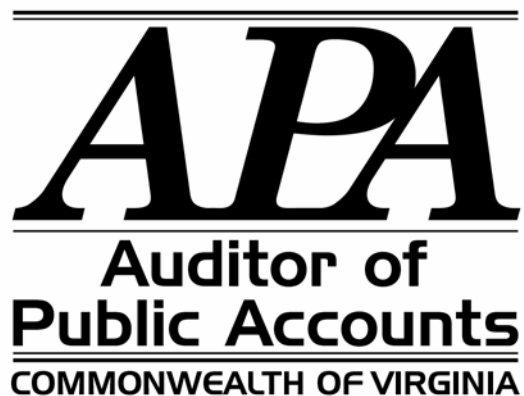


VIRGINIA DEPARTMENT OF HEALTH

**REPORT ON AUDIT FOR YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit of the Virginia Department of Health (Health) for the year ended June 30, 2006, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Health's accounting records;
- an internal control matter that we consider a reportable condition and requires management's attention and corrective action;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- risk still existing related to a prior year audit finding, although Health has taken adequate corrective action for all prior year audit findings.

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

The Virginia Department of Health (Health) contracted with Virginia Commonwealth University (VCU) to house and manage a database containing sensitive information. Health did not provide VCU with specific security and control requirements necessary to adequately protect this database. We recommend that Health provide VCU with a listing of the minimum security and controls necessary to protect Health's sensitive information. Furthermore, Health either needs to have VCU provide them with assurance that the required controls are in place and operating effectively, or closely supervise VCU to gain this assurance.

RISK ALERT FROM PRIOR YEAR FINDINGS

Security Risk Assurance for Infrastructure

The State Health Commissioner has responsibility for the security and safeguard of all of Health's information technology assets, systems, and information. Over the past three years, the Commonwealth has moved the information technology infrastructure supporting these databases to the Virginia Information Technologies Agency (VITA). In this environment, VITA and the State Health Commissioner clearly share responsibility for the security of Health's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

Health has provided VITA with all the documentation required to make this assessment. However, VITA has not been able to provide Health with assurance that they can provide hardware and software configurations to satisfy these requirements and appropriate controls to secure information technology assets, systems, and information.

Therefore, Health cannot fulfill their responsibilities stated in the state policy, which will put its information technology assets, systems, and information at risk. As such, VITA needs to provide assurance to Health that appropriate security is available to meet Health's information security requirements.

AGENCY HIGHLIGHTS

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

The State Board of Health (Board), appointed by the Governor, provides planning and policy development to enable Health to implement coordinated, prevention-oriented programs that promote and protect the health of citizens. In addition, the Board serves as the advocate and representative of citizens regarding health-related 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 Commonwealth and participating local governments. These agreements define the health services funded by the localities in the health districts. Programs offered include communicable disease control and 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 healthcare services for persons who cannot otherwise afford them.

Financial Operations

Health received over \$500 million in funding during fiscal year 2006, 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 2006.

Analysis of Budgeted and Actual Funding

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General fund appropriations	\$142,773,275	\$148,902,946	\$147,374,402
Special revenue	113,296,500	128,675,249	123,761,965
Special dedicated revenue	91,031,177	33,929,302	15,137,709
Federal grants	<u>140,830,913</u>	<u>215,570,263</u>	<u>214,452,598</u>
Total	<u>\$487,931,865</u>	<u>\$527,077,760</u>	<u>\$500,726,674</u>

Source: Original Budget - Appropriation Act, Chapter 951; Adjusted Budget and Actual Funding - Commonwealth Accounting and Reporting System (CARS)

