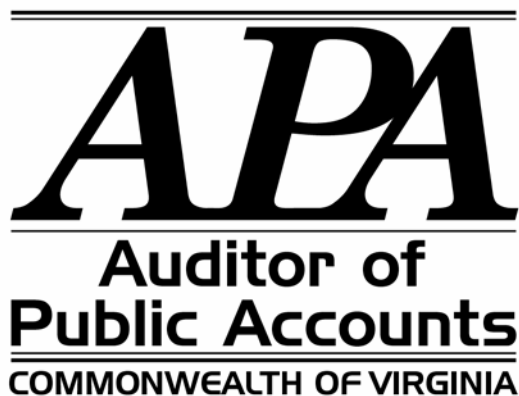


DEPARTMENT OF HEALTH PROFESSIONS

**REPORT ON AUDIT
FOR THE THREE-YEAR PERIOD ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Department of Health Professions for the three-year period ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- weaknesses in internal controls that we consider reportable conditions;
- no instances of noncompliance required to be reported under Government Auditing Standards; and
- adequate corrective action for all prior audit findings.

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AGENCY OVERVIEW

The Department of Health Professions (the Department), the Board of Health Professions (the 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. All members are appointed by the Governor and may serve two, four-year terms.

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

AGENCY HIGHLIGHTS

Prescription Monitoring Program

In 2002, the General Assembly passed a law requiring the Department to establish a pilot prescription monitoring program in State Health Planning Region III (Southwest Virginia) to deter the illegitimate use of prescription drugs. In September 2003, about 300 pharmacies and other dispensers began submitting dispensing information on Schedule II controlled substances to the Department. Currently, prescription drug dispensers are only required to report Schedule II controlled substances as defined in the Drug Control Act (§54.1-3400 et seq.).

Additional Disciplinary Procedures and Reporting Requirements

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.

Information Systems Upgrade

In February 2003, the Department upgraded its customized license system, ALHADIN, to License 2000, in order to resolve previous operational issues and weaknesses. License 2000 is an on-line licensing system that records fees, generates licenses, and tracks complaint and discipline cases. Currently, the system does not interface with the Commonwealth Accounting and Reporting System (CARS). The Department's staff has to manually enter the revenue it collects by source code into CARS on a daily basis.

In January 2004, the Department began on-line license renewal for most of the health professions regulated by the boards. Instead of mailing in payments or paying in person at the Department's office, licensees can now renew their licenses, certificates, and registrations on the Department's renewal website and pay with a credit card. The Department recently met its goal of having 80 percent of licenses renewed on-line in the first quarter of Fiscal 2005.

There are plans for other regulatory agencies in the Commonwealth to implement License 2000. These other regulatory agencies could benefit from the experiences that the Department has had with License 2000 and should consider working with the Department as they implement their systems.

AGENCY OPERATIONS

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 biannually. 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 years 2002-2004, the Boards of Audiology, Medicine, Nursing, Psychology, and Veterinary Medicine increased fees. The Boards of Physical Therapy and Social Work decreased fees and the Boards of Dentistry, Nursing Home Administrators, and Pharmacy also modified several of their fees.

In Fiscal 2004, a total of 284,494 individuals or entities held a license through one of the thirteen health regulatory boards. Licensees increased by approximately five percent (12,721 individuals/entities) from Fiscal 2003. The strongest growth occurred in the Board of Pharmacy, primarily due to the initial licensing of pharmacy technicians. The largest decrease in licensees occurred in the Board of Audiology and Speech Language Pathology, due to a substantial decrease in the number of licensed speech pathologists. This decline was primarily the result of added continuing education requirements. Table 1 summarizes the number of licensees under each regulatory board.

