AUDIT SUMMARY

Our audit of the Department of Health for the year ended June 30, 1998, found:

- no material weaknesses in internal controls, but we did identify certain matters that we consider reportable conditions;
- issues of noncompliance with applicable laws and regulations tested;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audits' findings, except as reported.

Health should:

- ensure sufficient resources are available to complete the VISION and Year 2000 projects and that its Office of Information Management properly manages these projects. {see page 5}
- immediately strengthen security over information systems. {see page 6}
- strengthen controls over WIC checks. {see page 8}

Additional findings are included in the section entitled "Internal Control and Compliance Findings and Recommendations."

December 15, 1998

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Health** for the year ended June 30, 1998. We conducted our audit according to generally accepted government auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to review Health's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, adequacy of the internal control structure, and compliance with applicable laws and regulations. We also determined Health's corrective action of prior year audit findings.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Health'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 and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenues and Cash Receipts
- Expenses
- Receivables and Payables
- Payroll
- Grants Management

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Health's policies and procedures 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.

Health's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed according to management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found that Health properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Health records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in the accompanying schedules came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Health's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations found issues of noncompliance that we are required to report herein under Government Auditing Standards, and are included in the section entitled "Internal Control and Compliance Findings and Recommendations."

Health has not taken adequate corrective action with respect to the previously reported findings listed below. Accordingly, we included these issues in the section entitled "Internal Control and Compliance Findings and Recommendations." Health has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Develop Systems in Accordance with an Overall Project Plan
Develop Overall Project Budget
Improve Project Reporting and Management (formerly: Improve Project Management Oversight)
Improve Security over Pharmaceutical Inventory
Strengthen Controls Over WIC Checks (formerly: Limit Access to Blank WIC Drafts and Segregate Duties Between WIC Employees and WIC)
Strengthen Controls over Cash Receipts
Strengthen Information Security

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 15, 1998.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

The Department of Health's mission is to maintain personal and community health by emphasizing health promotion, disease prevention, and environmental protection. To fulfill this mission, the Department of Health:

- provides a program of preventive, curative, restorative, and environmental health services,
- offers health education,
- keeps vital records and health statistics; and
- reduces environmental and public health hazards.

The State Board of Health, appointed by the Governor, provides advice to the Commissioner, determines the services Health provides, defines income limitations, and sets fees. Health has a central office, 35 health districts, and 172 operational sites. Operational sites include local health departments, dental clinics, environmental health sites, and locations where individuals receive federal assistance under the Women's, Infants, and Children (WIC) program.

Currently, Health operates more than 80 custom system applications to carry out its goals and mission. Health developed these systems independently to satisfy the needs of a specific division or program and many of the systems accumulate the same demographic data, but are unable to communicate or share information. These systems cause inefficiencies due to the software's age, system incompatibility, and large staff necessary to support the systems. The ability of Health to successfully fulfill their mission is contingent on the timely completion of the Virginia Information Systems - Integrated On-line Network (VISION) and Year 2000 projects.

During the past three fiscal years, Office of Information Management (OIM) has had significant turnover in essential management positions. OIM has responsibilities for all of Health's system operations and development. This turnover has made it difficult for OIM to carry out its automation initiatives.

Currently, Health has not permanently filled several key OIM positions, including the Director of OIM. Within the past year, two employees have been appointed acting Director. Health will probably not fill this position until the Governor appoints a Commissioner. In the last three years, Health has had two Commissioners.

Health acknowledges the need to recruit and retain key personnel in OIM, if it is to prevent project failure with VISION and complete its Year 2000 conversion. OIM has recently begun making gradual progress in managing projects, some of which is the result of assistance from the Century Date Change Initiative Office. However, long-term improvement will depend on management in OIM.

The lack of consistent management within OIM has resulted in many of the same issues from prior audits being repeated. The issues in this report are fundamental system development management concerns.

Develop Systems in Accordance with an Overall Project Plan

The past several audits reported that Health's WIC and Vital Records systems are ineffective, inefficient, and in need of immediate replacement. In order to achieve effective and efficient information systems, OIM has been working for several years on VISION. VISION, an integrated data system that incorporates most of Health's existing systems needs, will allow access to aggregate data by the private sector and other government agencies. In this plan, each system will employ the same structure allowing communication and sharing of information. Additionally, VISION addresses the Year 2000 compliance issues for the systems it will replace.

OIM did not adequately manage VISION to ensure the project's timely completion. OIM did not follow its overall project plan and timelines for VISION and frequently rescheduled implementation. Implementation was nine months behind schedule during our last audit, with full implementation by October 1998, which it did not meet.

To rectify this problem, during October 1998, the new Acting Director of OIM and the former VISION Project Manager reorganized the overall project plan and timelines for VISION. This new plan calls for implementing VISION in three phases. The Department is currently working on Phase I of implementation. Phase I includes the development and implementation of the following system modules in VISION.

