

DEPARTMENT OF HEALTH PROFESSIONS

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Department of Health Professions for the year ended June 30, 2005, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Department's internal licensing system;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws or regulations or other matters that are required to be reported; and
- adequate corrective action for prior audit findings.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY OVERVIEW	1-3
FINANCIAL INFORMATION	4-5
INDEPENDENT AUDITOR'S REPORT	6-7
AGENCY OFFICIALS	8

AGENCY OVERVIEW

The Department of Health Professions (Department), the Board of Health Professions (Board), and Virginia's 13 health regulatory boards have responsibility for ensuring the safe and competent delivery of healthcare services through the regulation of the health professions. The Board recommends policy, reviews the Department's budget matters and monitors its activities, adopts standards to evaluate the competency of the professions and occupations, and certifies compliance with those standards. The Board has one member from each of the 13 health regulatory boards and five citizen members. The Governor appoints all members, who may serve two, four-year terms.

The Department provides administrative services, coordination, and staff support to the following health regulatory boards.

Audiology and Speech Pathology	Optometry
Counseling	Pharmacy
Dentistry	Physical Therapy
Funeral Directors and Embalmers	Psychology
Long-term Care Administrators	Social Work
Medicine	Veterinary Medicine
Nursing	

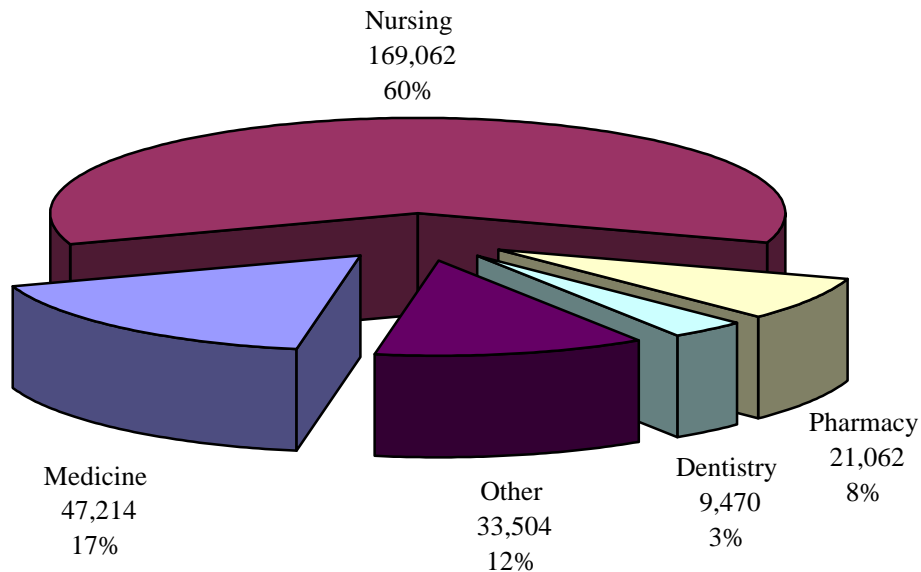
Each of the health regulatory boards determines which applicants meet the necessary requirements for licensure, certification, and registration. Licensure or certification typically requires the completion of a board-approved professional education program and the passage of approved examination in the professional field.

Licensing

The Department primarily receives its funding from license application, renewal, examination, and other miscellaneous fees charges to practitioners and applicants. The 13 health regulatory boards individually set their fees and determine whether to collect these fees annually or biennially. Section 54.1-113 of the Code of Virginia requires each regulatory board to adjust its fees, so that expenses are within ten percent of the fees collected. If fees are not within ten percent of the board's expenses, the board's director initiates the process of adjusting fees. The fee adjustment considers the current status of the budget and future expense expectations, and must comply with the rule-making requirements of the Administrative Process Act. An increase in fees takes approximately two years from the initiation date, while a decrease in fees takes approximately four weeks. During fiscal year 2005, the Boards of Nursing, Medicine, and Audiology and Speech-Language Pathology increased fees.

The number of individuals or entities holding current active licenses through one of the 13 health regulatory boards has remained relatively stable over the last several years. As demonstrated in the following chart, the majority of current active licenses are with the Boards of Medicine, Nursing, Pharmacy, and Dentistry.

