

AUDIT SUMMARY

Our audit of the Department of Health Professions for the period January 1, 1999, to June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance that are required to be reported.

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April 19, 2001

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

The Honorable Vincent F. Callahan, Jr.
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 Professions** for the period January 1, 1999, to June 30, 2000. We conducted our audit according to 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 evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting record, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's 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 and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts
Expenditures
Fixed Assets

We obtained an understanding of the relevant internal control components 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. Our audit also included tests of compliance with provisions of applicable laws and regulations.

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.

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 and regulations. 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 amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department 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 this report came directly from the Commonwealth Accounting and Reporting System.

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. Reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information 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 May 30, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY BACKGROUND

The Department of Health Professions provides administrative support to the 13 health and behavioral science boards listed below.

Audiology and Speech Pathology	Pharmacy
Dentistry	Physical Therapy (as of July 1, 2000)
Funeral Directing and Embalming	Professional Counseling and Marriage and Family Therapy
Medicine	Psychology
Nursing	Social Work
Nursing Home Administration	Veterinary Medicine
Optometry	

These health regulatory boards establish rules, regulations, and standards of performance for their health care professionals and applicants. The boards also administer professional examinations, issue licenses, and enforce regulations. The Department serves as the support mechanism for the boards in accomplishing their responsibilities.

Financial Information

The Department supports itself primarily with examination fees, license applications and renewals, and other miscellaneous fees charged to the professional practitioners and applicants. The Department received \$40,000 in general fund monies for fiscal years 1999 and 2000. Expenses consist primarily of payroll costs and contractual services.

REVENUES AND EXPENDITURES BY BOARD

Boards	1998 Revenues	1998 Expenditures	1999 Revenues	1999 Expenditures	2000 Revenues	2000 Expenditures
Medicine	\$3,157,994	\$3,175,426	\$2,804,875	\$3,834,581	\$3,886,648	\$4,027,906
Nursing	2,741,373	2,743,128	2,909,203	3,378,642	3,325,499	3,781,586
Pharmacy	1,041,376	1,043,083	1,026,298	1,063,846	1,059,846	1,233,169
Dentistry	532,251	671,017	747,145	757,732	748,637	699,867
Veterinary medicine	368,844	345,950	379,859	408,944	407,620	459,693
Funeral directors and Embalmers	268,429	348,696	411,769	344,705	429,733	372,197
Optometry	221,300	216,770	227,986	247,827	309,211	219,913
Psychology	196,803	251,639	255,070	267,316	268,110	280,348
Professional counselors	177,878	421,671	350,846	425,567	83,575	375,230
Nursing home administration	136,781	140,449	139,554	130,369	131,936	148,851
Audiology and speech Pathology	94,623	129,214	161,366	128,966	30,275	135,350
Social work	<u>70,780</u>	<u>248,321</u>	<u>472,898</u>	<u>264,864</u>	<u>85,523</u>	<u>234,427</u>
Total	<u>\$9,008,432</u>	<u>\$9,735,364</u>	<u>\$9,886,869</u>	<u>\$11,253,359</u>	<u>\$10,766,613</u>	<u>\$11,968,537</u>

Source: Commonwealth Accounting and Reporting System

The Department experiences fluctuations in revenues throughout the year. Each board sets its own fees and the timing of collections. Of the thirteen boards, six boards charge an annual fee, five boards charge a biennial fee, and two boards charge a mixture of annual and biennial fees, depending upon occupational specialty. Additionally, most of the boards set licensing renewals as either the date the Department originally received the application or the applicant's birth date. Although the Department's revenues fluctuate from year-to-year even month-to-month, expenses remain relatively constant.

Annual surpluses or deficits may occur within individual boards due to the timing of revenues. When this occurs the board may use a prior year surplus or adjust future fees. The Department's finance division closely monitors board fund balances because there are limits on both the amount of revenue that boards can accumulate and how much of a deficit can occur. In most of the cases below, the boards are showing an overall surplus in revenues.

OVERALL SURPLUSES AND DEFICITS BY BOARD

Boards	Balance 6/30/98	Balance 6/30/99	Balance 6/30/00
Medicine	\$2,246,417	\$1,216,711	\$1,075,453
Nursing	297,970	(171,469)	(627,558)
Pharmacy	1,059,535	1,021,987	848,664
Dentistry	(173,700)	(184,287)	(135,517)
Veterinary medicine	288,421	259,336	207,263
Funeral directors and embalmers	(82,829)	(15,765)	41,771
Optometry	61,433	41,592	130,890
Psychology	(86,474)	(98,720)	(110,958)
Professional counselors	41,999	(32,722)	(324,377)
Nursing home administration	18,643	27,828	10,913
Audiology and speech pathology	131,531	163,931	58,856
Social work	<u>135,108</u>	<u>343,142</u>	<u>192,238</u>
Net balances	<u><u>\$3,938,054</u></u>	<u><u>\$2,571,564</u></u>	<u><u>\$1,367,638</u></u>

Source: Commonwealth Accounting and Reporting System

Expenses over the last four years have exceeded revenue, causing the Department to place operational reliance on its surplus. The boards used the majority of the surplus to fund the new All Health Licensing and Disciplinary Information Network System (AHLADIN). The board of Nursing began the Nurses Aide Program and supported the majority of the Health Practitioners' Intervention Program, causing the board's annual deficit.