- WIC-NET
- Patient Care Management System (PCMS)
- Vital Records Electronic Birth Certificate System
- Radiological Health
- Emergency Medical Services – Trauma Registry
- Bedding and Reupholstered Furniture Inspection Management System
- Virginia Health Information Data Warehouse

OIM management hopes to complete these tasks within the revised project plans and timelines. To date, Health has implemented the Birth Certificate System and the VHI Data Warehouse and plans to fully implement the remaining Phase I modules by January 1999. In order to meet this new plan, Project managers will need to continually identify and address the impact of project delays and communicate them in a timely manner to Health's senior management.

Status of Mission Critical Modules

VISION Phase I includes the implementation of several systems Health considers mission critical. As stated above, Health has finished the Vital Records Electronic Birth Certificate System and Virginia Health Information Data Warehouse. Below is the status of the other mission critical systems.

The replacement Women's Infants and Children (WIC) system will provide financial and patient information necessary to adequately support and monitor this federal program. As of October 15, 1998, revised WIC-NET software continues to be piloted at the Central Health Office, Piedmont, Chesterfield, Fairfax, Norfolk, and Virginia Beach Health Districts. These pilots have found software problems, as well as printer and connectivity issues. OIM has resolved the printer and connectivity issues and a consultant is reviewing the software problems.

Health is developing several modules to replace the current Patient Care Management System (PCMS). Currently, OIM is quality assurance testing the Accounts Receivable module and developing the Community Event module. OIM is developing one Scheduler module for the WIC and PCMS systems, and is implementing the Tuberculosis module as part of Tuberculosis Lab and Communicable Diseases modules. OIM is testing security roles, documenting data conversion procedures, and evaluating the security of data during Internet transfers.

Improve Project Reporting and Management

OIM issued only one overall project status report during the fiscal year, although various employees prepared weekly and monthly updates for project managers. This one report did not adequately address the status of development, implementation, or the cost of all VISION modules. Without an effective mechanism to report project status, senior management could not monitor project costs.

In January 1998, senior Health management created the Agency Information Management Advisory Committee to recommend information projects' priorities, funding mechanisms, and review on-going project status. Beginning August 31, 1998, OIM began issuing weekly project status reports that adequately address the overall status of the VISION project. These weekly reports go to executive management, internal audit, the Advisory Committee, and the Century Date Change Initiative Office (CDCI).

Senior management should make sure project managers are comparing project progress to the project plan and budget and making recommendation when issues arise in the weekly status reports. Senior management can then effectively shift project priorities or resources, obtain additional resources when necessary, and focus project efforts toward the initial objectives.

Develop an Overall Project Budget

OIM has not prepared a comprehensive budget for VISION, nor has management found sufficient resources for the completion of VISION. During October 1998, OIM determined budget needs for aggregate OIM operations and Year 2000 compliance. Management is actively trying to obtain funding by requesting the reallocation of surplus funds in the general fund, requesting the reallocation of central appropriations, and requesting emergency budget amendments from CDCI.

Failure to establish a proper budget, set aside funds for completion of the project, and monitor project costs jeopardizes the completion of VISION. Health should continue its efforts to secure additional funding. OIM should develop a detailed project budget for VISION that corresponds to the project plan. OIM must monitor progress against the project plan and budget. They should accurately and promptly report progress and costs to senior management.

Strengthen Information Security

The past several audits reported system weaknesses within PCMS that require certain individuals to have unlimited access to patient and financial information under a super user logon. The current system cannot monitor changes made under this logon. Management and internal audit have attempted to reduce risk by implementing some compensating controls; however, due to the limits on the system these controls are not enough to safeguard against unauthorized transactions being processed. In addition, we found instances where the districts were not following these controls. We strongly recommend that Health resolve these security issues with the replacement PCMS system.

We also noted instances where individuals had improper access to sensitive data. Management did not limit critical financial information commands to only users who perform financial functions. Similarly, they did not limit critical medical information screens to individuals who perform medical services. Users should only have access to those screens necessary to perform their job duties.

Additionally, WIC clinic employees can set up recipient accounts, enter and update recipient eligibility information, and approve recipients for benefits without supervisory review or independent verification. These employees also reconcile unmatched WIC checks. This lack of segregation of duties increases the risk that employees can initiate incorrect or fraudulent transactions. The current WIC system has limited security functions and inadequate compensating controls preventing operational changes to address these system weaknesses. Management should also address these issues when implementing their new WIC system.

Ensure Year 2000 Compliance

Due to poor project management, CDCI assumed direct oversight of the Year 2000 (Y2K) project on June 1, 1998. CDCI designated one of their staff as Health's Project Director. This Project Director supervised the hiring of a consultant to complete a comprehensive assessment, oversaw the consultant's assessment activities, and approved the composition of Health's Y2K Steering Committee. The Project Director's additional responsibilities include meeting on a weekly basis with the consultant's project manager, the Y2K Project Coordinator, and the Assistant Secretary of Health and Human Resources. During these meetings, the Project Director reports on Health' assignment of staff and vendor resources to meeting the Y2K plan. Health retains responsibility for providing adequate staff and budget resources to the Y2K project and is ultimately responsible for ensuring compliance of Health's systems and activities.