Current Active Licenses by Board
As of June 30, 2005



Nurse Licensure Compact

Pursuant to Section 54.1-3030 of the Code of Virginia, Virginia joined the Nurse Licensure Compact on January 1, 2005. The Nurse Licensure Compact authorizes Licensed Practical Nurses and Registered Nurses licensed and residing in a *compact* state to practice in other *compact* states without the necessity of obtaining an additional license. The Compact facilitates nursing practice among the compact states by requiring the nurse to maintain a license in their primary state of residence, which grants “multi-state privilege” to practice. This privilege requires that the nurse practice according to the laws and regulations of each state in which the nurse practices or provides care. Since the Compact legislation reduced the number of licensees required to pay a fee to practice nursing in the Commonwealth, the Department anticipated a decrease in revenue from this source and consequently increased nursing fees.

Enforcement

The Department’s Complaint Intake Unit receives complaints or reports about healthcare practitioners or regulated facilities that may have violated state laws and regulations. If the complaint indicates a possible violation of laws or regulations, the Department opens the case and assigns it a priority level, which considers the real or potential danger to public health or safety. Each case has an investigator, who collects evidence and conducts interviews. Once the investigation is complete, the investigator submits an investigative report to the appropriate health regulatory board for review.

After the board receives the investigative report, they perform a preliminary review to determine if there is probable cause to charge a licensee with a violation and, if so, the board holds an informal conference with the licensee. The informal committee typically recommends one of the following: 1) close the case with a finding of no violation; 2) offer an order in which the licensee consents to board sanction; or 3) send the case to the full board for further review.

The boards will hold formal hearings if the licensee requests it, if the informal committee recommends it, or if the proposed action may result in the suspension or revocation of a license. These formal

hearings are administrative proceedings that are open to the public and parties may call witnesses and introduce evidence. Disciplinary action taken by the board usually takes the form of one or more of the following sanctions:

- Reprimand or censure
- Monetary penalty
- Remedial or corrective action
- Probation with requirements for the licensee to complete within a specified time
- Limitations on the licensee's privilege to practice
- Suspension of the license either indefinitely or for a specific period of time
- Revocation of license

During fiscal year 2005, the Department collected and deposited \$165,240 in penalties from sanctions to the Commonwealth's Literary Fund.

In 2003, the General Assembly passed a statute that increased the number of cases investigated by the Department. The statute lowered the disciplinary threshold from gross negligence to intentional or negligent conduct for individuals licensed by the Board of Medicine and the Board of Physical Therapy. In addition, the law mandates that hospitals and healthcare institutions report certain mental disorders and substance abuse, disciplinary actions, malpractice judgments, and settlements pertaining to licensees. The statute also created confidential consent agreements to allow the boards to enter into agreements with their licensees instead of using disciplinary measures. Confidential consent agreements are agreements between a board and a licensee and include findings of fact. The boards may use such agreements in minor misconduct cases where the offense causes little or no injury to a patient and there is little likelihood of repetition by the licensee.

FINANCIAL INFORMATION

The Department uses a dedicated special revenue fund to account for the daily operations of the agency. The largest source of revenue comes from licensing application and renewal fees. During the past recent fiscal years, the Department's revenues have exceeded expenses. The schedule below summarizes the activity and cash balance of the Department's operating fund, dedicated special revenue fund, for fiscal years 2003 through 2005.

Analysis of the Department's Activities and Cash

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues	\$17,388,406	\$19,658,801	\$20,497,940
Expenses	<u>15,296,727</u>	<u>16,204,998</u>	<u>17,026,855</u>
Revenues less expenses	2,091,679	3,453,803	3,471,085
Net transfers in/(out)	<u>(1,119,964)</u>	<u>(860,632)</u>	<u>(721,195)</u>
Change in cash balance	971,715	2,593,171	2,749,890
Prior year cash balance	<u>5,342,622</u>	<u>6,314,337</u>	<u>8,907,508</u>
Current year cash balance	<u>\$ 6,314,337</u>	<u>\$ 8,907,508</u>	<u>\$11,657,398</u>

2005 fiscal year-end cash balance:

Allocated cash balance by board:

Nursing	\$ 5,008,815
Medicine	2,729,401
Dentistry	(532,651)
Funeral directors and embalmers	55,722
Optometry	449,800
Veterinary medicine	385,667
Pharmacy	1,604,529
Psychology	247,036
Counseling	452,559
Social work	366,986
Nursing home administrator	53,848
Audiology and speech-language pathology	(149,080)
Physical therapy	<u>552,338</u>

Total balance by board	<u>11,224,970</u>
------------------------	-------------------

Other cash:

Controlled substance registrations	300,003
Octagon	127,999
Miscellaneous	<u>4,426</u>

Total other cash	<u>432,428</u>
------------------	----------------

Total 2005 fiscal year-end cash balance	<u>\$11,657,398</u>
---	---------------------

Source: Commonwealth Accounting Reporting System 0402 Option B1 Report Fund 0900 and the Department's FY2005 4th Quarter Cash Balances Report

As in the prior year, net revenues for the current year exceeded expenses by approximately 16 percent, which exceeds the ten percent variance permitted by the Code of Virginia. Ten of the thirteen boards had revenues exceeding expenses by at least ten percent. Boards make fee adjustment decisions based on an analysis the Department prepares for each board projecting outcomes over a four biennium period (immediate past, current, and two subsequent).