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	\$169,453,571	\$186,633,374	\$181,959,033
Communicable and chronic disease prevention and control	91,197,059	93,590,620	87,638,826
Nutritional services	80,736,276	84,396,222	81,605,496
Environmental resources management	33,889,310	42,863,767	27,659,302
State health services	36,470,208	35,026,929	32,743,088
Emergency medical services	26,159,823	26,448,083	24,417,851
Administrative and support services	14,069,744	17,248,697	16,927,120
Special health improvement and demonstration services	6,271,490	8,492,384	7,044,309
Regulation of public facilities and services	8,119,123	8,431,308	7,592,141
Medical examiner and anatomical services	6,033,808	6,806,696	6,653,729
Vital records and health statistics	5,450,986	5,750,524	5,312,812
Health research, planning, and coordination	3,898,324	4,822,635	4,081,058
Regulation of products	1,800,169	2,390,489	1,779,437
Higher education student financial assistance	2,504,116	2,124,629	1,725,219
Regulation of food	<u>1,877,858</u>	<u>2,051,403</u>	<u>2,036,746</u>
 Total	 <u>\$487,931,865</u>	 <u>\$527,077,760</u>	 <u>\$489,176,165</u>

Source: Original Budget - Appropriation Act, Chapter 951; Adjusted Budget and Actual Expenses - CARS

The Safe Drinking Water Revolving Fund within the Environmental Resource Management Program, which has general and federal funds under the Safe Drinking Water Act, did not spend \$15 million of its budget in fiscal year 2006. This occurred because there is a timing difference between obligating the funds to waterworks for construction projects and Health's reimbursement of costs. Waterworks, which receive grants and loans, must submit expenses to Health for reimbursement. As of June 30, 2006, Safe Drinking Water Revolving Fund had \$13.6 million in state funds reported in the Commonwealth Accounting and Reporting System (CARS). Of this amount, \$10.9 million represents funds which Health has awarded to waterworks for construction projects, and is awaiting reimbursement requests from waterworks for such funds.

Major Federal Programs

Health administers four major federal programs: WIC (Special Supplemental Nutrition Program for Women, Infants, and Children), Ryan White CARE Act Title II Grant Program, Immunization Grant, and the Safe Drinking Water State Revolving Fund. Our audit work focused on testing internal controls surrounding management's administration of these programs, the allowability of costs, and eligibility of recipients.

WIC

The WIC 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 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.

Health administers the WIC program through local health departments which determine if recipients meet the qualifying criteria for participation in the program. In fiscal year 2006, Health spent \$81,439,343 in federal funds on this program, which represents approximately thirty-four percent of Health's total federal expenses and a five percent increase over fiscal year 2005.

Ryan White CARE Act Title II Grant

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 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 Disease Prevention provides support to local health districts in the prevention and treatment of HIV, including its complications, through education, information, and healthcare services. Management also contracts with five regional health consortiums to provide AIDS-related services, other than AIDS drugs. In fiscal year 2006, Health disbursed \$23,110,548 in federal funds through this program, which represents approximately ten percent of total federal expenditures and a four percent decrease over fiscal year 2005.

Safe Drinking Water State Revolving Fund

The Safe Drinking Water State Revolving Fund (Drinking Water Fund) assists waterworks in financing the costs of infrastructures needed to achieve or maintain compliance with the Safe Drinking Water Act. A majority of the assistance is loans and grants to privately-owned and locality-owned water systems. The Commonwealth uses a smaller portion of the Drinking Water Fund to promote source water protection and enhance water systems management.

Health's Office of Drinking Water (Office) administers the Drinking Water Fund and ensures that the Commonwealth meets the federal government's twenty percent matching requirement. Currently, the Drinking Water Fund receives more state funds than are necessary to meet the twenty percent federal matching requirement. During fiscal year 2006, the Office disbursed a total of \$17,493,546 in both state and federal funds from the Drinking Water Fund, of which thirty-four percent were state funds.

The Office contracts with the Virginia Resource Authority (Authority) to collect loans made from the Drinking Water Fund, while the Office retains the responsibility for reviewing and approving all subsequent disbursements of these funds. Over the past several years annual federal awards and state appropriations have been sufficient to cover the reimbursement requests from waterworks, as a result the Office has not authorized disbursements from loan repayments since fiscal year 2003. At the end of fiscal year 2006 the Drinking Water Fund had a cash balance of \$9,867,023 from loan repayments in its accounts at the Authority that are not reflected on the Commonwealth Accounting and Reporting System. While these funds have been obligated for construction projects, the Office has elected to draw on its federal awards and state appropriations first in settling reimbursement requests from waterworks.

