application, and unlicensed dealer inspections
- investigating complaints from the public regarding unlicensed dealerships and other matters of non-compliance with existing dealerships

The Dealer Inspectors section has a total of 13 regular full-time inspectors and two direct supervisors who cover the entire the state. There are an additional two management layers above the supervisors, one of which is also responsible for a small group of employees in Leasing Services. In FY 2005, the total number of regular inspections completed by this section was 1,711 during 246 work days (excluding weekends and holidays) – an average of 6.95 regular inspections completed per work day, less than one per inspector.

According to the most recent data available, regular inspections make up just over 71 percent of the total activities for the inspectors (excluding Salvage Inspections). The average total activities per inspector per day was 1.77 during a four-month review between July 2005 and October, 2005. This review accounted for actual days *worked* (subtracting average annual and sick leave used), including *all* work activities. Interviews with staff in this unit indicate that most of inspections and other activities average between 30 minutes to an hour. New dealerships can take longer, as can investigations. However, these work activities occur with a low frequency compared to regular inspections.

The data shows that much of the compensated time spent by these inspectors is non-productive. Productive work hours are those spent conducting any work activities assigned to the inspector. Non-productive work hours are defined as time spent in travel, including going to the worksite from home, time traveling between worksites, and travel time home. Reviewing the same four-month period in 2005, the average daily productive time was 8.32 hours and the average non-productive (travel) time was 3.52 hours. The average daily hours per each inspector totaled 11.84 hours – meaning that the inspectors were spending a nearly 12-hour day accomplishing an average of 1.77 work activities.

On average, then, the Inspectors stated productivity doesn't match the hours they report as worked. In addition, these additional hours also result in comp time that is accrued by this section. For the months of July 2005 through October 2005, total comp time for one of section's supervisors came to 163.75 hours, or a monthly average of 40.94 hours.

An obvious inefficiency of the current system is that many inspectors don't live in the areas they serve. According to the Dealer Services manager, only one of the 13 inspectors has all of his dealerships within a 75-mile radius of his home. The remaining 12 inspectors are required to travel more than 75 miles one way to reach many or all of their nearest inspection sites. These inspectors spend a great deal of time commuting and not as much time on the job, creating a loss in productivity and a significant amount of non-productive time. These commutes are also costly to the state in terms of replacement value of state cars, energy and maintenance, fuel, and other transportation costs.

In addition to inefficient use of inspectors, the number of management employees for this section is also a concern. For a staff of 13, there are four management layers between the inspectors and the DMV Commissioner. This includes two immediate supervisors, two middle management positions, and a director. (The director does have other report functions, including Titles and Registration, IRP and Information Services. One of the middle managers has responsibility for five additional employees assigned through Leasing Services.)

Finally, this review identified several days a month when inspectors schedule full days at various regional offices to "blitz" salvage inspections for reconstructed vehicles. Completing these inspections allows customers to obtain a reconstructed title on their vehicle at the regional office. According to one supervisor, these inspections are routine, clerical in nature and can be completed in 10 minutes or less per inspection. It would be more efficient if trained regional office staff would conduct these routine salvage inspections to increase their overall monthly productivity.

Findings

We identified benchmarks using three states: Virginia, Wisconsin, and Pennsylvania. Statistics were collected on the total number of annual investigations, total inspector and management positions, number of statewide dealerships, agency size, work responsibilities, and other related data.

Virginia has a total of 1,845 full-time permanent employees at its state DMV. The state had a total of 3,914 new and used car dealerships as of October 3, 2005. In 1995, the Virginia General Assembly adopted legislation sponsored to shift the regulation and oversight of the new and used motor vehicle dealer industry from the DMV. A 19-member Motor Vehicle Dealer Board was created, its members all appointed by the Governor, with the DMV Commissioner as chairman. With the exception of the DMV Commissioner and the Virginia Department of Agriculture and Consumer Services Commissioner, all remaining 17 board members are from private industry and receive no state salary.

Reporting to the Virginia board are field operations and headquarter operations. The field operations consist of one supervisor and twelve field representatives located throughout the state. The headquarters operations is responsible for initial renewal applications of their licensees (dealers and salespersons). The office also issues dealer license plates and renewal decals as directed by the DMV.

In West Virginia, many of the responsibilities outlined above are handled by the DMV's regional offices.

Wisconsin has a total of 850 full-time permanent employees at its state DMV. The inspectors are under the Bureau of Vehicle Services, which reports to DMV officials. With some 4,000 dealerships throughout the state, the agency has only 10 dealer inspectors, one salvage and odometer inspector, and a single supervisor. Regular inspections are conducted for each dealership every two to three years, unless it has been determined to be a problem dealership.

Reducing the number of West Virginia dealer inspectors to eight full-time positions would set an average of one inspector for every 225 dealerships. With approximately 246 work days in a year (not counting weekends and 15 state or federal holidays), each inspector could average less than one dealership to inspect per work day. This should allow ample time for travel, facilitate complaints and handle the low frequency of investigations, and other assigned activities. If regular inspections were only required every two years, as in Virginia, the staffing could be further reduced.

Recommendations

a.) Reduce the number of dealer inspectors, in alignment with other states, to reduce costs.

b.) Reduce the number of management positions and layers, in accordance with the front-line reductions, in order to streamline the chain-of-command, increase Inspector accountability and reduce costs.

c.) Realign the inspectors' home base and coverage area to increase productive time and reduce travel and gasoline costs.

d.) **Establish a required higher standard level of work activities per day, for all inspectors, and increase accountability of these inspectors for meeting the new standard.**

e.) **Establish a schedule for regular inspections based upon need.**
f.) **Shift the salvage inspections to the regional office employees to free up inspectors to focus on regular inspections, investigations and other important work activities.**

g.) **Provide a centralized database to schedule, track and monitor the dealer inspection process**

Fiscal Impact

The savings generated come from reducing the number of inspectors by five positions and decreasing the number of supervisors by two positions. Calculations were made for an average cost of salary plus benefits for these positions. In addition, average operating expenses were totaled for the inspectors to include the costs of vehicle leases, gasoline and maintenance, cell phones, computer software licenses. The operating costs were based on the amounts in T32.

These figures are conservative. No operating expenses were calculated for the supervisors, and gasoline charges are likely to be higher for the inspectors than the amounts used in T32.

A second savings estimate, not reflected in the analysis, can be derived by eliminating one of the middle management positions. This would produce an additional annual savings of about $47,000 in salary and benefits, excluding operating expenses.

Fiscal Year	Savings to the Special Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	0	0	0
2007	$312,000	0	(7)
2008	$312,000	0	(7)
2009	$312,000	0	(7)
2010	$312,000	0	(7)

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

Footnotes

T-11

CURB USE STATE CARS TO COMMUTE

The Division of Highways should discontinue the practice of allowing state employees and contract inspectors to use taxpayer-funded vehicles for commuting to and from their homes or driving to job sites on state-compensated time.

Background

The Division of Highways (DOH) has a large fleet of state vehicles – 1,398 in fiscal year 2005. Of these, most are used by the agency's 550 construction inspectors, many of whom drive personal vehicles to the nearest DOH location and then switch to a state car to start their work days. These inspectors are on the clock as soon as they access their state car regardless of how far they are from a work site. Any hours worked in excess of their regular work week are counted as overtime, regardless of how much is travel time.

Another 280 vehicles are used by employees to commute to and from work each day, a number that increases during winter months. For these commutes, employees' compensated time can begin after they have climbed behind the wheel, though in fairness many choose not to charge taxpayers for this time. Still, time in excess of their regular work week is counted as overtime, regardless of how much is travel time.

Findings

The reason for the policies that allow for the use of state vehicles for commuting – including a 25-mile rule for compensated time and compensated time for cars picked up at state facilities – seems to date from a 1991 federal consent agreement between the U.S. Department of Labor and DOH. This agreement was designed to settle travel and compensation issues regarding to the Fair Labor Standards Act. The agreement hasn't been revisited during the intervening 15 years and, in fact, may have been expanded to include another large group of employees, some of whom live more than 25 miles from their workplace.

Some of these employees are classified as professional employees, and the recent update to the federal fair labor wage laws may have allowed for commuting to become non-compensable.

While it is reasonable that employees such as construction inspectors should have access to state vehicles and be compensated for reasonable time traveling to a job site, the current system of allowing compensated travel without accountability for distances traveled from home invites inefficiency and abuse.

Expanding these travel policies to people who choose to live many miles from their workplace while also providing them state transportation is not only outside the intent of the consent agreement, but it also cost taxpayers in lost work time spent commuting, the replacement cost of automobiles, and the expense of fuel and maintenance.

Moreover, in the case of commuters, the reported income that results from this significant benefit (which may be as great as $3,000 to $4,000 per year) may not be properly identified and reported for tax purposes, exposing the employees and the state to potential liability.

A DOH management letter for FY2005 cited the vehicles used by construction personnel as a finding.

By using Mapquest and the listing of personnel commuting in state vehicles, we have determined the total taxpayer cost for these practices comes to approximately $1.5 million per year.

