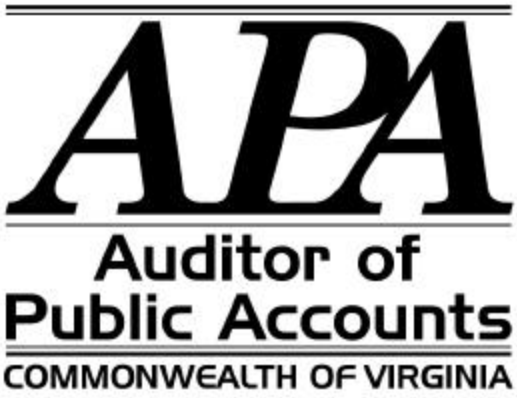
DEPARTMENT OF HEALTH

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002



AUDIT SUMMARY

Our audit of the Department of Health for the year ended June 30, 2002, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;

- internal control matters that we consider reportable conditions, however, we do not consider these matters to be material weaknesses;

- instances of noncompliance with selected provisions of applicable laws and regulations; and

- incomplete implementation of corrective action with respect to the audit findings reported in the prior year as reported.

- T A B L E O F C O N T E N T S -

AUDIT SUMMARY

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Bioterrorism

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AGENCY OVERVIEW

The Virginia Department of Health (Health) seeks to achieve and maintain personal and community health by emphasizing health promotion, disease prevention, bioterrorism preparedness, and environmental protection. Health administers the state's system of public health.

The State Board of Health, appointed by the Governor, defines its mission as "To provide leadership in planning and policy development for the Commonwealth and the Virginia Department of Health to implement a coordinated, prevention-oriented program that promotes and protects the health of all Virginians. In addition, the Board serves as the primary advocate and representative of the citizens of the Commonwealth in achieving optimal health." The Board of Health is responsible for determining the services Health provides, defining income limitations for recipients of specific services, and setting fees for local health departments. The Board must also submit an annual report to the Governor that contains information on the Commonwealth's vital records and health statistics including a summary of the health care issues affecting the citizens of the Commonwealth.

Health operates through a central office and 35 health districts that operate 119 local health departments. During fiscal year 2002, patient visits to local health departments totaled over 2.7 million. These patients received services in various areas such as child health; maternal health; the Women, Infants, and Children (WIC) nutritional program; and immunization clinics.

Local health departments work with Health through agreements between the state and the participating local governments. These agreements define the health services funded by the localities in the health districts. Programs offered include communicable disease control, prevention, and health education. In addition to patient visits, the local health departments are responsible for inspecting restaurants and drinking water and issuing permits for sewage systems, wells, and waterworks operations. Additionally, most local health departments provide a variety of non-mandated health care services for persons who cannot otherwise afford them.

AGENCY HIGHLIGHTS

Budget Reductions

In fiscal year 2002, Health reduced its General Fund appropriations by over $3.9 million as a result of statewide budget reductions. In addition to these reductions, the agency also reverted $435,420 in General Funds at fiscal year-end.

Budget cuts for the 2003 fiscal year resulted in an additional reduction of $7.2 million in General Funds (13.3 percent) and $1.7 million in special funds (4.3 percent). The fiscal year 2004 budget cuts will result in $7.7 million reduction in General Funds (12.0 percent) and $174,500 reduction in special funds (0.6 percent). Furthermore, these amounts result in a cumulative reduction of 23 positions and 24 layoffs.

Health continues to evaluate the impact of decreased funding and plans to absorb budget reductions for fiscal year 2003 by maintaining position vacancies, deferring equipment purchases, and imposing strict limitations on contractual, nonpersonal, and special fund expenses to generate a one-time savings of approximately $3 million. Additionally, Health will reduce the general fund support for Emergency Medical Services Advisory Task Force recommendations saving the agency close to $1 million; however, Health will continue to implement the most critical task force recommendations. Health will also produce additional savings by reducing programs and staff ($1.8 million) and reducing pass-through funding to health care providers ($1 million). In fiscal year 2004, the majority of the savings will come from additional reductions in programs, staff, and pass-through funding to health care providers.