Each biennium, the finance division performs a detailed analysis of the fees charged by each board. The result of that analysis helps determine whether a board should raise or lower its fees. The July 2000 fee analysis indicated the need for changes in four of the 13 boards. Of the four recommended changes, all were increases. Since increases need to follow the Administrative Process Act, which can take up to two years to receive approval, the Department has requested the boards to start the necessary proceedings to change their fees.

Licensure Statistics

LICENSES ISSUED BY BOARD

Boards	1998	1999	2000
Nursing	\$147,832	\$165,566	\$165,937
Medicine	43,779	48,280	50,269
Pharmacy	11,094	12,739	13,345
Dentistry	8,276	8,565	8,781
Professional Counselors	6,300	6,461	5,700
Veterinary Medicine	4,139	4,420	4,580
Social Workers	3,898	4,180	4,153
Funeral Directors and Embalmers	2,395	2,615	2,604
Audiology and Speech Pathology	2,213	2,480	2,531
Psychology	1,908	2,364	2,450
Optometry	1,385	2,255	2,426
Nursing Home Administrators	903	1,000	1,011
Total licensees	<u>\$234,122</u>	<u>\$260,925</u>	<u>\$263,787</u>

Source: Department MIS Licensee Report

Enforcement Statistics

A vital function for the boards is tracking and investigating complaints filed against licensees. Currently, it takes an average of 28 days to investigate and resolve the highest priority cases. Beginning fiscal year 1999, the Department began unannounced inspections which has increased the number of investigative complaints.

AGENCY ENFORCEMENT STATISTICS

	1998	1999	2000
Complaints received	1,684	2,228	3,795
Cases closed with no violation	1,451	1,212	2,316
Cases closed with violation	557	645	777
Cases open at year end	1,610	1,917	2,594

Source: Agency MIS Case Summary and Findings Reports

All Health Licensing and Disciplinary Information Network

During fiscal year 1998, the Department purchased the All Health Licensing and Disciplinary Information Network (AHLADIN) from System Automation (formerly Client Servers) to replace the Department's Commonwealth Occupational Regulation and Licensing System and the Complaint Tracking and Reporting System. The Department implemented this new system in response to the Council on Information Management's directive that the Department stop using the Department of Information Technology's mainframe computer.

The Department implemented AHLADIN in April 1999 at a cost of \$1.5 million. AHLADIN is a client-server system that has modules to process license applications, license renewals, discipline, rehabilitation, verification, inquiries, accounting, administration, import/export, and audit/security modules. The AHLADIN system interfaces with integrated voice response, as well as allowing data entry from several different sources, such as imaging and the Internet. Another essential function of the system is that it is multi-platform, which means that it can work in several different environments.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Controls Over AHLADIN

We identified several operational issues regarding the AHLADIN system that the Department needs to address. Below is a discussion of these issues.

- The Department's procedures for importing transactions from the lockbox are not adequate. Errors often occur when importing the lockbox data into AHLADIN that can cause improper postings to practitioners' accounts. Therefore, the accounts are not maintained accurately and the Department risks not pursuing the fees owed by practitioners and issuing licenses to practitioners that have not paid their fees.
- The Department does not reconcile AHLADIN to the Commonwealth Accounting and Reporting System (CARS). CARS is the official accounting and reporting system of the Department. On a daily basis, staff manually enters revenue information into both systems. For fiscal years 1999 and 2000, we noted a revenue variance of \$132,000 and \$1.3 million respectively between AHLADIN and CARS.
- The Department's policies and procedures do not promote and ensure adequate internal controls within the AHLADIN system. The current user access groups do not provide sufficient separation of duties. Most users of AHLADIN have access to post fees, extend expiration dates, waive fees, print licenses, and return payments. Additionally, the Department does not monitor system access to ensure removal of users upon termination. We found nine employees that terminated employment up to three years ago who still have active accounts.

Recommendations

The Department has formed various AHLADIN committees to address the various financial and control issues, yet there are many unresolved problems. The Finance and Data Department should work together to address the operational issues with the system. We also make the following specific recommendations.

- The Finance Department, the Data Center, and lockbox bank should work together to determine the necessary systems changes to make the lockbox module work efficiently and effectively. The accuracy of this data ensures the reliability of the financial information.

- The Department should reconcile CARS and AHLADIN monthly to ensure the accuracy and integrity of the revenue data. We recommend that the Department consider creating an automated interface to reconcile the two systems.
- The Department should limit employee's access to processes critical to the employee's job responsibilities. In all instances possible the Department should implement system checks and balances to ensure data accuracy and completeness. In addition, we recommend the Department establish procedures so that timely removal of all terminated employees occurs. A systematic procedure to record and perform access removal is important. Failure to do so may allow unauthorized access to critical systems.

Improper Controls Over Assets

The Department needs to improve procedures for tracking and recording assets. The Department uses the Fixed Asset Accounting Control System (FAACS) to record assets valued over \$2,000. We found two items with assigned inventory tags and valued over \$103,000, but never entered in FAACS. We found another item incorrectly identified in FAACS. Additionally, due to the lack of safeguards over its assets, the Department could not locate a computer costing \$2,000.

Recommendation

The Department should improve its procedures for tracking and recording equipment. Staff should promptly tag and enter assets into FAACS. The Department should ensure it maintains proper stewardship over its assets.

DEPARTMENT OF HEALTH PROFESSIONS
Richmond, Virginia

Board of Health Professions

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