Recommendations

a.) The Division of Highways should end the use of state vehicles for driving to and from home.

b.) Employees who respond to road emergencies and hazardous conditions on the roads and highways should continue to be allowed to commute in state vehicles.

c.) The policies contained in the consent agreement of 1991 shouldn't be extended to DOH employees not covered by the original agreement.

d.) Changes in federal fair labor standards should be considered for incorporation into DOH policies and procedures. Policies should be developed to minimize travel and the use of state cars. Inspectors shouldn't be allowed unlimited use of state cars and compensated time regardless of where they choose to live.

e.) Assignment of construction inspectors should be based on closest proximity to worksites to minimize travel.

f.) DOH should insure that its policies and benefits comport with federal tax law.

Fiscal Impact

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$200,000		
2007	$200,000		
2008	$200,000		
2009	$200,000		
2010	$200,000		

Implementation Table

Task	Responsible	Start Date	Anticipated

	Party	[month/year]	Completion
Review all Vehicles within DOH fleet used for commuting.	Fred Thomas	1-1-06	1-31-06
Review all other transportation within the DOH Fleet utilized by employees to see where they are domiciled and if that location fits employee's job assignment.	Fred Thomas	1-1-06	2-28-06
Review with Legal Counsel the IRS reporting requirements on vehicles that are used for commuting.	Krista Duncan	1-1-06	2-15-06
Await decision about personnel classifications and overtime, item currently being studied by Legislative Auditor's Office	Danny Ellis	4-1-06	4-30-06
Review Existing Vehicle Policies and Initiate Policy on Vehicles being used for Commuting. Implement New Policies and Procedures affecting all DOH Transportation equipment.	Paul Mattox	5-1-06	7-1-06

Footnotes

T-12

ERASE COUNTY LINES TO ALLOW FOR MORE EFFICIENT MAINTENANCE BUDGETING

The Division of Highways should take steps to guarantee that county lines aren't used as artificial barriers that prevent efficient, cost-effective maintenance operations across geographic areas.

Background

For many years, the Division of Highways (DOH) has followed county boundaries to set maintenance activities. The agency budgets $250 million for maintenance along county district lines.

Interviews with agency personnel show that certain activities may be more efficiently accomplished by not directly following county line designations.

Routine maintenance such as ditching, mowing, snow removal, and debris pickup can be performed more efficiently and at less taxpayer expense if county lines are disregarded when appropriate. Agency officials, engineers, and maintenance assistants report that **SRIC [SPELL OUT ON FIRST REFERENCE]** activities would also be less costly if they could be completed without regard for county boundaries.

In addition, doing away with county lines for DOH maintenance purposes could help with other functional areas, including bridge departments and sign shops.

The DOH is currently structured to use counties as a basis for budgeting and measuring the performance of maintenance operations. These elements of budgeting and oversight will have to be reconfigured to implement this recommendation.

Findings

The DOH spends $250 million per year on maintenance activities. The DOH has maintained a system over time of county maintenance operations that's now antiquated and inefficient. Many functions, including mowing, SRIC, ditching, bridge and road repair, and signs could run more efficiently without regard to county lines.

Recommendation

The DOH should disregard county lines wherever appropriate to make sure that the lines aren't used as a barrier to efficient maintenance activities.

Fiscal Impact

Savings estimates are difficult to do in this area, but professionals in the field think that the DOH could save in a wide range between $250,000 and $1.25 million a year as a direct result of cuts in overtime pay and the tram time needed for equipment for some operations.

The savings will be achieved by cutting overtime and tram time for equipment during snow and ice season. There will also be savings from maintenance operations such as ditching or mowing where the location makes sense for the operation to be done from a different jurisdiction.

The implementation costs will be small. This recommendation simply requires getting the supervisors and managers to take common-sense steps to improve the efficiencies of their agencies. In some cases, counties have already agreed to split costs or cooperate with other counties. For example, Pocahontas County will assist Greenbrier County on mountainous portions of US 219. This approach should be encouraged in more areas.

Fiscal Year	**Savings to the Special Revenue Fund**	**Savings to Federal (Other) Funds**	**Change in FTEs**
2006	$750,000		
2007	$750,000		
2008	$750,000		
2009	$750,000		
2010	$750,000		

Implementation Table

Task	**Responsible Party**	**Start Date [month/year]**	**Anticipated Completion**
Discussed Implementation with Chief Engineer Operations	Fred Thomas	12-15-05	
Review with District Managers and set Ground Rules	Chief Engineer Operations	1-10-06	
Get listings of roads that either Districts or Counties want to have moved	District Managers	1-15-06	1-31-06
Prepare budgetary document that moves mileage by routes between organizations and formalize a Policy Statement on this issue.	Chief Engineer Operations	1-31-06	5-31-06
Implement new budgets that include road mileages not in current county's budget.	Chief Engineer Operations	7-1-06	7-1-06

Footnotes

T-13

SET UNIFORM STANDARDS FOR PIPE USE TO SAVE TAX DOLLARS VIA BULK PURCHASES

The Division of Highways should set uniform pipe standards to reduce the number of pipe types used and cut taxpayer costs through bulk purchases.

Background

A review shows that the Division of Highways (DOH) uses a wide variety of pipes in its projects, leading to different standards and different purchasing contracts. There are currently 14 types of steel and aluminum pipe, two types of concrete pipe, and three types of polyethylene pipe in the DOH inventory.

During the past year, DOH maintenance work crews replaced more than 33,687 pipes, the equivalent of about five miles of pipe. The agency's current inventory is approximately 162,000 feet of pipe – more than 30 miles of pipe.

While some differentiation may be necessary due to soil conditions or existing pipe systems, the price per foot of pipe varies widely – as much $20. Choosing the correct type of pipe and buying it at the best price available can help keep project costs in line, especially when thousands of feet of pipe will be used.

Findings

In the past, DOH hasn't always scrutinized the type of pipe used with an eye toward saving taxpayers money. By limiting the kinds of pipe the agency purchases and using bulk purchasing practices, significant savings can be achieved.

Recommendation

The DOH should revamp its purchasing policies and set uniform standards for types of pipe used in projects to save tax dollars through bulk purchases.

As part of this recommendation, DOH should review its pipe inventory and make reductions where appropriate in the amount of pipe being stored at various DOH locations. This may require moving existing pipe inventories to different locations so that the pipe will be used more promptly.

Fiscal Impact

In addition to cost savings on pipe, other savings will come with reduced inventory costs as the types of pipes and sizes become consolidated.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$250,000		
2007	$250,000		
2008	$300,000		
2009	$300,000		
2010	$500,000		

Implementation Table

Task	**Responsible Party**	**Start Date [month/year]**	**Anticipated Completion**
Require Districts to Examine Inventories and suggest improvements	Fred Thomas	1-1-06	6-30-06
Have Chief Engineer of Operations and Assign someone to be responsible for Inventory Management and creating a DOH policy for what types of Inventory can be ordered	John Walker, Julian Ware	1-1-06	
Review certain Maintenance Activities and decide what products should be used to accomplish certain tasks, and issue policy statements	John Walker, Julian Ware	1-1-06	09-30-06
Contact the DOT Auditing Division to have them recommend additional methods during the physical inventory that may save DOH dollars	Audit Committee	1-15-06	09-30-06
Require DOT Auditing to observe inventory management within their DOH organizational reviews.	Audit Committee	1-15-06	Should always be included in every review
Work with Equipment Division and Districts to get outdated or unusable inventory removed from the locations	Equipment Division Director, and Finance Division Director	1-15-06	12-31-06

T-14

MERGE SPECIAL HIGHWAY FUNDS

Two dozen special funds controlled by the Division of Highways should be merged into one to streamline the agency's accounting load and free up the excess balances in some of the accounts to be used by the state's road fund.

Background

The Division of Highway's Motor Vehicles operation has some two dozen special fund accounts that increase the agency's workload and often have excess balances that go untapped.

Exhibit: List of Special Funds

8202-Hearing Fee Fund
8207-International Registration Program
8208 Special Registration Plates
8209-Commerical Driver's License
8210-Inspection of Reconstructed Vehicles
8212-Motorcycle Safety Fund
8213-Driver's License Reinstatement Fund
8214-Driver's Rehabilitation Fund
8215-Insurance Certifications
8216-Motorboat Licenses
8217-Returned Checks
8219-Motorcycle Licensing Fund
8220-Dealer Recovery Fund.

These funds were once appropriate but could now be consolidated to improve efficiency. In addition, the excess cash can provide the Division of Highways (DOH) additional cash for the road fund. The cash balances of these funds exceed $9 million.

The DOH has 11 different funds, eight of which are directly related to disasters within the state. These funds require the agency to constantly move expenses from the road fund to cover the disaster reimbursement. The cash balances within all these DOH funds also exceed $9 million.

Findings

A case can be made for consolidating funds related to the functions of the Motor Vehicles Division (DMV). It's inefficient and poor accounting practice to have a Hearing Fund, a Special Registration Plates Fund, an Inspection of Reconstructed Vehicles Fund, a Driver's License Reinstatement Fund, a Returned Check Fund, and separate funds for Motorboats and Motorcycles, all with large balances carried over from year to year.

