

**VIRGINIA DEPARTMENT OF HEALTH**

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



## **AUDIT SUMMARY**

Our audit of the Virginia Department of Health for the year ended June 30, 2004, found:

- revenues and expenses that are material to the Commonwealth's Comprehensive Annual Financial Report and the Statewide Single Audit are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations including grant activity for the major programs;
- Health's management has established and maintained internal controls over the revenues, expenditures and major programs tested, except in the area of information technology controls where we have two recommendations to improve internal controls;
- expenses made by the regional health planning agencies are approved and reasonable and represent payments for goods or services that represent legitimate agency expenditures; and
- Health has taken adequate corrective action with respect to the prior year audit finding.

- TABLE OF CONTENTS -

AUDIT SUMMARY

AGENCY HIGHLIGHTS

FINANCIAL OPERATIONS

INDEPENDENT AUDITOR'S REPORT

AGENCY RESPONSE

AGENCY OFFICIALS

## AGENCY HIGHLIGHTS

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

The state Board of Health, appointed by the Governor, provides planning and policy development for Health to implement a coordinated, prevention-oriented program that promotes and protects the health of the citizens. In addition, the Board serves as the advocate and representative of citizens in health issues.

Health operates through a central office and 35 health districts that operate 119 local health departments. Local health departments work with Health through agreements between the state and 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, 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.

## FINANCIAL OPERATIONS

### Overview

Health received over \$400 million in funding during fiscal year 2004 with federal funds representing the largest funding source. The following tables summarize Health's budgeted revenues and expenses compared to actual results for fiscal year 2004.

### Analysis of Budgeted and Actual Funding

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General Fund appropriations	\$135,988,785	\$135,302,915	\$135,302,915
Special revenues	101,718,244	112,608,353	105,857,677
Special dedicated revenue	6,288,883	25,652,248	6,184,142
Federal grants	<u>190,337,210</u>	<u>207,956,244</u>	<u>198,895,138</u>
Total	<u>\$434,333,122</u>	<u>\$481,519,760</u>	<u>\$446,239,872</u>

Analysis of Budget to Actual Expenses, by Program

<u>Program</u>	<u>Program Expenses</u>		
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Community health services	\$161,582,988	\$164,437,316	\$156,332,699
Communicable and chronic disease prevention	69,438,077	82,603,771	76,191,587
Nutritional services	80,300,818	80,300,818	75,697,969
State health services	31,788,080	35,439,935	33,011,895
Environmental resources management	34,146,095	47,861,573	32,105,073
Emergency medical services	15,532,612	19,360,618	16,138,394
Administrative and support services	10,725,674	14,978,806	13,877,547
Regulation of public facilities and services	7,904,331	7,904,331	6,669,162
Medical examiner and anatomical services	5,168,926	5,710,019	5,703,153
Special health improvement and demonstration services	5,663,427	8,549,381	5,582,666
Vital records and health statistics	4,578,223	5,445,513	4,160,468
Health research, planning, and coordination	2,261,821	3,619,137	2,597,706
Regulation of food	1,775,669	1,887,426	1,849,589
Higher education student financial assistance	1,851,884	1,689,884	1,593,450
Regulation of products	<u>1,614,497</u>	<u>1,731,232</u>	<u>1,429,700</u>
Total	<u>\$434,333,122</u>	<u>\$481,519,760</u>	<u>\$432,941,058</u>

Major Federal Programs

Health administers two major federal programs: the Nutritional Program for Women, Infants, and Children (WIC) and the Ryan White CARE Act Title II Grant Program. Our audit work focused on testing internal controls surrounding Health's administration of these programs and the allowability of costs and eligibility of recipients.

*Nutritional Program for Women, Infants, and Children (WIC)*

The Nutritional Program for Women, Infants, and Children provides supplemental foods and nutritional education to eligible persons through local health departments. 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 health care during critical times of growth and development in order to prevent the occurrence of health problems and improve the health status of those persons.

Health administers the WIC program through local health departments who determine qualifying criteria for participation in the program. In fiscal year 2004, Health disbursed \$75,272,500 in federal funds through this program, which represents approximately 35 percent of Health's total federal expenditures and a six percent increase over fiscal 2003.

### *Ryan White CARE Act Title II Grant Program*

The Ryan White Care Formula Grant enables states to improve the quality, availability, and organization of healthcare and support services for low income individuals and families with Human Immunodeficiency Virus (HIV) disease. This comprehensive care grant provides drugs under the Virginia AIDS Drug Assistance Program (ADAP) and other services such as essential medical and support services.