The projections attempt to prevent wide fluctuations in fee amounts. Therefore, the Department reviews each Board's expenses and calculates projected increases for salaries and wages, health insurance, other fringe benefits, staffing, and other operating costs. The Department also factors in anticipated increases in expenses associated with federal and state legislation. For example, the Department's caseload increased as a result of legislation that affected the level of enforcement and in turn increased expenses for investigation and adjudication of cases. Further, the Department increased Board of Nursing fees to offset an anticipated decrease in revenues as a result of the Nurse Licensure Compact.

However, these new requirements did not increase expenses or decrease revenues at the rate the Department anticipated during fiscal year 2005. In addition, due to restructuring of jobs and job responsibilities, the Department's personnel expenses, as well as other expenses, were less than anticipated. Based on the most recent analysis, several of the boards have temporarily reduced fees effective for fiscal year 2006, including the Boards of Pharmacy, Veterinary Medicine, Counseling, and Psychology.

The following schedule summarizes the Department's budgeted expenses compared with actual results for fiscal year 2005.

Analysis of Budgeted and Actual Expenses by Program and Funding Source

<u>Program</u>	<u>Program Expenses</u>			<u>Expenses by Funding Source</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Special Revenue</u>	<u>Federal</u>
Higher education student financial assistance	\$ 65,000	\$ 65,000	\$ 55,908	\$ 55,908	\$ -
Regulation of professions and occupations	<u>19,063,884</u>	<u>19,520,470</u>	<u>17,076,700</u>	<u>17,026,855</u>	<u>49,845</u>
Total uses	<u>\$19,128,884</u>	<u>\$19,585,470</u>	<u>\$17,132,608</u>	<u>\$17,082,763</u>	<u>\$49,845</u>

Controlled Substance Registration (CSR) is the cash that remains from a discontinued program that required all licensees with prescriptive authority to pay a fee allocated to the Board of Pharmacy for prescribing controlled substances. During fiscal year 2005, the Department made a decision to reinstate the practice of using the remaining cash to defray the expense of drug diversion cases. The 2005 Acts of Assembly expanded the Department's Prescription Drug Monitoring Program (PMP), to help reduce indiscriminate and inappropriate prescribing of controlled substances through mandatory reporting by pharmacies throughout the state. The \$300,000 cash balance is the amount set aside for the PMP.

The Octagon cash balance is what remains of a \$600,000 grant that the Department received in 1999. During fiscal year 2005, the Department developed a formal policy addressing the Octagon cash. In addition to using the Octagon money as the Commonwealth's match for the Prescription Monitoring Program, the Department will use the funds to defray some of the Enforcement Division's operational costs for enhancing the prevention and detection of pharmaceutical drug diversion and health care fraud in the Commonwealth.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

June 23, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Health Professions** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of the Department's recording of financial transactions in the Commonwealth Accounting and Reporting System and the Department's internal licensing system, review the adequacy of the Department's internal controls, test for compliance with applicable laws and regulations, and review corrective actions of audit findings from the prior year report.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Contractual Service Expenses
Payroll Expenses	Small Purchase Charge Card

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We reviewed the Department's Board of Health Professions minutes and applicable sections of the Code of Virginia and the 2005 Virginia

Acts of Assembly. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in its internal licensing system. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 25, 2006.

AUDITOR OF PUBLIC ACCOUNTS

SAH/kva

DEPARTMENT OF HEALTH PROFESSIONS

Robert A. Nebiker
Director

BOARD OF HEALTH PROFESSIONS
As of June 30, 2005

Alan E. Mayer
Chair

Michael W. Ridenhour
Vice Chair

David R. Boehm	Janet Payne
Lynne M. Cooper	Harold S. Seigel
Michelle R. Easton	Mary M. Smith
David H. Hettler	Demis L. Stewart
Damien Howell	Joanne Taylor
Joseph Jenkins, Jr.	Lucia Anna Trigiani
Nadia B. Kuley	Natale A. Ward
Juan M. Montero	John T. Wise