Reviewing the cash balances and the budgeted expenditures for 2006, it appears that the DMV has $3.5 million in excess cash in the current year alone. The DOH has similar balances building up in its Coal Resource Fund and Industrial Access Funds.

The DOH is also required by the State Auditor's Office to track new funds created for disasters. This leads to numerous funds with small balances that are left untapped and unused.

Recommendation

> **The DOH and DMV both should be reviewed for opportunities to consolidate fund accounts, and future funding should be done through a regular appropriation. Wherever necessary, code changes should be enacted for this purpose.**
>
> Old disaster funds and other outdated funds should be eliminated.
>
> Excess funds that have accumulated over one year should be swept from the fund accounts, and excess funds that accrue in the course of each year thereafter should transfer to the road fund.

Fiscal Impact

A review of the special funds within DOH and DMV shows that as much as $5 million in excess funds may be available for use by the road fund.

Fiscal Year	Savings to the Road Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$4,000,000		
2007	$1,000,000		
2008	$1,000,000		
2009	$1,000,000		
2010	$1,000,000		

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Meet with legal counsel about opinion on legislation	Fred Thomas	12-15-05	
Legal Counsel Reviewing Legislation	DOH Legal Division	12-15-05	1-20-06
Legal Counsel presents draft of bills	DOH Legal Division	1-20-06	
DOH and others work on legislation is passed that enables fund consolidation	DOH	2-1-06	

IV. Purchasing

P-1

SHARE ONLINE PURCHASING SYSTEM WITH COMMONWEALTH OF VIRGINIA

The State of West Virginia Purchasing Division should make an immediate conversion to an electronic procurement system.

Background

E-procurement, or electronic-procurement, is defined as purchasing online. E-procurement systems are used to obtain goods and services via the Internet or using traditional electronic data interchange, a communications standard for business transactions, for procurement.[1]

The advantages of e-procurement include lower transaction costs, faster ordering, greater vendor choices, more efficient and standardized procurement processes, increased control over procurement, employee compliance, more accessible Internet alternatives for buyers, less paperwork, and fewer repetitive administrative procedures.[2]

Findings

Studies show that the government spends more than five times than private-sector companies for on procurement administration. State governments spend about $75 to $100 to administer a single transaction, a figure considered woefully inefficient by industry standards.[3]

The state's Purchasing Division doesn't track transactional costs for purchases for any dollar amount within state government – neither agency-delegated purchasing ($10,000 and less) nor formal purchases greater than $10,000. Most state agencies lack any system for determining the transaction cost of their procurement activities.

Our review has calculated an estimated of about between $160 and $175 based on data for FY2005 for more than 1,300 transactions.[4]

Proponents of e-procurement systems contend that it brings not only monetary savings to governments but also more accountability, effectiveness, and faster service.[(1)]

Interviews with current and past state agency procurement and administrative staffers make clear that the current procurement process is cumbersome. There are multiple approval levels applying inconsistent practices, procedures, and rules. An e-procurement system could provide a standard template to initiate purchases and consistent procedures to be updated to and followed by all user agencies.

The current procurement system does not allow timely access to information about the purchases and how close the transaction is to completion and the commodity or service delivered.[5] This is referred to as the degree of transparency of each step of the purchasing process.

The Purchasing Division uses a manual entry, ancillary software program solely for the purpose of tracking transactions greater than $10,000. The system cost $27,494 to develop $8,469 to maintain thus far. Other state agencies use various additional manual entry spreadsheets or word processing documents to track purchases at varying development and personnel costs to those agencies.[6]

Agencies have created these modified systems so that they can have timely and accurate access to the information they need for their own operations. An e-procurement system would allow all user agencies to monitor the progress of the purchase in real time, thus eliminating the need for ancillary software to track purchases.

An e-procurement system would also encourage more objectivity and consistency in evaluating bids and quotes by clearly defining the evaluation methods used.

The current system does not provide access to information regarding how much of a particular commodity or service is being purchased statewide, across multiple agencies. In the absence of meaningful information related to what the state is buying, the Purchasing Division doesn't know what to pursue as statewide contracts in order to leverage lower pricing. An e-procurement system can help track purchases and provide aggregate purchase information by services and commodities that can be used to maximize state government's purchasing power.

Recommendation

West Virginia's Purchasing Division should make an immediate conversion to an electronic procurement system by accepting an invitation from the Commonwealth of Virginia to share its established e-procurement system.

A memorandum of understanding with Virginia will be needed to participate in a regional cooperative system. Authorization has been granted by the Legislature to the Department of Administration and to participating state agencies to use the procedural model of eVA for purchases.

Following the execution of the memorandum of understanding, West Virginia statewide contract information can be loaded into eVA. State agencies are authorized to access the catalogues of services and commodities currently in and available through eVA. A team should be named to implement operational self-sufficiency for West Virginia state government in eVA. This team should also implement the procedural model flexibility in eVA to develop interfaces to financial and payment systems in West Virginia state government, roll out the full capabilities of eVa to all state agencies, and open participation in eVA to all qualified political subdivisions in West Virginia.

Sharing an established e-procurement system will meet the immediate goals of speeding the decision-to-delivery timeline for purchases, effectively tracking purchases in a real-time environment, and place purchasing decisions by West Virginia state government agencies within a standard set of business rules.

Fiscal Impact

Because West Virginia's cost-of-transaction measurements have not been a part of the business model or state government's budget process, the estimated savings of an e-procurement system must be extrapolated through other means.

The transition from a paper-based process to a digital environment for procurement has quantifiable benefits. For example, in moving from a paper-based to a digital system of purchasing, Marshall University reduced the number of paper purchase orders from about 17,000 to 2,800. The conversion eliminated the need for storage space for approximately three pallets (120 boxes) of stored documents per fiscal year. The school was also able to eliminate one buyer position, one secretary position, and one assistant director position.[7]

Taxpayer savings also come from state agencies reallocating other tasks or eliminating procurement-related personnel, reducing paper use and paper duplication, cutting down on storage, faster decision-to-delivery of goods and services, and an improved ability to aggregate purchasing information to further leverage pricing on prospective purchases.

Savings are estimated to exceed $100,000 annually.

Year	Savings (State GR)	Savings (Other)	Costs	Net Savings (State)	FTEs
2006	$0	$0	$0	$0	0
2007	$500,000	$0	$0	$500,000	0
2008	$100,000	$0	$0	$100,000	TBD
2009	>$100,000	$0	$0	>$100,000	TBD
2010	>$100,000	$0	$0	>$100,000	TBD

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion
Verify authority to partner w/ Commonwealth of Virginia to establish participation in a regional e-procurement system	Jim Kirby	JAN 2006	JAN 2006
Determine & verify transaction fees for participating in eVA Regional e-procurement system	Jim Kirby Bob Sievert (VA)	Jan 2006	JAN 2006
Negotiate MOU w/ Commonwealth	Jim Kirby	JAN 2006	FEB 2006

of Virginia			
Develop MOU for use between Department of Administration and WV user agencies for participation in eVA Regional e-procurement system	Jim Kirby	FEB 2006	FEB 2006
Convene eVA Regional e-procurement system "Core Team"	Robert Ferguson Scott Padon	JAN 2006	JAN 2006
"Core Team" review of eVA Regional e-procurement processes	Core Team Jim Kirby	MAR 2006	APR 2006
Revisions, as needed, to system-determined processes	Core Team Jim Kirby	APR 2006	APR 2006
Department of Administration's Purchasing Division foes "live" with the eVA Regional e-procurement system	Core Team Purchasing Division	MAY 2006	MAY 2006
Executive Branch agencies' implementation schedule to go "live" with the eVA Regional e-procurement system begins	Core Team	JUN 2006	To Be Determined by implementation schedule progress

Footnotes

[1] PC Magazine (pcmag.com) dictionary.
[2] e-procurement: From Strategy to Implementation 2001 by Dale Neef
[3] PC Magazine (pcmag.com) dictionary.
[4] Purchasing Division agreement with the Division of Highways and the FY2005 Requisition Tracking report indicating the total transactions for the Division of Highways
[5] Interviews conducted with current and former state government staff and administrators
[6] Purchasing Division response to Requisition Tracking inquiry; Division of Environmental Protection Excel spreadsheet purchase order tracking; Department of Health and Human Resources email updates
[7] Public-Works workgroup interviews conducted in October 2005

P-2

USE PURCHASING POWER OF MULTI-STATE AND FEDERAL GENERAL SERVICES CONTRACTS

Lawmakers should change Chapter 5A, Article 3, Section 19 of the West Virginia Code to allow state agencies to participate in multi-state and GSA contracts to take advantage of volume discounts for products and supplies.

Background

Multi-state purchasing contracts have become an effective tool in recent years for states to pool their purchasing power in the marketplace. These contracts have helped states obtain the best possible volume discounts from suppliers for everything from cell phone services to pencils.

The major multi-state cooperative purchasing contracts are the Western States Contracting Alliance and U.S. Communities. In addition to state government purchasing alliances, the federal government offers states an opportunity to increase their purchasing power through the use of General Services Administration's (GSA) negotiated contracts with a wide range of service and supply vendors.