Table 1

Number of Licensees by Health Regulatory Board for Fiscal Years 2002-2004

| <u>Boards</u> | <u>Number of Licensees</u> | | | <u>Difference between Years</u> | | | |
|----------------------------|----------------------------|----------------|----------------|---------------------------------|---------------|--------------------------|--------------|
| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2002 v FY 2003</u> | | <u>FY 2003 v FY 2004</u> | |
| Audiology/Speech pathology | 2,726 | 3,059 | 2,873 | 333 | 12.2 % | (186) | (6.1)% |
| Counseling | 5,613 | 5,563 | 5,631 | (50) | (0.9) | 68 | 1.2 |
| Dentistry | 9,253 | 8,682 | 8,808 | (571) | (6.2) | 126 | 1.5 |
| Funeral directing | 2,658 | 2,633 | 2,606 | (25) | (0.9) | (27) | (1.0) |
| Medicine | 46,179 | 44,442 | 45,111 | (1,737) | (3.8) | 669 | 1.5 |
| Nursing | 167,682 | 172,505 | 177,967 | 4,823 | 2.9 | 5,462 | 3.2 |
| Nursing home administrator | 948 | 996 | 985 | 48 | 5.1 | (11) | (1.1) |
| Optometry | 2,540 | 2,600 | 2,630 | 60 | 2.4 | 30 | 1.2 |
| Pharmacy | 14,912 | 13,708 | 19,918 | (1,204) | (8.1) | 6,210 | 45.3 |
| Physical therapy | 5,960 | 5,974 | 6,173 | 14 | 0.2 | 199 | 3.3 |
| Psychology | 2,610 | 2,719 | 2,750 | 109 | 4.2 | 31 | 1.1 |
| Social work | 4,467 | 4,623 | 4,562 | 156 | 3.5 | (61) | (1.3) |
| Veterinary medicine | <u>4,840</u> | <u>4,269</u> | <u>4,480</u> | <u>(571)</u> | <u>(11.8)</u> | <u>211</u> | <u>4.9</u> |
| Total licensees | <u>270,388</u> | <u>271,773</u> | <u>284,494</u> | <u>1,385</u> | <u>0.5%</u> | <u>12,721</u> | <u>4.7 %</u> |

Source: Department of Health Professions Biennial Report for FYs 03 and 04 and Biennial Report for FYs 01 and 02

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. 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

Monetary penalty sanctions go to the Commonwealth's Literary Fund, and during Fiscal 2004, monetary penalties totaled \$183,480.

Table 2 summarizes the complaints filed, complaints referred to the boards, violations, and the number of sanctions for fiscal years 2002 through 2004.

Table 2

Complaint, Violation, and Sanction Statistics for Fiscal Years 2002-2004

| Boards | Complaints | | | Complaints Referred to the Board | | | Violations | | | Sanctions | | |
|----------------------------|--------------|--------------|--------------|-------------------------------------|--------------|--------------|------------|------------|------------|------------|--------------|--------------|
| | FY02 | FY03 | FY04 | FY02 | FY03 | FY04 | FY02 | FY03 | FY04 | FY02 | FY03 | FY04 |
| Audiology/Speech pathology | 5 | 3 | 10 | 8 | 6 | 14 | - | - | 1 | - | 1 | 1 |
| Counseling | 44 | 37 | 25 | 47 | 57 | 36 | 2 | 11 | 6 | 3 | 14 | 8 |
| Dentistry | 373 | 365 | 327 | 489 | 467 | 441 | 28 | 51 | 66 | 21 | 102 | 122 |
| Funeral directing | 72 | 79 | 85 | 131 | 131 | 122 | 29 | 21 | 33 | 33 | 34 | 42 |
| Medicine | 1,425 | 1,340 | 2,467 | 1,969 | 2,060 | 3,040 | 120 | 152 | 133 | 150 | 259 | 200 |
| Nursing | 1,354 | 1,237 | 1,525 | 1,719 | 1,915 | 2,048 | 382 | 457 | 349 | 433 | 716 | 727 |
| Nursing home administrator | 18 | 35 | 20 | 22 | 43 | 41 | 3 | 6 | 8 | 3 | 12 | 15 |
| Optometry | 64 | 35 | 43 | 90 | 63 | 61 | 13 | 11 | 2 | 17 | 24 | 15 |
| Pharmacy | 244 | 238 | 318 | 362 | 346 | 365 | 148 | 129 | 100 | 148 | 207 | 147 |
| Physical therapy | 10 | 34 | 40 | 21 | 31 | 50 | - | 7 | 2 | - | 8 | 5 |
| Psychology | 40 | 53 | 56 | 39 | 60 | 68 | 3 | 5 | 6 | 4 | 5 | 9 |
| Social work | 29 | 42 | 55 | 34 | 52 | 79 | 6 | 3 | 12 | 4 | 5 | 15 |
| Veterinary medicine | <u>135</u> | <u>141</u> | <u>127</u> | <u>174</u> | <u>158</u> | <u>144</u> | <u>33</u> | <u>20</u> | <u>31</u> | <u>17</u> | <u>55</u> | <u>76</u> |
| Totals | <u>3,813</u> | <u>3,639</u> | <u>5,098</u> | <u>5,105</u> | <u>5,389</u> | <u>6,509</u> | <u>767</u> | <u>873</u> | <u>749</u> | <u>833</u> | <u>1,442</u> | <u>1,382</u> |