Bioterrorism

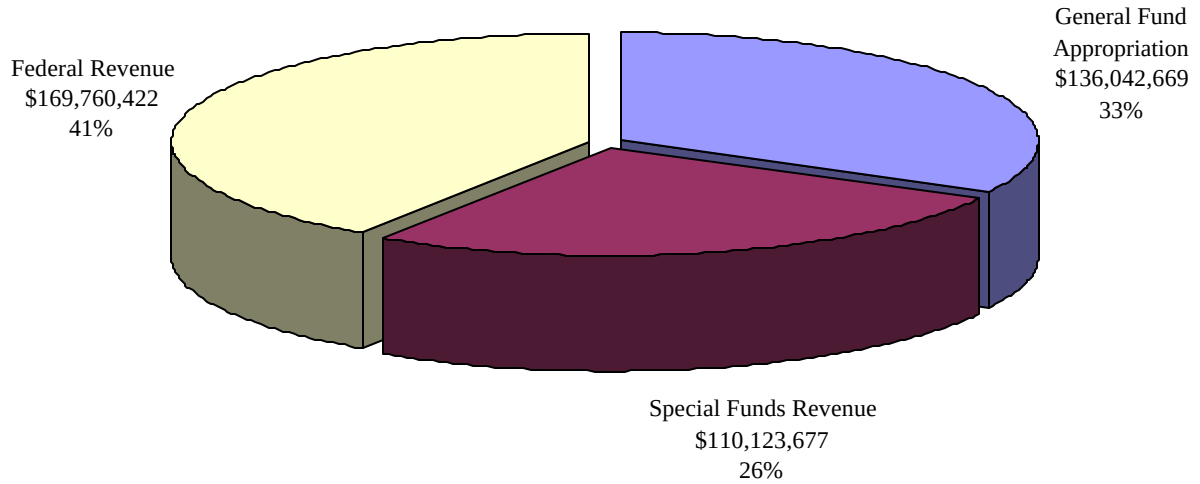
Before the terrorist attacks of September 11, 2001, Health had a Virginia Terrorism Task Force in place to react to terrorism. In 1999, the efforts of this task force led to Health receiving a million dollar grant to help prepare the Commonwealth for a possible biological attack. In fiscal year 2002, Health received the Virginia Public Health Preparedness and Response for Bioterrorism Grant, which provides $24 million to better prepare the Commonwealth to respond to a possible biological terrorist attack. This funding allowed Health to create the Office of Emergency Preparedness and Response and the approval to hire an additional 120 personnel for the division. The grant is currently divided into the following six focus areas: Preparedness Planning and Readiness Assessment, Surveillance and Epidemiology Capacity, Laboratory Capacity, Communications, Health Information Dissemination, and Training and Education. During fiscal year 2002, Health spent $1.1 million of the grant award. Health expects to spend $10 million during fiscal year 2003.

FINANCIAL OPERATIONS

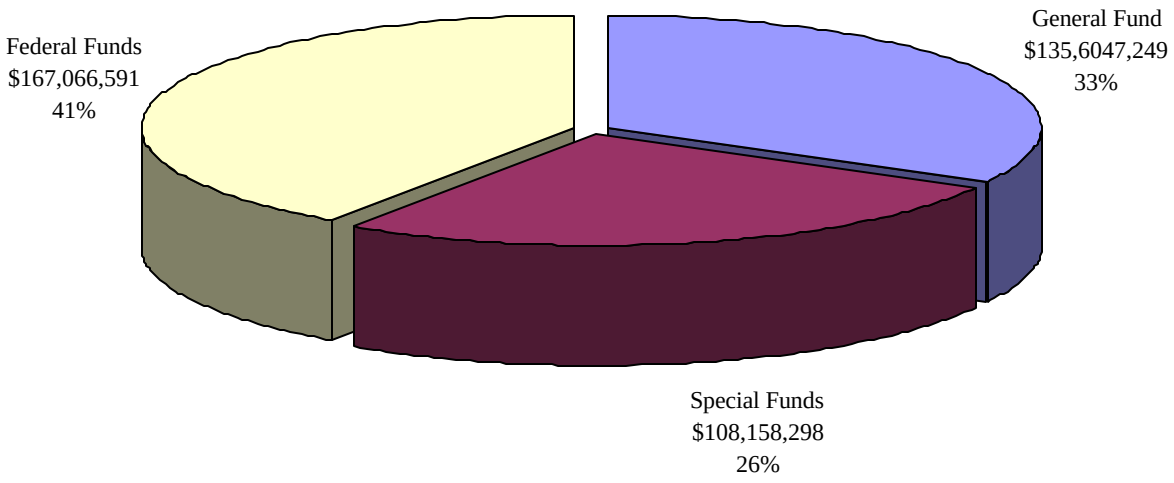
As illustrated below, Health received over $415 million in funding during fiscal year 2002. Federal funds represent the largest funding source and include $164.6 million in direct federal grant revenues and $5.1 million in federal pass-through funds from other agencies. The largest sources of federal revenue and expenses are the Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Drinking Water State Revolving Fund programs, which together account for approximately 61 percent of federal revenue and expenses. The sections entitled "Nutritional Program for Women, Infants, and Children" and "Drinking Water State Revolving Fund" describe these programs.