The consultant facilitated the completion of a Y2K assessment. The consultant issued its report, "Initial Year 2000 Inventory Review and Impact Assessment," on October 12, 1998, and made the following findings and recommendations.

- More than 25 percent of systems hardware is not Y2K compliant or needs more testing. Nearly all the software products need more testing or upgrades. Additionally, only 14 percent of custom applications are Y2k compliant, 40 percent need more compliance testing, and 46 percent need renovation. Health needs to test and remediate these custom applications and replace, repair, upgrade, and test their information technology as required.

- Fifty one percent of data exchanges are not Y2K compliant. Health needs to perform further analyses and include related findings in the Y2K remediation plan.

- The Y2K compliance status is unknown for nearly 82 percent of telecommunications equipment. However, per OIM management, Health was aware of the telecommunications issues and to date has nearly completed the replacement of this equipment.

In conclusion, Health needs to complete further testing to finish assessing its Y2K problem, develop a remediation plan that includes contingency planning, and implement remediation plans. Furthermore, Health should determine the impact of reliance on mission critical vendors who are not Y2K compliant. The consultant estimated Health would need seven additional staff for six months to complete the recommendations. Relative to prior years, Health has made significant progress in handling Y2K challenges ever since CDCI assumed direct oversight. However, to be successful, Health must continue its efforts to obtain additional funding to support the Y2K project and institute recommendations. It is crucial that Health ensure it can continue its operations and carry out its goals and mission in the upcoming millenium.

OTHER INTERNAL CONTROL ISSUES

Strengthen Controls Over WIC checks

One of ten local health departments visited stored blank WIC checks in unsecured areas, affording all employees access to the checks. Additionally, two of ten departments visited did not perform monthly physical inventories of blank WIC drafts. Federal regulations require the grantee to control and account for the receipt and issuance of supplemental food instruments and to ensure secure storage of unissued food instruments. Health further requires the local health departments to inventory WIC manual checkbooks monthly and to store manual checks in a locked and secure place with access limited to designated staff members. Health should emphasize to the local departments the importance of performing inventories and safeguarding WIC checks.

We also found one instance where a WIC clinic employee distributed her daughter's checks. Lack of segregation of duties for WIC employees who have family members receiving WIC benefits could result in fraud and abuse of program benefits. Health should strictly enforce this policy and take administrative action against employees who violate the policy.

Strengthen Controls Over Cash Receipts

Eight of ten local health departments visited did not adequately safeguard receipts. We noted a lack of adequate separation of duties over the collection, reconciliation, and deposit of receipts. Segregation of duties is essential in maintaining adequate internal controls over cash accountability. Also, one department did not reconcile receipts to the Patient Care Management System.

Management should ensure that proper segregation of duties exist where appropriate and compensating controls are set in place when these controls are compromised as a result of staffing.

Improve Security Over Pharmaceutical Inventory

Two of ten local health departments visited did not adequately secure prescription drugs against loss or theft. Inventories were accessible to employees and the public. The two health departments should immediately begin to store inventory and prescriptions securely.

FISCAL OPERATIONS

During fiscal year 1998, Health received $343 million in revenues. The largest source of revenue, Federal Funds, provided for $122 million (36 percent) of total annual revenue. The second largest source of revenue at $119 million (35 percent) is General Fund appropriations. Overall, Health receives federal funding from 38 federal grants. The largest of these programs is the Supplemental Nutrition Program for Women, Infants, and Children (WIC). WIC accounts for 56 percent of all the federal funds, or $68 million. This program provides supplemental foods and nutrition education to eligible persons through local health agencies. Eligible persons include pregnant, postpartum, and breast-feeding women, infants and children up to their fifth birthday. The program seeks to provide an adjunct to good health care by preventing the occurrence of health problems or improving health status with food supplements and education.

During fiscal year 1998, Health expended $236 million (69 percent) of their funding on community health and nutrition services. This includes services that are both non-reimbursable and reimbursable. Non-reimbursable services are those that are mandated in order to detect and/or prevent communicable diseases. Reimbursable services include such services as medical and dental.

The following illustrates Health's funding sources and expenses for fiscal year ended June 30, 1998.

	General Fund	Federal	Special Revenue	Other
Revenue	$119	$122	$97	$5
Expenditures	115	124	92	12
Revenue over/(under) expenditures	4	(2)	5	(7)
Transfer in/(out)	7	2	1	(1)
Beginning fund balance	-	1	8	1
Ending fund balance	-	2	6	3
Adjusted appropriations	119	124	103	35
Expenses	$115	$124	$92	$12

*rounded to nearest million