Source: Department of Health Professions Biennial Report for FYs 03 and 04 and Biennial Report for FYs 01 and 02

The number of complaints referred to the board are greater than the number of complaints received because additional investigatory staff were hired in the past few fiscal years to reduce the backlog of complaints that have not been investigated. Table two also shows that the number of sanctions is greater than the number of violations for the past three fiscal years. This is caused by licensees receiving multiple sanctions for a single violation in one case. For example, a licensee may be suspended, fined, and placed on probation as a result of one violation.

Case Priority System

From 1990 until the beginning of fiscal year 2005, the Department used a six-level case priority system to assist in managing investigative cases. Cases had an assigned priority based on the nature and severity of the alleged action. During fiscal year 2004, the Department began developing a revised priority system. This revised system decreases the number of levels from six to four and prioritizes cases based on public health danger. By consolidating to a four-level case priority system, the Department hopes to reduce the average number of investigative days for those cases that involve actions that pose imminent danger to the public health.

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 four fiscal years, the Department's revenues have exceeded expenses as shown in Table 3. Both revenues and expenses have risen over the past three fiscal years, as the number of licensees has continued to increase. Table 3 summarizes the activity and cash balance of the Department's operating fund, dedicated special revenue fund, for fiscal years 2000 through 2004 (actual) and 2005 and 2006 (budget).

Table 3

Analysis of the Department's Activities and Cash

| | <u>Actual</u> | | | | | <u>Budget</u> | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Revenues | \$12,225,094 | \$15,369,406 | \$15,174,551 | \$17,388,406 | \$19,658,801 | \$21,591,771 | \$20,447,967 |
| Expenditures | <u>12,809,664</u> | <u>13,410,141</u> | <u>14,380,648</u> | <u>15,296,727</u> | <u>16,204,998</u> | <u>19,063,884</u> | <u>19,107,514</u> |
| Revenues less expenditures | (584,570) | 1,959,265 | 793,903 | 2,091,679 | 3,453,803 | 2,527,887 | 1,340,453 |
| Net transfers in/(out) | <u>(98,882)</u> | <u>(71,412)</u> | <u>(200,107)</u> | <u>(1,119,964)</u> | <u>(860,632)</u> | <u>(576,657)</u> | <u>(572,498)</u> |
| Change in cash balance | (683,452) | 1,887,853 | 593,796 | 971,715 | 2,593,171 | 1,951,230 | 767,955 |
| Prior year cash balance | <u>3,544,425</u> | <u>2,860,973</u> | <u>4,748,826</u> | <u>5,342,622</u> | <u>6,314,337</u> | <u>8,907,508</u> | <u>10,858,738</u> |
| Current year cash balance | <u>\$ 2,860,973</u> | <u>\$ 4,748,826</u> | <u>\$ 5,342,622</u> | <u>\$ 6,314,337</u> | <u>\$ 8,907,508</u> | <u>\$ 10,858,738</u> | <u>\$11,626,693</u> |

2004 fiscal year-end cash balance:

Allocated cash balance by board:

| | |
|---------------------------------|------------------|
| Nursing | \$3,428,631 |
| Medicine | 2,058,141 |
| Dentistry | (401,103) |
| Funeral directors and embalmers | 28,288 |
| Optometry | 359,849 |
| Veterinary medicine | 255,671 |
| Pharmacy | 1,073,934 |
| Psychology | 111,778 |
| Counseling | 264,521 |
| Social work | 107,179 |
| Nursing home administrator | (10,386) |
| Audiology and speech language | |
| Pathology | (205,349) |
| Physical therapy | <u>458,769</u> |
| Total | <u>7,529,923</u> |

| | |
|---|--------------------|
| Unallocated cash balance: | |
| Controlled substance registrations | 1,055,003 |
| Octagon | 285,346 |
| Emergency contact information | 27,356 |
| Prescription monitoring program | 7,483 |
| Refundable Overpayments | <u>2,397</u> |
| Total | <u>1,377,585</u> |
| Total 2004 fiscal year-end cash ~~~~~balance | <u>\$8,907,508</u> |