Immunization Grants Program

The Immunization grants enable states to provide vaccines to various populations that may otherwise not receive vaccines. Health receives both financial assistance and vaccines from the federal government. In fiscal year 2006, Health expensed \$27,375,400 in federal financial assistance under the Immunization Grants Program and received another \$22,259,062 in vaccines. Local health departments and private providers dispensed the vaccines. The value of these vaccines is not in Health's financial highlights, as the federal government purchases the vaccines and transfers them to Health for distribution.

Other Financial Activities

Several of the programs Health administers rely on the collection of nonfederal revenues. During fiscal year 2006, four programs accounted for 84 percent (\$117.1 million) of these revenues. About \$53.1 million represents the localities' share of funding towards operating costs of local health departments, and approximately \$17.7 million comes from patient collections for services at the local health departments. The Department of Motor Vehicles collects a "4 for Life" vehicle registration fee and transfers the collections to Health (\$28.3 million). Health uses the "4 for Life" funding to support, train, and provide grants to local rescue squads. The remaining \$18.0 million represents monies that Health collects for vital statistics (birth and death certificates), septic system permits, and well permit fees.

Management spends the majority of Health's General Fund appropriations on payroll and related fringe benefit costs (\$82 million), and direct payments (\$23 million) to support local health departments. These expenses constitute 72 percent of Health's General Fund appropriation.

Information Systems

Management processes federal programs and financial activities on a variety of information systems. Below is a brief description of these information systems.

- F&A - a financial and administrative system that initially records transactions so that management can upload information into the Commonwealth's Accounting and Reporting System (CARS);
- WICNet - a client-server application that allows for automated tracking of WIC check issuance at the 35 local health districts;
- HIV Aids Drug Assistance Program (ADAP) - provides utilization and demographic data for program reporting requirements;

- Virginia Immunization Information System (VIIS) - referred to as the Immunization Registry; gathers and reports on immunization activities across the Commonwealth; and
- Safe Drinking Water Information System (SDWIS) - a repository of Virginia's public drinking water supply information necessary for routine monitoring and regulatory activities.

We tested controls over the systems including user access, change management, disaster recovery and business continuity, server and database administration controls, and Health's general security environment. Our finding is in the section entitled, "Internal Control Finding and Recommendation."



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 14, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Department of Health (Health)** for the year ended June 30 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Health's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2006, and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in Health's accounting records; reviewed the adequacy of Health's internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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.

Federal grant and contract expenditures
Support for local rescue squads
Collection of fees for services
Network security

Payments to localities
Aid to local governments
Payroll expenditures

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. Our audit procedures included inquiries of appropriate personnel; inspection of documents, payroll records, federal financial reports, WIC check images, internal audit reports, vouchers, cooperative agreements and contracts; and observation of Health's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Health properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in Health's accounting system. Health 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, the Appropriation Act and other information provided by management.

We noted a certain matter involving internal control that requires management's attention and corrective action. The matter is described in the section entitled "Internal Control Finding and Recommendation."

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Exit Conference and Report Distribution

We discussed this report with management on February 1, 2007. Management's response has been included at the end of 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.

AUDITOR OF PUBLIC ACCOUNTS

GWS:jab
jab:45



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

February 13, 2007

**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, 2006.

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 cursive script, 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
Audit response for Fiscal year ended June 30, 2007

Audit Finding and Recommendation:

The Department of Health (Health) contracted with Virginia Commonwealth University (VCU) to house and manage a database containing sensitive information. Health did not provide VCU with specific security and control requirements necessary to adequately protect this database. We recommend that Health provide VCU with a listing of the minimum security and controls necessary to protect Health's sensitive information. Furthermore, Health either needs to have VCU provide them with assurance that the required controls are in place and operating effectively or closely supervise VCU to gain this assurance.

VDH Management Corrective Action Plan:

We have revised the contract with VCU to now include specific security and control requirements necessary to protect the sensitive database. We will supervise VCU to obtain assurance that these controls are in place and operating effectively.

VIRGINIA DEPARTMENT OF HEALTH

Robert B. Stroube, MD, MPH
State Health Commissioner

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As of June 30, 2006

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