The majority of Health's special revenue funding and expenses relate to community health services. This program enhances access to health care by administering clinical services through cooperation with various localities throughout Virginia. Each of the 119 local health departments provides services, which include child health, family planning, environmental health, and communicable disease control. The localities, through their cooperative agreements with Health, can also fund other services provided at the local health department. These agreements specify the maximum amount of funding the locality and Health will contribute to the operation, the range of services provided, the income level served, the ownership of equipment, and the responsibility for the legal defense of state employees[mam1].

Funding Sources - Fiscal Year 2002



Expenses - Fiscal Year 2002



Of the total expenses illustrated above for fiscal year 2002, Health spent about $171,441,442 on personal services and related fringe benefits representing the single largest expense for the agency. Supplies and materials and contractual services were the next two largest expenses representing $86,837,490 and $67,365,268, respectively. Together these three areas represent approximately 80 percent of all expenses.

Leases and Fixed Assets

The Lease Accounting System (LAS) and the Fixed Asset Accounting and Control System (FAACS) are the Commonwealth's official record for accounting for leases and fixed assets. LAS includes the inception and expiration dates of the leases and number and amount of payments and future obligations. Health also uses an internal lease tracking system to track and validate lease payments prior to submitting the expense for payment. At fiscal year end, Health maintained over 580 building and equipment leases in LAS, recorded over $8.5 million in lease expenditures in the Commonwealth Accounting and Reporting System, and had an equipment balance of over $17.4 million recorded in FAACS.

Improve Reporting and Recording of Leases

Health is not properly accounting for their leases. We found 15 of 20 (75 percent) leases selected for review either not recorded or improperly recorded on LAS. In addition, Health did not perform an accurate and complete reconciliation between LAS and the Commonwealth Accounting and Reporting System (CARS) and there is no reconciliation between the Department's internal lease tracking system and LAS to ensure the proper recording of all leases.

Also, there are no internal policies and procedures for lease management including identifying responsibilities for using the internal lease tracking system and its reconciliation process. We noted several instances where lease inception dates did not agree to LAS or the internal lease tracking system. Policies and procedures and the reconciliation process are important for consistency to ensure everyone understands their responsibilities and to ensure the proper recording and updating of all lease information.

Health should develop policies and procedures for reporting and recording leases to ensure they properly identify, record, and report all leases. In addition, Health should perform a complete and accurate monthly reconciliation of LAS, CARS, and their internal lease tracking system. Health has a significant number of leases and proper recording and reporting to the State Comptroller are essential for disclosure in the Commonwealth's Annual Financial Report.

Ensure Proper Recording of Capitalizable Assets

Health did not properly record the transfer of $1,750,024 in assets to the Department of General Services, Division of Purchases and Supply for surplus in the Fixed Asset Accounting and Control System (FAACS). Health improperly recorded these items as surplus rather than transferred in FAACS, which indicated that Health still had possession of the assets and the need to safeguard them. Health should investigate each asset to verify whether the asset resides with the agency or has gone to the Department of General Services.

OFFICE OF INFORMATION MANAGEMENT

The Office of Information Management (OIM) has continued to make efforts to improve the division's function and performance over the past year and to continue moving forward on implementing several critical systems that have been in development for several years.

As described in our previous reports, the original Virginia Information Systems Integrated On-line Network (VISION) system had many deficiencies. Late in 1999, management determined that the data in the recently implemented VISION system was corrupt and concluded that the system was obsolete and no longer met Health's functional needs. Therefore, management decided to replace the obsolete system with the new web-based Virginia Information Systems Integrated On-Line Network (Web-VISION). The new system is a rewrite of the old VISION system into an internet-based application and will restore the integrity of the system data. Web-VISION is a patient-level system that manages client registration, patient visit documentation, immunizations, accounts receivable, community events, and maternity statistics.