Health's Division of HIV/STD provides support to local health districts in the prevention and treatment of HIV, including its complications, through provision of education, information, and healthcare services. Health also contracts with five regional health consortiums to provide AIDS-related services, other than AIDS drugs. In addition, Health has contracted with an outside entity to maintain its ADAP database, which provides utilization and demographic data used for program reporting requirements. In fiscal year 2004, Health disbursed \$23,855,500 in federal funds through this program, which represents approximately 11 percent of Health's total federal expenditures and an 18 percent increase over fiscal 2003.

### Financially Material Activities

In addition to the federal funds noted above, Health administers several programs that generate material revenues for the Commonwealth of Virginia. The material revenue generated totals over \$85 million and is part of Health's special revenue funds. About \$49 million represents money that localities remit to Health under local health department cooperative agreements. The remaining \$36 million represents fees that Health collects for their services such as vital statistics (birth and death certificates), medical clinic fees, septic system permit fees, and well permit fees.

The major General Fund expenses are payroll and related fringe benefit costs and the direct payments to support the local health departments. Payroll and related fringe benefit costs is \$75.2 million and local health department support is \$20.5 million. These expenses constitute 66 percent of the General Fund's total expenses.

### Information Systems

Health processes the federal programs and financially-material activities described above on a variety of information systems that Health manages and maintains. These information systems include:

- WICNet, a client-server application that allows for automated tracking and WIC check issuance at the 35 local health departments.
- WebVISION, a patient level enterprise system that manages client registration, encounter processing, immunizations, accounts receivable, community events, central pharmacy/inventory management, and maternity statistics.
- F&A, a financial system to initially record transactions so that Health can upload information into the Commonwealth's Accounting and Reporting System (CARS).

We tested controls over the systems described above including user access, program change, disaster recovery, and security. Our review found the following areas where we recommend improvement:

#### Update Termination of Employee Access Policy

We found 20 terminated employees that continued to have access to critical systems although Health's policy requires departments to notify the security officer when an employee terminates. These employees have access to systems such as WICNet, WebVision, F&A, and CARS. Failure to remove access timely could compromise the system and data integrity.

We recommend that Health update its policy to include detailed procedures for departments to follow and remind supervisors of the policy periodically. In addition, Health should implement a monitoring process that confirms policy compliance.

#### Update Plan for Continuity of Operations

Health does not have an updated and complete plan for the continuity of operations that complies with VITA's Security Standard, COV ITRM Standard SEC2001-01.1. An incomplete and out-of-date plan could result in Health's inability to recover critical systems or data in the event of a disaster or result in staff following incorrect procedures during a critical response time.

We recommend that Health's Office of Information Management update and fully document its continuity of operations plan.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

November 22, 2004

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

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

We have completed an audit of the **Virginia Department of Health** (Health) for the year ended June 30, 2004. We conducted our overall review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

## Objectives

Our objectives for the audit of Health were to determine that:

- revenues and expenditures that are material to the Commonwealth's Comprehensive Annual Financial Report and the State Single Audit are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations occurred including grant activity for the major programs;
- Health's management has established and maintained internal controls over the revenues, expenditures and major programs tested;
- expenses made by the regional health planning agencies are approved, reasonable and represent payments for goods or services that represent legitimate agency expenditures; and,
- Health has taken adequate corrective action with respect to the prior year audit finding.

## Audit Scope and Methodology

Our audit's primary objectives were to evaluate the accuracy of Health's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia and test compliance for the Statewide Single Audit. In support of these objectives, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, reviewed the



adequacy of Health's internal controls, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed the corrective action of an audit finding from the prior year report.

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

Revenues	Payroll
Expenses	Federal Grants and Contracts

We gained an understanding of the overall internal controls, 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 Health'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 Health properly stated, in all material respects, the financial records reviewed in support of the Comprehensive Annual Financial Report and the Statewide Single Audit for the Commonwealth of Virginia listed in the scope section of this report.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions relative to Health's financial records. 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. These reportable conditions, entitled "Update Termination of Employee Access Policy" and "Update Plan for Continuity of Operations", are described in the subsection entitled "Agency Highlights" We believe that neither of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Health has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

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

#### EXIT CONFERENCE

We discussed this letter with management at an exit conference held on February 28, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH/kva



# COMMONWEALTH of VIRGINIA

ROBERT B. STROUBE, M.D., M.P.H.  
STATE HEALTH COMMISSIONER

*Department of Health*  
P O BOX 2448  
RICHMOND, VA 23218

TTY 7-1-1 OR  
1-800-828-1120

March 4, 2005

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

Dear Sir:

We are providing this letter in response to your report on audit of the financial records of the Virginia Department of Health for the fiscal year ended June 30, 2004.

