



DEPARTMENT OF HEALTH PROFESSIONS

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Department of Health Professions (Health Professions) for the year ended June 30, 2013, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Health Professions internal licensing system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Develop and Implement Internal Control Policies and Procedures

The Department of Health Professions (Health Professions) lacks documented policies and procedures in the following areas:

- Small Purchase Charge Cards
- License 2000 role assignments within the Access Control Policy

Maintaining adequate written policies and procedures is essential in mitigating the risk of errors. The Commonwealth Accounting Policies and Procedures Manual, Section 20355, requires agencies to develop and document internal control procedures surrounding small purchase charge cards and this requirement helps ensure compliance with the Commonwealth rules and regulations as well as corporate purchasing card contract provisions. In addition to not having formal small purchase charge card policies and procedures, the auditor identified one instance of a split purchase transaction where a cardholder split a single transaction into two purchases in order to exceed the cardholders authorized limit. The CAPP manual specifically prohibits this type of activity.

In addition, the ITRM Information Security Standard requires that agencies develop, disseminate, review and update annually a formal, documented access control policy that addresses purpose, scope, roles, and responsibilities. Although Health Professions has implemented access control policies in the agency IT Security Plan, there are no documented definitions for License 2000 user roles giving guidance to appropriate access allowances. Without this guidance, Health Professions cannot ensure they have assigned least privilege or proper segregation of duties.

To minimize risk and ensure adequate internal control, management should develop and implement written internal policies and procedures.

Improve Database Security

Health Professions does not use some required controls to protect the databases that support the internet-facing prescription monitoring and health profession licensing applications. These databases contain sensitive information, such as personally identifiable information and prescription data. We identified and communicated the weak controls to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Commonwealth's Information Security Standard, SEC 501, requires agencies to use specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. Health Professions should dedicate the necessary resources to implement the controls discussed in the communication marked FOIAE and create a standard installation and configuration guide for its sensitive databases that, at a minimum, meets the requirements in the Commonwealth's Security Standard.

AGENCY HIGHLIGHTS

The Department of Health Professions (Health Professions), the Board of Health Professions (Board), and Virginia's 13 health regulatory boards have responsibility for ensuring the safe and competent delivery of patient care through the regulation of health professions. The Board recommends policy, reviews Health Professions' 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, subject to confirmation by the General Assembly, who may serve four-year terms.

Health Professions provides administrative services, coordination, and staff support to the following 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 (including Certified Nursing Aids) | |

Each of the 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 an approved examination in the professional field.

Licensing

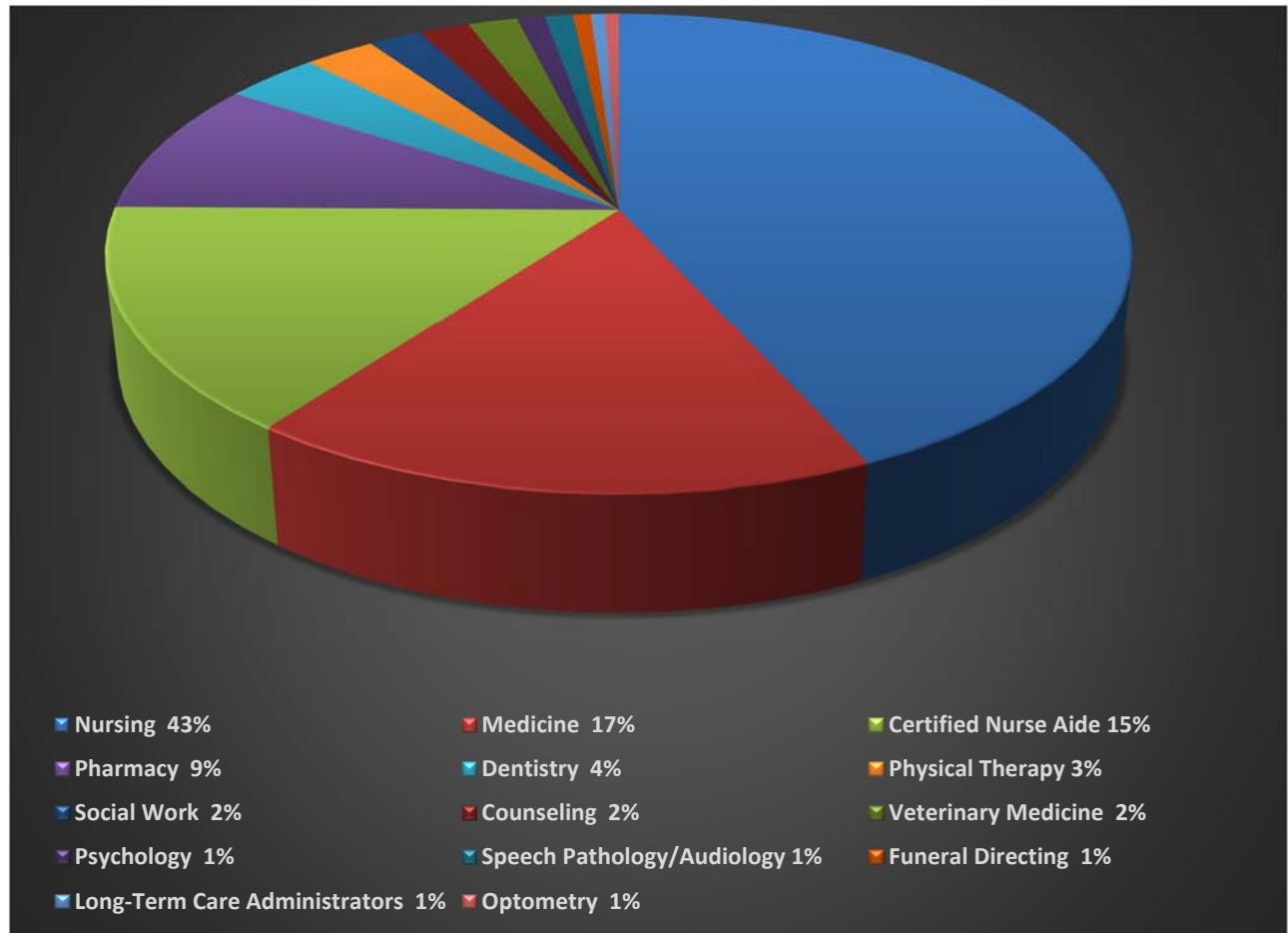
Health Professions primarily receives its funding from license application, renewal, examination, and other miscellaneous fees charged to practitioners and applicants. The 13 regulatory boards individually set their fees and determine whether to collect these fees annually or biennially. The Code of 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.