By law and legal interpretation[1], West Virginia's purchasing division is prevented from purchasing goods and services for the agencies of the state through multi-state contracts or the GSA, which is charged with simplifying the procurement process for the federal government.[2]

Western States Contracting Alliance, or WSCA, was formed in 1993 by the state purchasing directors from 15 western states to take advantage of the purchasing power represented by their joint efforts.[3] All governmental entities in non-WSCA states can participate in WSCA.[4]

U. S. Communities Government Purchasing Alliance (GPA) is a nationwide program that combines the purchasing power of more than 8,000 public agencies in all 50 states, designed by public purchasing professionals for use by governmental agencies.[5] Local examples of local government entities that use U.S. Communities' purchasing alliance include the cities of Charleston, Huntington, Fairmont, Clarksburg, and Parkersburg. In addition, a number of West Virginia counties and universities participate in the alliance, including Kanawha, Marion, Putnam, and Monongalia counties and West Virginia University, Marshall, and Fairmont State.[6]

According to the U.S. Communities web site, a wide range of private companies have partnered with U.S. Communities to offer volume discounts to government sources. Office Depot, which serves more than 5,000 public agencies through U. S. Communities, facilitated $250 million in purchases under the agreement in 2003, resulting in millions of dollars in taxpayer savings.

Findings

The State Purchasing Division currently bids out state contracts, typically to the lowest bidder, from which state agencies then are obligated to purchase products and supplies.

An attempt was made by the purchasing division in 2001 to introduce a pilot program allowing state agencies to purchase commodities and services from West Virginia vendors that held federal government contracts or were authorized to sell from federal government contracts. The legal basis of the purchasing division's initiative is found in Chapter 5A, Article 3, Section 19 of the West Virginia Code, which states:

> *Notwithstanding any other provision of this article, the director may, upon the recommendation of a state spending unit, make purchases from the federal government, from federal government contracts or from the university of West Virginia board of trustees or board of directors of the state college system contracts, if available and financially advantageous.*

After the initial attempt to put GSA contracts to use, a letter was sent to the Cabinet Secretary for the Department of Administration by the Commission on Special Investigations in January 2002. The letter stated it was the opinion of the Commission that based on West Virginia Code 5A-3-19 and an Attorney General's Opinion dated August 8, 1966, the purchasing division did not have the statutory authority to proceed with the pilot program of utilizing federal government contracts.

By contrast, Fairfax County, Virginia, with a population of 1,003,157 and a budget of $2.9 billion, reported savings of $1,297,855, or seven percent, using GPA contracts during fiscal years 2001 and 2002. [7] This estimate was confirmed by the National Association of Counties.[8]

The Cellular Wireless Government Solutions Group reported that the state could save an additional six percent in discounts over and above the current nine percent it receives by using the WSCA contract.[9]

Recommendation

> **Lawmakers should change Chapter 5A, Article 3, Section 19 of the West Virginia Code to allow state agencies to participate in multi-state and GSA contracts to take advantage of volume discounts for products and supplies.**

Fiscal impact

West Virginia's expenditures for supplies for FY 2005 totaled $19,639,607.[10]

Assuming that 50 percent of the state's purchasing volume could be conducted through purchasing alliances or GSA, taxpayers could save seven percent, or approximately $2.7 million over four years. The savings could begin only once the law has been changed. Because of this, no savings for FY 2006 are estimated.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$686,000		
2008	$686,000		
2009	$686,000		
2010	$686,000		

Implementation Table

Task	Responsible Party	Start Date [month/year]	Anticipated Completion

Footnotes

[1] WV Code 5A- 3-19, Attorney General's Opinion.
[2] GSA website.
[3] WSCA website.
[4] WSCA website.
[5] U. S. Communities website.
[6] U. S. Communities website.
[7] Fairfax County, VA website.
[8] Fairfax County, VA website.
[9] Delmar Sigman, Cingular Wireless.
[10] Budget Director Roger Smith

P-3

STANDARDIZE PAYMENT CARD USE

West Virginia should standardize the use of its payment card (P-Card) among higher education and state agencies.

Background

The State Auditor's office Implemented a state payment card, known as the P-Card, in the mid 1990's to help reduce the number of paper invoices being processed through his office. The purchase card program allows an agency to make small dollar purchases of goods and commodities. Like a credit card, all purchases made with the P-Card are reflected on a single invoice, reducing the number of invoices an agency must pay.

Findings

State government's experience with the P-Card was so positive that the Legislature expanded its use. Prior to statewide implementation of the P-Card, the Division of Highways (DOH) processed between 10,000 and 12,000 paper invoices per month. The purchase card program allowed DOH to reduce that number by more than half and reduce the central office's finance division staff by more than 10 full-time positions. DOH currently processes fewer than 5,000 paper invoices each month.

However, this legislation gave different purchase and payment processing privileges to different agencies. For example, only West Virginia University and Marshall University may use the P-Card to pay for travel, fuel, and food. All higher education institutions may pay for up to $5,000 worth of goods and services, but other state agencies have a ceiling of $2,500 placed on their P-Card purchases.

State law further restricts state agencies' P-Card use by limiting "routine" purchases such as food, gasoline, copier rentals, routine maintenance agreements, concrete, and other commodities that may or may not have contractual agreements.

WVU administrators of the P-card program are projecting 33 percent growth in the dollar volume of purchases paid via the p-card. State agencies deserve this opportunity to protect taxpayers by not increasing the staff associated with paper payments.

During the 2006 regular legislative session, legislation was introduced in the Senate (SB 428) that would have eliminated the inequities in P-Card use. Although the bill passed the Senate, it failed in the House of Delegates.

If state agencies were given the same spending limit as institutions of higher education, the total number of paper invoices processed by state government would be cut in half. Within DOH alone the implementation of standardized limits and spending would enable the agency to reduce its administrative overhead staff by cutting six to ten employees. Even with current limits, DOH makes almost $20 million in P-Card purchased per year while WVU, which has been given a higher purchasing ceiling and more leeway for purchasing goods and services with the P-Card, spends about $36 million per year. The DOH spends in excess of $20 million per year between the purchase transaction amount of $2,500 and $5,000.

Opponents of SB428 may have been concerned about potential accountability. However, the State Auditor's office planned to address accountability concerns by requiring that state agencies present their proposed internal controls to the State Auditor for approval before limits could be increased or the types of purchases expanded. The State Auditor notes that the P-Card is a payment method and does not convey purchasing authority. Additionally, the legislation required each state agency to review and report all the purchases made by their agency to the State Auditor on a quarterly basis.

The different P-Card use rules among state agencies also create challenges for vendors. For example, a copier vendor doing business with a higher education institution can receive a $2,800 payment instantly with a P-Card but must submit a paper invoice and wait for payment when selling an identical copier to a state agency. The State Auditor and the Division of Purchasing should develop the preferred method of payment for dealing with certain types of contracts and commodities.

With limits placed on P-Card purchases, the state misses out on rebates provided by Citibank for higher levels of P-Card use. For the state to take full advantage of the additional rebates being offered, the Legislature should enact legislation to allow all state agencies the same privileges some higher education institutions currently enjoy.

Another reason to consider expanding state agency P-Card use is that it would reduce the different types of purchasing cards state agencies currently use. Other than WVU and Marshall, other higher education institutions and state agencies use "travel cards" and "fuel cards" to pay for travel and fuel. Many state agencies pay $.75 per month per card for fuel cards.

During 2006 regular session, state lawmakers enacted a law that allows electronic or e-procurement for the purchase of goods and services by the state. By using the P-Card to pay for goods and services obtained through e-procurement, the state can maximize taxpayer savings associated with e-procurement. Paying with the P-Card allows vendors to receive payment quicker, thereby reducing the vendors' cost of doing business.

Recommendations

a.) **State lawmakers should enact legislation to standardize the use of electronic payment cards across state government and higher education**.

By eliminating more paper invoices, agencies would be able to reduce administrative personnel. Standardizing rules and regulations affecting the P-Card would also enhance the benefits the state receives with its e-procurement implementation. And by standardizing the rules, the e-procurement system could mandate vendor payment by P-Card, streamlining the process.

With the implementation of e-procurement and standardization of the payment card, higher-ed institutions may again become users of the statewide contracts developed by the Division of Purchasing. Contracts developed by purchasing higher-ed officials should become available for use by other state agencies. However, without the standardization of the payment card program these efficiencies will not be obtainable. There should be savings generated by having both state agencies and higher-ed institutions buying at the absolute best price.

b.) The State Auditor should implement strict internal controls.

c.) The State Auditor should either request an annual audit of the payment card program from each agency or require agencies to have the payment card program audited as part of their routine annual audit.

Fiscal Impact

Based on data from FY 2005-2006, the State Auditor's office concluded that 215,000 eligible payments were still processed via paper invoices. We conservatively estimate that a paper invoice costs approximately $101 per transaction to process, compared to nothing for a payment card transaction or $45 for an ACH transaction.

If the personnel costs involved in a transaction were 75 percent, the savings would exceed $8 million per year. This doesn't include estimated savings from vendors who would be assured of prompt payment via the e-procurement method. Nor does this figure project any additional savings from the elimination of the storage of paper invoices or the streamlined ability that the payment card program offers.