Source: Commonwealth Accounting Reporting System 0402 Option B1 Report Fund 0900, the Department's Reporting System and 2005 Session Six Year Nongeneral Fund Estimate, and 2004 Virginia Acts of Assembly Chapter 4.

In Fiscal 2004, net revenues exceeded expenses by approximately 16 percent, which exceeds the ten percent variance permitted by the Code of Virginia. The Department expected an increase in caseloads over the next few years, as a result of lowering the disciplinary threshold and increasing the reporting requirements for hospitals and healthcare institutions established by the 2003 General Assembly. Due to this anticipated caseload, fees were raised to cover the projected investigative expenses for the additional cases.

The following information discusses the source and use of fund in the unallocated cash balance. The unallocated cash balance may affect future fees.

Controlled Substance Registrations (CSR) is the cash that remains from a program that required all licensees with prescriptive authority to pay a fee allocated to the Board of Pharmacy for prescribing controlled substances. In approximately 1989, the Department discontinued allocating the CSR fees to the Board of Pharmacy and the General Assembly discontinued the program in 1996. The Department used some of the remaining cash to defray the expense of drug diversion cases, but had stopped this practice. Since the date of our audit report, the Department made a decision to reinstate the practice of defraying the expense of drug diversion cases.

The Octagon cash balance is what remains of a \$600,000 grant that the Department received in 1999. Currently, the Department does not have a formal policy addressing the Octagon cash. However, the Department is using the Octagon money as the state's match for the Prescription Monitoring Program.

The Emergency Contact Information (ECI) is funding received from the Department of Health to reimburse the Department for the expense of collecting emergency contact information from individual licensees. The Department plans to allocate this cash to the different health boards that accrued additional expenses to collect the emergency contact information. Subsequent to year-end the Department has allocated the ECI cash to boards that accrued these additional expenses.

Prescription Monitoring Program represents federal grant funds to the Department. Although certain Board of Pharmacy employees staff the Prescription Monitoring Program, it does not fall under the purview of the Board of Pharmacy, but the Department reimburses the Board these employees' salary. Subsequent to year-end, the Department reimbursed the Board of Pharmacy for the cost associated with staffing the program.

Table 4 summarizes the Department's budgeted revenues for all funds compared with actual results for fiscal years 2002 through 2004.

Table 4

Analysis of Budgeted and Actual Revenue by Funding SourceFiscal Year 2002

| <u>Funding Source</u> | <u>Original Budget*</u> | <u>Final Budget**</u> | <u>Actual***</u> | <u>Final/Actual Variance Positive/ (Negative)</u> |
|--|-----------------------------|---------------------------|---------------------|---|
| Dedicated special revenue fund revenues and transfers | \$14,841,245 | \$14,841,245 | \$14,974,444 | \$133,199 |
| Special revenue fund revenues and transfers | 65,000 | 65,000 | 49,161 | (15,839) |
| General fund revenues | 40,000 | 40,000 | 40,000 | - |
| Federal fund revenues | - | - | - | - |
| Total resources | <u>\$14,946,245</u> | <u>\$14,946,245</u> | <u>\$15,063,605</u> | <u>\$117,360</u> |

Fiscal Year 2003

| <u>Funding Source</u> | <u>Original Budget*</u> | <u>Final Budget**</u> | <u>Actual***</u> | <u>Final/Actual Variance Positive/ (Negative)</u> |
|--|-----------------------------|---------------------------|---------------------|---|
| Dedicated special revenue fund revenues and transfers | \$16,047,469 | \$16,047,469 | \$16,268,442 | \$220,973 |
| Special revenue fund revenues and transfers | 65,000 | 65,000 | 55,364 | (9,636) |
| General fund revenues | - | 9,999 | - | (9,999) |
| Federal fund revenues | - | - | - | - |
| Total resources | <u>\$16,112,469</u> | <u>\$16,122,468</u> | <u>\$16,323,806</u> | <u>\$201,338</u> |