The original scheduled implementation date for Web-VISION was January 2001, but unanticipated problems with the accounts receivable module, data integrity, and data conversion delayed the implementation date to December 2003. Currently, the development of Web-VISION is complete. The first system pilot started in the Richmond City district in November 2002 and the second pilot will begin in the Staunton district in January 2003. The results and the lessons from the two pilots will enable the project manager to complete a comprehensive implementation plan with realistic projected implementation dates for each district. The project manager anticipates completing the implementation plan in February 2003. However, data cleanup efforts are still underway and continue to represent a time-consuming issue that could change the final completion date. Therefore, we cannot determine if Health can meet the December 2003 completion date.

Another systems development project for Health is the EMS Web Trauma Registry system, which captures data/statistics on persons transported to emergency rooms as the result of injury (trauma) and the outcome of the emergency room visit. The data provides information on the person's injuries, the amount of trauma service, the level of intensity, and the outcomes in the facilities serving citizens of the Commonwealth of Virginia. OIM completed the EMS Registry by fiscal year end 2002 and began the EMS pilot testing at Southside Regional Hospital in Richmond and Riverside Regional Hospital in Newport News in October 2002. Health has not developed an implementation plan for roll out to all hospitals. Health anticipates completing the implementation plan after the completion of the pilot testing in December 2002.

On all existing system projects, Health should ensure that they develop a detailed implementation plan upon the completion of pilot projects and adjust current target dates to reasonably reflect accurate information and timelines. This is important to identify all requirements and minimize any additional costs to ensure the most efficient implementation process.

Systems Security

The Department uses client server architecture for its financial and vital records systems. The underlying operating system for these servers is UNIX. Security of any computer system is comprised of two layers. The application layer generally provides control via menu options or screen presentations of what users can do within a program. The operating system layer security generally provides controls of who can access the system at the file level, delete files, and add files.

Strengthen Operating System Security Policies

The Office of Information Management needs to enhance policies and procedures for UNIX and make contractors aware of the policy for implementing and maintaining proper controls for the UNIX servers. The lack of these policies could lead to inappropriate access to critical data and programs. Once accessed, an individual could either accidentally or maliciously alter and seriously compromise operations.

We recommend the Office of Information Management significantly enhance the current policies and procedures for UNIX and follow these procedures for maintaining security of the UNIX system. This policy should include a periodic review to ensure that all critical files have appropriate access permissions and all staff cannot access these files. Strengthening file access policies will improve security over important operating system and data files. Policies also provide continuity of secure operations as personnel change over time.

In response to our recommendation, the Office of Information Management updated their policies and procedures for UNIX security in October 2002.

NUTRITIONAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

The Supplemental Nutrition Program for Women, Infants, and Children (WIC) 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 serves as an adjunct to good healthcare during critical times of growth and development in order to prevent the occurrence of health problems and improve the health status of those persons. The number of WIC participant visits has increased slightly from 1,561,135 participants in fiscal year 2001 to 1,562,566 participants in fiscal year 2002.

Health administers the WIC program through local health departments who determine qualifying criteria for participation in the program. In November 2001, Health began to implement the new information technology application (WIC-Net) at the local health departments. As of August 2002, Health had fully implemented WIC-Net at all Local Health Departments. WIC-Net provides for automated record keeping, as well as the issuance of computerized WIC checks that include the participant's food package. WIC-Net will also make easier the processing of WIC checks through Health's clearinghouse bank.

DRINKING WATER STATE REVOLVING LOAN FUND

The Federal Safe Drinking Water Act Amendments of 1996 (SDWA) established a Drinking Water State Revolving Loan Fund (DWSRF) program where eligible states receive funds through a capitalization grant. Virginia received its first award of federal funds for the administration of the DWSRF program in 1997. The Drinking Water Revolving Loan Fund, administered by Health's Division of Drinking Water, provides qualified communities, local agencies, and private entities with loans and other types of financial assistance needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements. Drinking Water funds are categorized in two uses: project funds and non-project funds. Project funds

(construction funds) are used to provide financial assistance to waterworks to address public health problems and to ensure compliance with the provisions of the SDWA, while non-project funds are used to enhance the technical and managerial abilities of the state and owners of waterworks to ensure a waterworks' long-term capacity to produce safe drinking water and to protect construction loan investments. Since the inception of the program, Health has closed loans on 69 projects totaling $85.5 million, of which 30 project loans totaling $33.8 million were closed during this fiscal year. Health anticipates closing an additional 29 loans totaling $27,580,313 during fiscal year 2003.