The rebate offered by Citibank on the new contract is 1.45 percent. Our conservative estimate of taxpayer savings from standardizing the payment card is more than $1.5 million and a reduction in the state work force of 52 fulltime positions.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$0	$0	(52)
2007	$8,143,125	$1,595,000	(52)
2008	$8,143,125	$1,595,000	(52)
2009	$8,143,125	$1,595,000	(52)
2010	$8,143,125	$1,595,000	(52)

P-4

MAINTAIN UNIFORM PURCHASING AUTHORITY THROUGHOUT STATE GOVERNMENT

West Virginia state government should set uniform rules for its “agency-delegated” purchases and countless general and specific exceptions.

Background

Agency-delegated purchasing authority – the authority for state agencies to make purchases of $10,000 or less – was granted as a means to streamline routine, “low dollar” transactions through an intra-agency procurement process rather than a unique, formal inter-agency process. The current system is administered through the central procurements process of the Department of Administration’s Purchasing Division.

The $10,000 limit was established more a decade ago and has not been reviewed thoroughly since then despite the steadily increasing costs of many routine transactions.[1] As an example: the Commonwealth of Virginia has extended its limit to $30,000 for “agency delegated” purchasing authority.

Findings

State agencies have developed both formal and informal practices to maintain flexibility when purchasing goods and services under the outdated state purchasing authority rules.[2] The current system is costly due to the labor-intensive handling the paper on both the front- and back-end of transactions.

Examples offered by units within higher education indicate that the increased limits available to higher education have produced “dramatic changes” in the paperwork burden at those institutions.

Recommendation

Change the West Virginia State Code that establishes that there shall be a single maximum amount for agency delegated purchasing authority for all agencies of the Executive Branch.

Write the change so the cap is adjusted on an annual basis.

A single, maximum dollar amount serves to “level the playing field” for all state agencies and their respective procurement staffs, as well as vendors participating in selling goods and services to state agencies.

Fiscal Impact

The State Auditor Office suggests, based on a monthly snapshot of payment activity, that 20,000 transactions per month could be moved from paper-based purchase orders to electronic P-Card or ACH payments. This conversion would save $10,000 per month (minus any nominal fees assessed by financial institutions for the ACH transaction).[3]

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$120,000		
2008	$120,000		
2009	$120,000		
2010	$120,000		

Footnotes

[1] Interviews conducted in October and November 2005
[2] Interviews conducted in October and November 2005
[3] Interviews conducted in October and November 2005

P-5

PROVIDE STATE BID INFORMATION ONLINE

West Virginia's purchasing division should make RFP's and RFQ's available for downloading online instead of exclusively in hard copies.

Background

RFP stands for "request for proposals," the method used for complex, high-dollar purchases with an estimated minimum value of $250,000. A typical RFP runs to about 12 pages and contains specific requirements for how a bidder must respond in terms of content, format, and timeframe.[1] Because of the complexity of the process, RFP's typically allow for an average of 45 days for potential bidders to respond.[2]

RFQ stands for "request for quotations," the method used for purchases by state agencies of tangible property, typically costing more than $10,000.[3] The average length of time between advertising an RFQ and the bid due date is 15 to 20 days.[4]

All RFPs and RFQs are advertised weekly to about 6,000 registered vendors online in a purchasing bulletin generated by the state's Purchasing Division.

Findings

When a request is made by a vendor interested in bidding for a state contract, the Purchasing Division physically copies the RFP or RFQ files and sends them to the vendor. The Purchasing Division received 7,301 requests for bids by interested vendors in fiscal year 2005. Each of the requests must be copied in duplicate and sent to the party making the request.[5]

The rational for sending duplicate copies of the bid is that the bidder must submit two copies of the response to the RFP or PFQ to the state – one to the Purchasing Division and one to the State Auditor's Office.[6] There is no statutory requirement that duplicate copies be sent to potential bidders.

We sampled surrounding state and found that West Virginia could follow their lead in providing downloadable RFPs and RFQs online.

Two employees in the Purchasing Division have the responsibility of responding to the bid requests by interested bidders. These employees spend approximately one-third of their work hours performing the tasks related to compiling and sending the requested information.[7]

Among the benefits of offering a paperless system of bids online are the speed of getting the information to the vendors, a greater openness and availability of public information, and taxpayer savings from reducing copying and mailing costs.

West Virginia already operates a system in which awarded contracts can currently be viewed online at the Purchasing Division's web site. Adding RFPs and RFQs to this mix would require minimal time and effort.

Recommendation

> **The Purchasing Division should establish an online system for vendors to download RFPs and RFQs from its existing web site. The practice of sending two hard copies to potential bidders should be discontinued.**

Fiscal Impact

The estimated costs for copying and disseminating bid requests are:

Envelopes:	$.10 each
Cover letter:	$.235 per page
Postage:	$1.50 per envelope
Paper costs:	$.235 per page (average cost of $5.64 per bid document)
Employee costs:	$14,000 per year

The total estimated yearly costs for preparing, copying and sending out bid requests is approximately $63,099.[8] [8] If the Purchasing Division eliminated duplicate copies, this step alone could save taxpayers about $25,000 immediately. This figure includes paper and postage reduction and doesn't include any reduction in staff costs.

There may be an expense associated with creating the online RFP/RFQ system, mainly in staff time. This expense could be limited if West Virginia borrowed technology from another state.

Another likely way to save taxpayers money from this recommendation is that more vendors may bid on state contracts if access to the RFPs and RFQs is improved. Such potential savings cannot be calculated at this time.

Additional savings may accrue to small business owners who could quickly and easily share RFPs and RFQs with potential subcontractors. And an intangible benefit to the state would be the improved image of West Virginia government participating in the electronic marketplace.

Cutting costs for printing, paper, postage, mailing, and other materials would save taxpayers an conservatively estimated $32,000 per year – or $128,000 over four years.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$32,000		

2008	$32,000		
2009	$32,000		
2010	$32,000		

Footnote

[1] Email from Purchasing Division
[2] Phone conversation with Karen Byrd, Purchasing Division
[3] Purchasing Division Handbook
[4] Phone conversation with Karen Byrd, Purchasing Division
[5] Email from Purchasing Division
[6] Email from Purchasing Division
[7] Email from Purchasing Division
[8] Email from Purchasing Division

P-6

INCLUDE WV 96 FORMS WITH ALL BID PACKAGES

West Virginia should attach a WV 96 form to every bid package so vendors will be aware of all requirements.

Background

West Virginia's Purchasing Division currently requires a legal addendum agreement called a WV 96 to be filed with winning bids. Vendors use WV 96 to amend the standard terms and conditions of the state's contract. By using a standard form for any requested amendments, the Purchasing Division eliminates the need to review and negotiate terms and conditions with vendors when those vendors request additional terms and conditions that are different from the ones that were included with the initial contract. Negotiations can be time consuming, and the WV 96 helps reduce delays in reviewing contracts.[1]

Findings

The WV 96 form is currently not included in the bid package provided to vendors, who often learn about the WV 96 after the bid is awarded.[2]

The Attorney General's Office reports that there are approximately 10 issues each month that arise around the WV 96. Most have to do with simple modifications of the vendor terms and conditions, which typically don't require issuance a WV 96. Sometimes, more substantive modifications are needed.

Any such issue can result in delaying the awarding of the contract. The length of the delay depends on the degree to which the terms being proposed by the vendor in the WV 96 differ from the standard terms and conditions. Since the WV 96 amends the vendor's terms and conditions, it must be signed on or after the date the contract is signed.

In all but the simplest cases, the delay caused by negotiations or correcting the signatures could be avoided. According to the Attorney General's Office, most of the delays result when a problem occurs and the communication between the Attorney General's Office and the vendor breaks down or lingers without resolution.

Recommendations

The Purchasing Division should include the WV 96 agreement addendum with every RFP and require that the WV 96 be signed by the vendor if they propose any changes to the terms and conditions of the original document.

By having vendors state up-front in their proposals any disagreements or additions they may have with the terms and conditions of the proposed contract, the state would able to make a more informed decision. The negotiations could begin prior to the final award being made so that if the vendor and the state cannot agree on the requested contract changes, the state can turn to other bidders rather than rebid the entire contract.

This change would also create a more vendor-friendly system because vendors would know earlier in the process whether or not their requested changes will be accepted.

Fiscal Impact

This proposal will divert state staff from having to deal with these issues on a regular basis. Unless there is a reduction in FTEs regarding this issue, no savings will be realized.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	$0	$0	
2007	$0	$0	
2008	$0	$0	
2009	$0	$0	
2010	$0	$0	

Footnotes

[1] Email from Dawn Warfield, Attorney General's Office.
[2] Email from Dawn Warfield, Attorney General's Office.

P-7

SAVE MONEY WITH MULTI-YEAR CONTRACTS

West Virginia can save taxpayers money by allowing multi-state contracts with proven vendors for commodities and services.