The number of individuals or entities holding active licenses through one of the 13 regulatory boards has continually increased over the last several years.



Source: DHP Biennial Report For the Fiscal Years 2011 and 2012 and License 2000 Internal Query

As seen in the chart below, 88 percent of active licenses are with the Boards of Nursing, Medicine, Pharmacy, and Dentistry. For the purpose of demonstrating the size of the Certified Nurse Aid profession in comparison with other boards in total, this profession was separated from the Nursing Board in the chart. In total, the Nursing Board accounts for 58 percent of agency licensees.



Source: License 2000 Internal Query

Financial Information

Health Professions 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. This revenue source provided 98 percent of agency funding in fiscal year 2013. The following schedule summarizes Health Professions' budgeted expenses compared with their actual results for fiscal year 2013.

Analysis of Budgeted and Actual Expenses by Funding Source

Fiscal Year Ended June 30, 2013

| <u>Fund Name</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Expenses</u> |
|---------------------------|------------------------|----------------------|------------------------|
| Dedicated Special Revenue | \$ 26,384,764 | \$ 26,384,764 | \$ 26,025,407 |
| Prescription Monitoring | 788,798 | 903,798 | 894,986 |
| Nurse Scholarship Fund | 65,000 | 65,000 | 39,200 |
| Federal Trust | <u>45,248</u> | <u>45,248</u> | <u>10,284</u> |
| Total | \$ 27,283,810 | \$ 27,398,810 | \$ 26,969,877 |

Source: Commonwealth Accounting Reporting System

Over 65 percent of Health Professions' total expenses are for personal services, with 29 percent of expenses attributable to contractual services. The following table summarizes expenses by major category for fiscal year 2013.

| <u>Expenses by Type</u> | |
|-------------------------|-------------------|
| | <u>2013</u> |
| Personal Services | 17,496,756 |
| Contractual Services | 7,835,912 |
| Continuous Charges | 1,279,199 |
| Supplies and Materials | 227,255 |
| Equipment | 86,346 |
| Transfer Payments | <u>44,409</u> |
| Total | 26,969,877 |

Source: Commonwealth Accounting Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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May 27, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Health Professions** (Health Professions) for the year ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and Health Professions' internal licensing system, review the adequacy of the Health Profession's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Health Profession'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 significance and 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 services expenses
Payroll expenses
Small purchase charge card
Information System Security

We performed audit tests to determine whether Health Professions' 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 Health Profession's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Health Professions properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Health Professions 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 certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on June 6, 2013. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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.

AUDITOR OF PUBLIC ACCOUNTS

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COMMONWEALTH of VIRGINIA

David E. Brown, D.C.
Director

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June 10, 2014

Martha S. Mavredes, CPA
Auditor of Public Accounts
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Richmond, Virginia 23218

Dear Ms. Mavredes:

Please accept this letter as our response to your audit of the financial records and operations of the Department of Health Professions (DHP) for the fiscal year ended June 30, 2013.

I would like to express appreciation for the quality of the work performed by the audit team while conducting DHP's audit. Your staff was courteous, thorough, fair, and understanding of the additional workload placed on DHP's staff while the audit was in progress.

We concur with the findings and recommendations made in the audit report. In fact, we have already completed the corrective action plans and presented the results in the recent exit conference.

Thank you.

Sincerely,

A handwritten signature in dark ink, appearing to read "DEB", written over a light blue horizontal line.

David E. Brown, D.C.
Director

AGENCY OFFICIALS

DEPARTMENT OF HEALTH PROFESSIONS

David E. Brown, D.C.
Director

BOARD OF HEALTH PROFESSIONS

Jonathan Noble
Chairman

| | |
|-------------------|-----------------------|
| Wanda Pritekel | Robert Maroon |
| Charlotte Markva | Virginia Van de Water |
| Jeffrey Levin | Yvonne Haynes |
| Blair Nelson | Constance Pozniak |
| Amanda Gannon | Paul T. Conway |
| Irene V. Farquhar | Maureen Clancy |
| Alison Gregory | Robert J. Catron |
| Robert Rhodes | |