We confirm that we have reviewed the findings, conclusions and recommendations and have prepared a response and corrective action plan which is attached.

Sincerely,

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

Robert B. Stroube, M.D., M.P.H.  
State Health Commissioner

CC: Department of Accounts

**Virginia Department of Health  
Management response and corrective action plan for findings, and  
recommendations in the APA report for the year ended June 30, 2004.**

**APA Findings:**

*We tested controls over the systems described above including user access, program change, disaster recovery, and security. Our review found the following areas where we recommend improvement:*

**1. Update Termination of Employee Access Policy**

*We found 20 terminated employees that continued to have access to critical systems although Health's policy requires departments to notify the security officer when an employee terminates. These employees have access to systems such as WICNet, WebVision, F&A, and CARS. Failure to remove access timely could compromise the system and data integrity.*

*We recommend that Health update its policy to include detailed procedures for departments to follow and remind supervisors of the policy periodically. In addition, Health should implement a monitoring process that confirms policy compliance.*

**Agency Response:**

We acknowledge that because of the number and disparate types of systems that VDH system users have access to and the number of business units that control access to applications, ensuring that separating employees are removed from all systems promptly proves to be an extremely challenging task. However, we do not believe that the failure to remove access as noted by the APA compromises the systems or the data integrity due to our layered defense, discussed in detail below.

Additional measures we plan to take to improve our separating employee notification process include:

A reminder from the Commissioner's Office to all District Directors and Office managers emphasizing the importance of promptly notifying their local Site Security Officers when employees separate. An update to Separating Employee Action form to include the same reminder to the supervising employee, a requirement for the listing of applications for which the separating employee has access and a listing of the appropriate areas or personnel to which the form is to be sent depending on the listed applications.

**VDH Layered approach**

VDH has put in place policies (ITRM- Computer Access Security section) and mechanisms (HR-14 Separating Employee Action Form that require supervisory personnel to notify the appropriate areas including IT when employees leave the agency. In spite of these policies, procedures and mechanisms, exceptions can be found where this information is not always promptly communicated to the correct areas or personnel.

VDH management believes that we have nullified the above mentioned vulnerability by adhering to the National Institute of Standards and Technology (NIST), International Information Systems Security Certification Consortium (ISC) 2 and others recommended "Best Practices" strategy of "Defense in Depth".

VDH has for years employed this strategy which practices a "layered defense" in its security stance. In practical application as it applies to separating employees, this means that as soon as central office IS security is informed of a separating employee their remote access to the VDH network whether via PPP dialup or VPN is removed. (Layer 1.) At this point a former employee has no more access to the VDH network than anyone visiting a VDH office who might want to do harm to the network.

Per VDH security policy (ITRM – Computer Access Security and Data Security sections) VDH PCs that have network access are not readily accessible to the public. (Layer 2)

In addition they are required to be protected from unauthorized access by being logged off when not in use or password screensaver protected when they are on the network and not occupied. (Layer 3.) To date VDH has not suffered any instances where these layers of defense have been breached.

**Jim Burns, M.D. CIO – VDH January 10, 2005**

**2. Update Plan for Continuity of Operations**

*Health does not have an updated and complete plan for the continuity of operations that complies with VITA's Security Standard, COV ITRM Standard SEC2001-01.1. An incomplete and out-of-date plan could result in Health's inability to recover critical systems or data in the event of a disaster or result in staff following incorrect procedures during a critical response time.*

*We recommend that Health's Office of Information Management update and fully document its continuity of operations plan.*

**Agency Response:**

We concur with this finding and agree to draft an OIM section for the COOP with the goal for completion by Kenny White, OIM/VITA Engineering Manager, by March 31, 2005.

**Jim Burns, M.D. CIO- VDH January 10, 2005**

VIRGINIA DEPARTMENT OF HEALTH

Richard B. Stroube, MD, MPH  
Health Commissioner

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