Background

In *McGraw v Caperton*, the West Virginia Supreme Court of Appeals found that "one-year contracts for hardware and software needed for computer education programs with multiple renewals and non-binding cancellation clauses" do not violate Constitutional provisions limiting creation of state debt. The state was not required to rebid contracts at the end of each one-year installment, the Court ruled, adding that Constitutional provisions "must be interpreted in light of today's world and current innovations in technology."[1]

This ruling set the table for enabling state government to save tax dollars through multi-year contracts.[2] The federal government uses multi-year contracts to induce long-term savings from government contracts. (Federal Acquisition Regulation §17.103 defines the term multi-year contract as follows: "Multi-year contract" means a contract for the purchase of supplies or services for more than one, but not more than five, program years.[3]

Findings

The costs may be higher for single-year contracts than for multi-year contracts because of start-up expenses incurred by the successful vendor. Since every year is a "new year," vendors often seek assurance of maximum profitability in the single year. As in most business models, vendors may willingly trade short-term profits in a single year for guaranteed revenue over several years.

Multi-year contracts allow vendors to recover first-year start-up costs in subsequent years. This aspect of a contract may also attract a greater pool of vendors to the bidding process. Typically, the more vendors participate in the process, the better prices result for good s and services funded by taxpayers.

Multi-year contracts can be attractive to small businesses because they allow elasticity and flexibility for expansion over years, making it possible for many to meet one of the chief challenges facing small business.

Federal government multi-year contracts provide for performance measures under the contract during the second and subsequent years, with continuation of the agreements contingent upon vendors meeting these standards. The use of multi-year contracts within West Virginia state government would allow public agencies to continue their current ability to simply choose to cancel the contract based on the lack of the appropriation of funds or any other reason.

The key distinguishing difference between multi-year contracts and multiple year contracts is that multi-year contracts, as defined in the Federal Acquisition Regulation cited at §17.101, buy more than one year's requirement of a product or service without having to exercise an option for each program year after the first. Unless the Purchasing Division or the individual agency chooses to cancel, no action is necessary until the final year of the contract. This reduces the administrative costs for managing contracts.

Recommendation

> **Statewide contracts should evolve from single-year awards to multi-year awards for vital services.**

Fiscal Impact

Because cost-of-transaction measures have not been a part of the business model, procedural reviews, or the state government budget process, an exact measure of the savings derived from the migration from single- to multi-year contracts is not possible.

Taxpayer savings will come from reduced administrative costs. No longer with state employees have to repeat a bid-and-award process each year, the elimination of successful bidders maximizing profits from a contract in a single year, and the savings from vendor-reduced pricing based on the assurance of a revenue stream over a given period of years.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006	CBE	CBE	
2007	CBE	CBE	
2008	CBE	CBE	
2009	CBE	CBE	
2010	CBE	CBE	

Footnotes

[1] Supreme Court of Appeals of West Virginia, *McGraw v. Caperton*, 191 W.Va. 528, 446 S.E.2d 921, W.Va.,1994, Jul 21, 1994.
[2] State of Wisconsin Bureau of Procurement VendorNet System; State of Massachusetts Comm-PASS (Procurement Access & Solicitation System).
[3] “The Five-Year Limit on Government Contracts: Reality or Myth?” by Vernon J. Edwards March 2003.

P-8

COMBINE THE STATE'S SERVICE CARDS INTO ONE

The state should combine two of the state's charge cards into a single charge card to take advantage of the purchasing power or rebate power of a card issued by a single company.

Background

Like most families and small businesses, state government uses credit or charge cards to pay for goods and services. Credit cards or purchasing cards typically provide an efficient payment method for expenditures, effectively lowering program costs by offering agencies increased control and monitoring of payments while reducing the time and paperwork associated with the use of purchase orders.[1]

West Virginia state government issues three different types of charge cards to state employees. A travel card is administered by the Purchasing Division for employees traveling on state business. The employee is responsible for submitting receipts and expense forms to the agency for reimbursement. The employee is also responsible for paying the bill.[2]

A purchasing card, or p-card, is issued to authorized employees by their state agencies to make purchases on behalf of the agency. The employee is responsible for submitting the receipts to the agency, and the agency is responsible for paying the bill. This card is administered by the Auditor's Office.[3]

A vehicle maintenance card is assigned to each state vehicle and is used for gas only. Vehicle maintenance is arranged through a state contract with Automotive Resources Inc. (ARI). ARI pays the vendor and invoices each individual agency on a monthly basis. The agency is responsible for the payment of the vehicle maintenance card balance, which is administered by the Purchasing Division.[4]

Findings

During the year between September 2004 and September 2005, there were 9,100 MasterCard credit cards issued by travel management, with a total charge amount of $11,356,881.[5]

In FY 2005, there were approximately 1,600 vehicle maintenance cards in use. The total amount charged by state agencies on the vehicle maintenance cards came to $3,551,023.[6]

During FY 2005, 5,522 purchasing cards were used by state government agencies, with 529,093 transactions performed for a total cost of $135,009,993.[7]

The state contracts with different credit card companies under separate agreements for each of its three cards. Higher education is currently directing a pilot program that combines the state's travel and purchasing cards into a single card through an agreement with a single company. The objective is to save money through the greater efficiency, central billing, and less paperwork.[8] The state can also maximize rebates from the credit card company by marshaling the purchasing power of two cards in one and controlling when the checks are issued because rebate percentages are greater with early payment incentives.

The state's fleet card has unique functions that differ from the other two cards, making it difficult to combine. These include an inventory function identifying vehicles as official state vehicles, a toll-free number for citizens to report possible unwarranted uses of state vehicles, and a driver's education program.

Taxpayers could expect a higher rebate percentage from the card company by combining the travel card and purchasing card. This is underscored by the rebate proposal from Citigroup, which was awarded the P-card contract in November 2005. The monthly rebate percentage under this agreement is 1.45 percent, regardless of aggregate spending, with a standard due date of 25 days after the billing cutoff.

Recommendation

> **The legislature should change West Virginia State Code 12-3-10a to allow the State Auditor to combine the purchasing functions of the current travel and purchasing cards into a single card covered under a single contract.**
>
> The West Virginia State Auditor has proposed legislation to convert the travel card and purchasing card into a single card for state employees instead of the current system of using two cards for separate goods and services.

Fiscal Impact

West Virginia could obtain higher rebates as a result of combining state purchasing power onto a single card. If the travel card were under the same contract as the purchasing card, the rebate would be 1.45 percent, more than three times the current rebate percentage. This would represent an increase of $119,000 in revenue per year.

The four-year fiscal impact is estimated to be $476,000 in rebates. There will be minimal savings in FY 2006 until new contracts can be negotiated to combine the two cards.

Fiscal Year	Savings to the General Revenue Fund	Savings to Federal (Other) Funds	Change in FTEs
2006			
2007	$119,000		
2008	$119,000		
2009	$119,000		
2010	$119,000		

Footnotes

[1] Section 1.2 of the purchasing card policies and procedures.
[2] Report from Purchasing Division.
[3] Report from Purchasing Division.
[4] Report from Purchasing Division.
[5] Report from Purchasing Division.
[6] Report from Purchasing Division.
[7] Report from IS&C.
[8] Bill Shondel, Purchasing Director, Marshall University.

P-9

CUT CELL PHONE COSTS

The Governor's Office of Technology should adopt mandatory guidelines for all state agencies on the assignment and use of cell phones.

Background

State-issued cell phones and service have become a standard business tool for state employees, replacing two-way radios as the primary mode of communication for field employees. As radio towers became too expensive to maintain and operate, most state agencies switched to cell phones. Today, cell phones are the main communication tool for field staff and after-hours emergencies. They are used by state employees in their office and those whose jobs require them to move around throughout the state.

West Virginia does not currently have a statewide cellular phone policy or consistent guidelines that all agencies are required to follow with regards to assigning cell phones to employees for state business and the general use of the cell phones. In addition, no mandatory guidelines exist regarding the specifications for cell phone services purchased by state agencies, and cell phone service contracts are not pooled to optimize the state's ability to get the best possible rates through volume purchases.

Since West Virginia lacks a statewide contract for cellular service, each agency is left to contract on its own for cellular services.

Findings

In fiscal year 2004, the state spent approximately $1.98 million on cellular services for its employees. In fiscal year 2005, that total climbed to $3.3 million for cellular service.[1]

Some agencies assign phones to employees who use few or no minutes "just in case" an emergency arises after hours. According to the Department of Environmental Protection's response to the Legislative Audit performed in September 2005, cell phones are assigned to employees who must be accessible 24 hours a day in case of an environmental emergency.

Office-based employees – those who aren't normally out in the field – are often assigned cell phones even though they are available via landline phone in their offices, making the cost for their cell phones superfluous during that time. Only when these employees need to be reachable after regular work hours away from their offices do cell phones become a legitimate expense.

According to a September 2005 special report from the Legislative Auditor's Office, West Virginia currently has an estimated 3,627 state-issued cell phones. An estimated $520,547 in overage charges were assessed for 2004 FY. "Overage charges" are those that users incur when they exceed the terms of the monthly fee. These costs are associated with roaming fees, text messaging, and exceeding the base plan's minutes.