OTHER INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Properly Write Off Bad Debt and Comply with Accounts Receivable Procedures

Health is not writing off past due uncollectable receivables in accordance with state or internal policies and procedures. Of $4,215,939 in total gross receivables at June 30, 2002, 68.87 percent is past due and 44.6 percent is over 90 days past due. Health's Department Administrative Management Manual (DAMM) requires a review and evaluation of past due receivables quarterly. In addition, Commonwealth of Virginia policy requires past due receivables go to Debt Set-Off when the receivable is more than 30 days past due, but before it becoming 60 days past due. The majority of the past due receivable balance represents the self-pay portion of patient accounts.

The local health department districts are not taking proper steps to clear the past due debt out of the accounting records. Leaving old and uncollectable accounts on the accounting records distracts resources that local health departments could use to collect current accounts rather than maintaining these old accounts.

Local health departments should review and evaluate accounts for write-off quarterly as stated in Health's policies and procedures. Furthermore, management should monitor the local health department's compliance in following the write-off procedures established for the Commonwealth.

Improve Financial Reporting over Grant Accounting

Health needs to improve the reliability of financial information recorded on the Schedule of Expenditures of Federal Awards and all related Pass-Through Schedules which Health reports to the Department of Accounts (DOA). DOA uses these schedules in the Commonwealth of Virginia Statewide Single Audit. The audit of Health's Schedule of Expenditures of Federal Awards (SEFA), related schedules, and footnote found numerous errors, which resulted in Health submitting revised schedules and footnote to DOA.

Health should improve its reporting procedures to ensure information provided to DOA is accurate and complete. Furthermore, Health should thoroughly review and approve financial information prior to submission to DOA.

Improve Contract Management and Administration

Health's Office of Purchasing and General Services (OPGS) manages procurement, provides contract management guidelines and training which includes guidance on maintaining a list of contracts. OPGS also determines and monitors purchasing authority delegated to departments and local health districts. Our review of selected local health districts and other selected program areas at Health identified instances of internal control weaknesses and noncompliance with policies and procedures.

OPGS has delegated $5,000 procurement authority to departments and local health districts. In some cases, OPGS granted verbal exceptions to the $5,000 delegated procurement authority but no documentation

exists to support these exceptions. Consequently, there were occurrences of individuals executing contracts in excess of their delegated authority.

Health has completed the development of procedures for all areas of procurement except contract management and administration. Consequently, the designation of contract administrators was not consistently assigned in writing which includes their assigned responsibilities. Without this written designation, contract administrators do not have guidelines to follow and in some cases these individuals have little or no contract management experience. OPGS needs to develop criteria for the responsibility and selection of contract administrators.

OPGS does contracting for the local health districts and, after completing the procurement, provides the local health district with the terms of the contract to verify the accuracy of payment amounts and compliance with the contract. However, there was no documentation that local health districts compared the invoices against the contract.

Health risks legal ramifications and overpayment for goods and services if they do not properly prepare and administer contracts and contract changes. Health should complete the development of contract management and administration procedures so that all employees are aware of and understand their responsibilities. This is important to ensure contract monitoring and consistent assignment of responsibility for the contract.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 8, 2003

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

The Honorable Kevin G. Miller
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 **Virginia Department of Health** (Health) for the year ended June 30, 2002. 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 recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Health's internal control, and test compliance with applicable laws and regulations. We also reviewed Health's corrective action of audit findings from the prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of the 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:

Information Systems	Payroll	Accounts Receivable	Expenses
Contract Management	Leases	Grant Management	Revenues

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 Health'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.

Health'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 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 this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal controls 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 internal control 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. Reportable conditions are discussed in the sections entitled "Financial Operations," "Office of Information Management," and "Other Internal Control Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which is discussed in sections entitled "Financial Operations," "Office of Information Management," and "Other Internal Control Findings and Recommendations."

Health has not completed adequate corrective action with respect to the previously reported findings entitled "Manage Contracts and Update Procurement Policies and Procedures, Enhance Policies and Procedures for Maintaining Proper Controls on UNIX Servers, and Properly Write Off Bad Debt and Comply with Account Receivable Procedures." Accordingly, we included these findings in the sections entitled "Financial Operations," Office of Information Management," and "Other Internal Control Findings and Recommendations." Health has taken corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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 on January 22, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA DEPARTMENT OF HEALTH
Richmond, Virginia

Robert B. Stroube, MD, MPH
Health Commissioner

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