Fiscal Year 2004

| <u>Funding Source</u> | <u>Original Budget*</u> | <u>Final Budget**</u> | <u>Actual***</u> | <u>Final/Actual Variance Positive/ (Negative)</u> |
|--|-----------------------------|---------------------------|---------------------|---|
| Dedicated special revenue fund revenues and transfers | \$16,544,415 | \$16,544,415 | \$18,798,169 | \$2,253,754 |
| Special revenue fund revenues and transfers | 65,000 | 65,000 | 56,387 | (8,613) |
| General fund revenues | - | - | - | - |
| Federal fund revenues | - | 175,000 | 45,471 | (129,529) |
| Total resources | <u>\$16,609,415</u> | <u>\$16,784,415</u> | <u>\$18,900,027</u> | <u>\$2,115,612</u> |

* Original Budget is the budget in effect at the beginning of the fiscal year: Chapter 1073 for FY 02, Chapter 899 for FY03, Chapter 1024 for FY 04.

** Final Budget is the budget in effect at the end of the fiscal year and includes appropriation adjustments. Source: Commonwealth Accounting Reporting System 1408 Option A1, Current Appropriations.

*** Actual funding source: Commonwealth Accounting Reporting System 402 Option B1 Report.

In Fiscal 2004, the Department received its first federal grant to implement and support the Prescription Monitoring Program. As a result of this federal grant, the Department had to adjust its budget to reflect the anticipated federal funds. However, the Department's actual federal fund revenue fell below the adjusted budgeted revenue in 2004 because the Prescription Monitoring Program did not require as much funding as originally expected.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Report All Available Resources

The Department does not report all the cash it has available to cover expenses to the health regulatory boards. At June 30, 2004, there was a \$1.377 million difference between the amount of cash the Department reported to the individual boards and the Department's total cash balance in their operating fund in CARS. Paragraph 5 of Section 54.1-2400.5 of the Code of Virginia requires the health regulatory boards "To levy and collect fees...that are sufficient to cover all expenses for...the Department of Health Professions, the Board of Health Professions and the health regulatory boards." Without knowing the full amount of cash available to cover expenses of the Department and/or the regulatory boards, there is a risk that a regulatory board could levy and collect fees that far exceed the Department's expenses.

Develop Formal Policies

As of June 30, 2004 the Department had \$1.3 million of unallocated cash balances that it lacked formal policies and procedures for dispensing. We recommend that the Department develop and document formal policies for managing all resources not allocated to one of the health regulatory boards. Formal policies can insure that the Department is consistently handling these funds over time, meeting all compliance requirements, and allocating the health regulatory boards their funds in a timely manner.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 4, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

We have audited selected financial records and operations of the **Department of Health Professions** (the Department) for the three-year period ended June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

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 accounting records; review the adequacy of the Department's internal control; test for compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Cash
Expenses
Revenues

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. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the selected financial records in the Commonwealth Accounting and Reporting System and in the Department's accounting records listed in scope section of this report.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions, entitled "Report All Available Resources" and "Develop Formal Policies," are described in the subsection entitled "Internal Control Findings and Recommendations." We believe that neither of the reportable conditions is a material weakness.

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 period.

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 April 4, 2005.

AUDITOR OF PUBLIC ACCOUNTS

GS/kva



COMMONWEALTH of VIRGINIA

Robert A. Nebiker
Director

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April 5, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Please accept this letter as our response to the audit of the Department of Health Professions for Fiscal Years 2001-02, 2002-03, and 2003-04.

First, I would like to express appreciation for the quality of the staff work done on our audit. Your staff was courteous, thorough, understanding of the additional workload their efforts had on DHP's finance staff, and fair.

We concur with the recommendations made in the audit report. In fact, we have already implemented the reporting changes recommended in the report. We expect to have the policy and procedures addressed in the second recommendation in place by the end of this month.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Nebiker".

Robert A. Nebiker
Director

DEPARTMENT OF HEALTH PROFESSIONS

Robert A. Nebiker, Director

MEMBERS OF THE BOARD OF HEALTH PROFESSIONS
As of June 30, 2004

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