The Legislative Auditor's report also recommended that state government develop criteria for issuing cell phones and providing for their appropriate use. The report also determined that the state spent $360,379 for phones that registered no minutes of use during the month but still incurred a monthly fee. Another $140,147 was spent on phones that used fewer than 10 minutes per month. In other words, state taxpayers are footing the bill for more than $1 million per year on dormant phones and overage charges. [2]

A competitive bid proposal for statewide cell phone service is being drafted by the Governor's Office of Technology (GOT) and will be placed out for bid late 2005. The bid proposal will specify that one of the plans the state wants must offer a cost per minute with no monthly fee.

Recommendations

a.) The State of West Virginia Governor's Office of Technology (GOT) should develop a statewide cellular telephone policy that provides guidelines for assigning and using cellular phones *before* the Purchasing Division awards any statewide contract for cellular service.

Limiting the assignments of cell phones to employees who have a clear, substantial, and ongoing need for them to adequately perform their duties should result in the elimination of unused and under-used cell phones and cell phone service. The statewide guidelines also should include disciplinary measures for employees who abuse or misuse their cell phones. Terms of abuse and misuse, guidelines as well as the disciplinary consequences, should be clearly defined. Any employee assigned a cell phone should be required to sign a simple form indicating their agreement not to use the phone for personal use. Brief phone calls home when out of town or working extended hours should be allowed as long as they last fewer than two minutes.

b.) The Purchasing Division should require that all state agencies use a statewide contract for cellular service.

The terms of any statewide cell phone contract should be required to cost state agencies less on a per-unit basis than existing individual agency contracts. A "no cost" plan should be awarded to provide services to the "on-call" employees who may only need their phones on occasion. The contract should include service plans that can be adjusted according to usage to eliminate the overage charges. Ideally, the contract should also allow the state to retain any unused minutes in a particular month for future use. Employees should be allowed to use their personal cell phones for official state business when necessary and be reimbursed. A process for easy and efficient reimbursement should be established by the GOT and the State Auditor.

All cell phone invoices should be monitored each month to identify under-usage and overage charges. If rollover minutes were available, this would eliminate much of the overage minutes.

Fiscal Impact

West Virginia taxpayers could save more than $1 million each year from more effective assignment of cell phones, regardless of the terms of a statewide contract, according to the Legislative Audit findings. The savings can begin to accrue as soon as new guidelines are implemented and service contracts changed to eliminate under-used phones, resulting in an estimated five-year savings of $4 million.

Purchasing cell phone services through a statewide contract cooperative should result in significant taxpayer savings, especially if the new arrangement is made through a multi-state purchasing network. In the case of the U.S. Communities Government Purchasing Alliance, the average contract savings would be 7 percent**.** Western States Contracting Alliance offers a savings of 15 percent**.**

The table below reflects the savings based on the costs to each fund for fiscal year 2005, according a report from the Information Services and Communications office.[3]

Fiscal Year	**General Revenue Savings ***	**Federal Revenue Savings**	**Special Appropriated Savings**	**Special Non-Appropriated Savings**	**Other Funds Savings**
2006					
2007	$173,158	$100,554	$112,351	$594,653	$19,283
2008	$173,158	$100,554	$112,351	$594,653	$19,283
2009	$173,158	$100,554	$112,351	$594,653	$19,283
2010	$173,158	$100,554	$112,351	$594,653	$19,283

Implementation Table

Task	**Responsible Party**	**Start Date Month/year**	**Anticipated Completion**
Develop statewide cell phone policy	GOT - Kyle Schafer	December 8, 2005	January 15, 2006
Develop specs for cell phone service RFP/RFQ	GOT - Kyle Schafer	December 8, 2005	January 15, 2006
Put RFP/RFQ out for bid & award bid	Purchasing - Dave Tincher	December 23, 2005	April 15, 2006

Footnotes

[1] Denise Russe, Information Services & Communication, Email 11/14/05 & 11/15/05
[2] WV Legislature Website http://www.legis.state.wv.us/Joint/PERD/reports.cfm
[3] Denise Russe, Information Services & Communication, Email, 11/14/05 & 11/15/05

P-10

REPLACE TRADITIONAL PHONES WITH IP TELEPHONY TO SAVE MILLIONS

By replacing traditional telephone systems with IP Telephony, West Virginia can reduce overall telecommunications costs and save taxpayers millions.

Background

The terms "IP telephony" and "voice over IP" (VoIP) are different ways of describing the same technology. Internet Voice, also known as Voice over Internet Protocol (VoIP), is a technology that allows users to make telephone calls via a broadband Internet connection instead of a regular (or analog) phone line.

VoIP converts the voice signal from the telephone into a digital signal that travels over the Internet. IP telephony (Internet Protocol telephony) is a general term for the technologies that use the Internet Protocol's packet-switched connections to exchange voice, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network (PSTN). Using the Internet, phone calls travel as packets of data on shared lines, avoiding the tolls of the PSTN.

Beginning in the 1960s, data was transmitted over telephone networks. By the late 1980s, data routinely traveled over digital voice circuits. By the 1990s, the majority of worldwide communications traffic had switched from voice to data. And as IP networks began to flourish, the cost of using IP became more competitive.

The Internet has become increasingly popular as a means of using telephone service between personal computers or from traditional phones to personal computers. Call quality over the Internet can still be erratic because the Internet provides no guarantee of quality of service. Because West Virginia has control over its own network, quality can be excellent. Both the Department of Environmental Protection and the Department of Transportation have implemented IP Telephony, and each has reported the voice quality equal to traditional phone systems. [1]

Centrex is a service offered by a local telephone service provider that allows the user to have features that are typically associated with a private branch exchange (PBX). These features include three- or four-digit dialing, intercom features, distinctive line ringing for inside and outside lines, and voice mail waiting indicators. The central office switching facilities of the telephone network provides Centrex services. PBX systems represent about 10 percent of the state’s phone systems. [2]

Findings

Excluding Legislative and Judicial employees, West Virginia employs approximately 36,189 people who may use telephone services.[3] There is no definitive inventory of the number of phones systems in existence throughout state government. Not only is there no centralized database that records information on phone systems or the number of employees who use telephones, there are no records on the number of phone lines used by state agencies.

West Virginia spent $24.6 million in fiscal year 2005 on telecommunications, including cell phone services.[4]. – a figure that doesn't include the maintenance of phone systems (wiring, programming, installations) by outside vendors. The maintenance cost information couldn't be extracted from the costs of other maintenance contracts, although it's clear there are savings in the maintenance of this implementation. The National Association of State CIOs has determined the cost savings for equipment and maintenance could be between 35 percent and 40 percent.[5]

Most state agencies use traditional phone systems (analog or digital, Centrex systems, Key systems).[6] When calls are placed to other state agency offices not in the same town as the originating call, long distance charges apply. By using IP telephony, these calls become local calls.

IP telephony also reduces maintenance costs for traditional phone systems. Because information technology staffers can maintain the systems, outside vendors are n longer required to maintain the system. The DEP headquarters office is able to make changes statewide from the central office in a matter of minutes.

Six state agencies have implemented IP Telephony: the Department of Transportation, the Department of Environmental Protection, the Insurance Commission, the Treasurer's Office, the Department of Agriculture, the Department of Health and Human Resources (partially), the State Auditor's Office, and West Virginia University. This covers approximately 9,659 employees.

The Department of Environmental Protection installed IP Telephony when it consolidated six locations into a single office. This move resulted in one-time savings of $250,000 for cabling and installation. [7] The installation of IP Telephony has decreased the agency's telecommunications expenses by 35 percent.[8] Telephone calls to field offices that were previously treated as long distance calls are now treated as local calls.

The State Auditor's Office is using a system of both digital and IP telephones. They also use IP "soft phones." These soft phones work as an extension of their office IP telephony network in that employees can make and receive calls and check their voicemail over the IP infrastructure. This reduces long distance and cell phone charges. They also are saving $70 per call hour for maintenance items such as moving extensions, programming changes, and feature changes that can now be performed in-house.[9]

The Division of Highways at the Capitol Complex converted to an IP Telephony system. It had 476 Centrex lines before the implementation of IP Telephony and now has 50 lines under the new system. The taxpayer savings come to $124,200 each year on the lines alone.[10]

Arizona is implementing IP Telephony over the next four years in state government. The Department of Commerce there has determined that their system paid for itself in the first two years.[11]

Recommendations

a.) **The Governor's Office of Technology should require all state agencies to phase out traditional phone systems and install IP Telephony for their telecommunications needs.**

b.) **The Governor's Office of Technology currently must approve all phone systems prior to the purchase by state agencies. The Governor's Office of Technology, Chief Information Officer (CIO) should establish a timeline for full implementation of the conversion to IP. The CIO, in partnership with the Purchasing Division, should manage this implementation to provide consistency and cost savings.**

Fiscal Impact

Business Communications Review, a magazine for the enterprise network manager and other communications professionals, has a reputation for objectivity and accuracy. In January 2004, the magazine published a cost comparison of systems, which compared the leading companies cost for IP telephony. [12]

Because not all state employees have business phones, a conservative estimate of 75 percent is prudent when calculating the total employees remaining to convert to IP Telephony throughout state government – 19,515. The estimated total cost to implement IP Telephony will be $11,709,000 based upon a cost of $600 per employee for these 19,515 employees.[13]

Based on the savings projected by *Business Communication Review* and the state agency experience of 35 percent, the savings on the telecommunication cost of $21,330,462 will be $7,465,662 per year. The net investment for the first fiscal year will be $4,243,338. Changing to IP Telephony would save taxpayers $29.8 million over the next five years.

Fiscal Year	Savings (State GR)	Saving (Federal)	Savings (Other)	Costs	Net Savings (Other)	Change in FTEs
2006						
2007			$7,465,662	($11,709,000)	($4,243,338)	
2008			$7,465,662		$7,465,662	
2009			$7,465,662		$7,465,662	
2010			$7,465,662		$7,465,662	

Implementation Table

Task	Responsible Party	Start Date Month/year	Anticipated Completion

Develop an RFI (Request for Information) and have vendors submit information to determine the needs for State IP Telephony	GOT - Kyle Schafer	December 8, 2005	RFI on the street by January 15, 2006. Information due back by February 28, 2006
Review information received from RFI & determine needs	GOT - Kyle Schafer	February 28, 2006	March 15, 2006
Develop specifications for a statewide open-end contract for IP equipment. Develop an RFP for infrastructure details (switches/routers, upgrades/replacements, bandwidth)	GOT - Kyle Schafer	March 15, 2006	April 15, 2006
Put contract out for bid & award bid	Purchasing – Dave Tincher	April 15, 2006	90 days - due by July 15, 2006
Develop a schedule for all state facilities to deploy IP Telephony	GOT - Kyle Schafer	January 1, 2006	January 30, 2006
Train technicians to deploy IP - 1 day	GOT - Kyle Schafer in conjunction with DEP	June 1, 2006	June 2, 2006
Delivery of equipment	GOT - Kyle Schafer	July 15, 2006	August 15, 2006
Building 1 deployment, Bd of Social Wk. Examiners, Tax,	GOT - Kyle Schafer	August 15, 2006	December 15, 2006
Building 3 deployment - Banking, Governor's Office, DHHR, DNR	GOT - Kyle Schafer	August 15, 2006	September 15, 2006
Building 4 deployment - Corrections, BEP	GOT - Kyle Schafer	August 15, 2006	September 4, 2006
Building 5 deployment (DOH already deployed) Aeronautics, PERB, Education & Arts, PEIA, Public Port Authority, Public Transit	GOT - Kyle Schafer	August 15, 2006	August 30, 2006
Building 6 deployment - Bureau of Human Resources, DOP, Protective Services, Education, DOA, Development Office, Labor, Military Affairs	GOT - Kyle Schafer	August 15, 2006	October 1, 2006
Building 15 DOA	GOT - Kyle Schafer	August 15, 2006	August 30, 2006
Building 17 DOA	GOT - Kyle Schafer	August 15, 2006	August 30, 2006

Building 22 – Tax	GOT - Kyle Schafer	August 15, 2006	August 30, 2006
Diamond Building - DHHR	GOT - Kyle Schafer	August 15, 2006	October 15, 2006
Other State Offices throughout the state	GOT - Kyle Schafer		Allow 3 weeks for every 250 employees
			Capitol Complex completed by December 15, 2006.

Footnotes

[1] John Dunlap, DEP Network Administrator, 11/14/05, Interview; Fred Thomas, DOT, 11/15/05 interview
[2] Carlos Necuzzi, IS&C Telecommunications Coordinator, 10/25/05, Email
[3] Roger Smith, DOA, Budget Director, 10/19/05, Email
[4] Bryan Hoffman, Dept. of Administration, 10/25/05, Email
[5] NASCIO, May 2005, VoIP and IP Telephony Planning Convergence in State Government
[6] Carlos Necuzzi, Information Technology & Communications Coordinator, 10/25/05, Email
[7] Jerry Forren, DEP IT Manager, 10/19/05, Email
[8] Mark Doyle, DEP AP Manager, 10/31/05, Email
[9] Mike Barker, State Auditor's Office, 10/25/05, Email
[10] Sush Pakvasa, CADD Systems Engineer, DOH, 11/15/05, Phone
[11] Eric Mayer, IT Manager, Arizona Dept. of Commerce, 11/7/05, Email
[12] Business Communication Review, January 2004, "Large IP-PBXs: A Well-match Quartet
[13] Kathy Moore, Program Manager, Governor's Office of Technology, 11/11/05, Email

P-11

ELIMINATE REQUIREMENT FOR DUPLICATE SUBMISSION OF BIDS.

The Legislature should change the law requiring vendors to submit to the State Auditor an exact copy of the bid submitted to the Purchasing Division so that only one copy is submitted, and it is submitted to the Purchasing Division.

Background

Since early 1960, WV Code 5A-3-11 has required all bidders to submit a bid proposal to the Purchasing Division and an extra or duplicate copy to the State Auditor. This law was enacted to prevent fraud during bid openings. During the 1960s, several buyers and others were prosecuted on fraud and collusion charges. To address the obvious lack of checks and balances in the system, the legislature created and passed the purchasing laws (basically as it exists today) placing a constitutional officer outside the executive branch in the role of "observer". Basically, it put the Auditor's office in a position to "blow the whistle" which would bring in the legislative auditors (and later special investigations) into the process when they saw something that appeared to be improper.[1]

Both copies must be retained by each office and be available for public review until the Legislative Auditor's Office approves in writing for them to be destroyed. The current process requires an employee from the Auditor's Office to attend every bid opening and to review the bids in partnership with the purchasing buyer. It also requires both the Purchasing Division and the State Auditor's Office to keep their records open for public review.

Findings

In fiscal year 2005, there were approximately 156 days when bids were opened with an average of 45 minutes per day.[2] This equates to 117 hours each year where a Purchasing Division Buyer and the Auditor's Office are required to attend. Since the bids must remain open for public review, costs for the storage of those duplicate bids as well as the cost of staff to supply those bids to the public for review are both paid from the Auditor's budget.

The Auditor's Office could perform other auditing functions, such as invoice audits or purchasing card audits, instead of attending bid openings. The attendance of bid openings by multiple agencies is redundant and no longer necessary. The Auditor's Office could better utilize their time in auditing.

Attendance of bid openings and receiving a copy of every bid is not necessary for the State Auditor's Office. According to the State Auditor, this practice has outlived its usefulness and is no longer necessary because a bid observer could be provided by the responsible agency since they normally are present at bid openings. The cost to the Auditor's Office to attend every bid opening and the cost to maintain a copy of every bid could be eliminated.[3]

The Commonwealth of Virginia does not require bids to be submitted to the Auditor's Office. [4]The State of Ohio does not require a bid be submitted to the Auditor's Office, however, they do require the Auditor's Office attendance at bid openings to certify the opening of the bids.[5]

Recommendation

The Legislature should amend State Code 5A-3-11 to eliminate the requirement that bidders submit a copy of every bid to the State Auditor's Office.

The Purchasing Division should publish, adopt and make operational, procedures to implement the recommended code change. The revised procedures should clearly state how the changes would prevent fraud or wrongdoing during bid openings with the Auditor's Office attendance at bid openings.

Fiscal Impact

According to the State Auditor, one FTE can be eliminated for a cost of $46,907 and storage costs could be reduced by $10,000 for a total savings of $56,907 per year.[6] Savings can begin to accrue once the law is changed and new procedures are operational. Estimated savings over five years totals $228,000.

Year	Savings (State GR)	Saving (Federal)	Savings (Other)	Costs	Net Savings (State)	Net Savings (Federal)	FTEs
2006							
2007	$57,000				$57,000		
2008	$57,000				$57,000		
2009	$57,000				$57,000		
2010	$57,000				$57,000		

Implementation Table

Task	Responsible Party	Start Date Month/year	Anticipated Completion
Draft Legislation. Amend State Code 5A-3-11	Administration	December 9, 2005	May 1, 2006
Write procedures to allow the public to view records at Purchasing electronically (scan). Vendor could view from Internet or at Purchasing.	Purchasing – Dave Tincher	December 9, 2005	December 30, 2005
Write procedures to follow at bid openings, who is present, when the documents will be available, etc. Eliminate	Purchasing – Dave Tincher	December 9, 2005	February 15, 2005

Auditor's Office attendance at bid opening. Buyer and another purchasing employee (buyer clerk or administrative) or an agency rep should be present as a bid observer to prevent fraud and abuse.			

Footnotes

[1] Curt Curtiss, Administrative Manager (former Asst Director Purchasing Division), Worker's Comp – 11/10/05 email.
[2] Ron Price, Buyer Supervisor, Purchasing Division [10/26/05 by telephone.
[3] Glen Gainer, State Auditor, State Auditor's Office, 10/26/05, Interview.
[4] Linwood Spindle, Virginia Procurement Director, 12/2/05, Email.
[5] Gretchen Adkins, Ohio Procurement Director, 12/2/05, Email.
[6] Glen Gainer, State Auditor, State Auditor's Office, 11/4/05, Email.