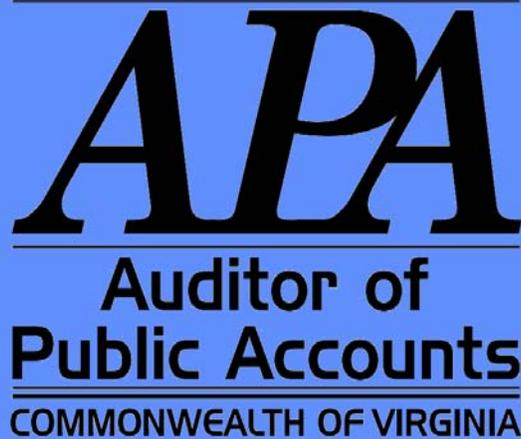


**AGENCIES OF THE SECRETARY OF  
HEALTH AND HUMAN RESOURCES**

**JUNE 30, 2011**



## **AUDIT SUMMARY**

This report discusses the services and financial activities of the thirteen departments and agencies reporting to the **Secretary of Health and Human Resources**.

### **AUDIT RESULTS**

Overall our audit for the year ended June 30, 2011, found the following:

- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in each agency's accounting records.
- Internal control matters that require management's attention and corrective action; these are included in the section entitled "Recommendations" starting on page 1.
- Instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards; these are included in the section entitled "Recommendations" starting on page 1.

### **DEPARTMENTS AND AGENCIES**

The Secretary of Health and Human Resources report includes the following departments and agencies.

Aging  
Behavioral Health and Developmental Services  
Blind and Vision Impaired  
Deaf and Hard of Hearing  
Health  
Health Professions  
Medical Assistance Services  
Office of Comprehensive Services for At-Risk Youth and Families  
Rehabilitative Services  
Social Services  
Virginia Board for People with Disabilities  
Virginia Rehabilitation Center for the Blind and Vision Impaired  
Woodrow Wilson Rehabilitation Center

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**RECOMMENDATIONS**

**Agency** ..... **Category**

**Social Services**

High Error Rate in Foster Care Title IV-E Cases ..... Risk Alert  
Support Title IV-E Financial Claims in a Client’s Case Record ..... Repeat  
Reduce Benefit Payments for Individuals Refusing to Work ..... New  
Modify Monitoring Plans for Changing Risk and Obtain Senior Management Approval ..... New

**Secretary of Health and Human Resources**

**Medical Assistance Services**

**Social Services**

Obtain Valid Social Security Numbers ..... Follow-up

**Behavioral Health and Developmental Services**

Refine Estimates and Report Annual Cost Settlements to the State Comptroller ..... New  
Improve System Access Management ..... New  
Improve Information Security Awareness Training ..... Repeat  
Test IT Continuity of Operations and Disaster Recovery Plans ..... New

**Rehabilitative Services**

Improve Timeliness of Eligibility Determination ..... Repeat  
Improve IT System Controls ..... New

## **SOCIAL SERVICES**

### **High Error Rate in Foster Care Title IV-E Cases – Risk Alert**

In fiscal 2011, the federal government disallowed an average of \$3,169 per case from a primary review it did of 80 Foster Care Title IV-E cases or \$253,556. In response to these findings, the Department of Social Services (Social Services) developed a corrective action plan, which classified actions into training, guidance, and monitoring of local offices to prevent future errors in Foster Care Title IV-E.

The federal government is planning to return to conduct a secondary review of Foster Care Title IV-E cases in fiscal 2013 to ensure Social Services corrective actions are effective. In a secondary review the federal government selects 150 cases and projects the error rate to the full population. If the error rate from the second review is consistent with the first, we estimate the federal government could disallow up to \$17 million in Foster Care Title IV-E expenses.

While Social Services may follow their federally approved corrective action plan, it may not be effective because the localities that handle Foster Care Title IV-E cases for Social Services do not have any financial risk of owing money back to the federal government. We bring this to the attention of senior management at Social Services and the Secretary so they can determine if the Commonwealth should develop and implement a formalized structure for holding localities liable for program errors to mediate the Commonwealth's financial risk.

### **Support Title IV-E Financial Claims in a Client's Case Record - Repeat**

In the prior year, we recommended that the Division of Family Services develop an enforcement mechanism to compel localities to provide support in a client's case record of all foster care and adoption assistance Title IV-E payments. Before implementing the new policy, we recommended that management have it reviewed by the Secretary of Health and Human Resources to obtain the administration's support for the change.

We found the Division of Family Services performed no reviews of locality reconciliations during fiscal 2011 to determine whether the client's case record had support for payments. Further management developed the policy without submitting it to the Secretary of Health and Human Resources for his consideration or support.

As required by 45 CFR 1356.71, the case record must contain sufficient documentation to verify a child's eligibility in order to substantiate payments. Without an enforcement mechanism to compel localities to link all payments to a client's case record, the program will have disallowed costs. We again recommend that the agency develop an effective enforcement mechanism, with the support of the Secretary of Health and Human Resources that ensures localities support each of their payments with a case record reflecting the client's eligibility.

### **Reduce Benefit Payments for Individuals Refusing to Work - New**

Social Services is not following up with Local Departments of Social Services Offices (Local Offices) to ensure they are reducing benefits for individuals who fail to participate in the Virginia Initiative for Employment not Welfare (VIEW) program. Federal regulations require the State to reduce or terminate the assistance payments to a family if an individual within the family refuses to work, except where there is good cause or other exemptions established by the State. If Local Offices do not take timely action, the federal government can reduce the Commonwealth's total State Family Assistance Grant by up to five percent.

During its most recent review of random cases, Social Services found that Local Offices incorrectly handled 21 percent of their VIEW cases. We audited a sample of Social Services' reviews and agreed with their findings; however, we found in ten percent of cases audited, Local Offices failed to reduce or terminate the benefits after Social Services notified them of the error.

Social Services should follow-up with Local Offices on the cases with known errors to ensure their correction and ensure the Local Offices are following-up to correct the underlying issues that caused the errors in their cases. By further strengthening its monitoring process, Social Services can reduce its risk of receiving financial penalties from the federal government.

### **Modify Monitoring Plans for Changing Risk and Obtain Senior Management Approval - New**

When changes in risk occur, Social Services does not adjust and approve a division's monitoring plans for grantees. The Division of Community and Volunteer Services coordinates the development of the various division monitoring plans to address the risks associated with the grantee's management of programs; however, each division executes their plans. But, when changes in risk occur the divisions can deviate from their plans, but are not required to document the modification or justify their deviation from their original plans.

During fiscal 2011 we compared each division's actions to their approved plans and found the following deviations.

- As a result of the federal government conducting a primary review, the Division of Family Services decided not to conduct any grant monitoring reviews for their Foster Care or Adoption Assistance Title IV-E programs as planned.
- The monitoring coordinator for the Division of Benefit Programs left the agency and the position remains vacant. Due to the staff vacancy in this division, five of 36 monitoring reviews planned were not completed.

In both cases, because the divisions did not modify their monitoring plans, senior management could not assess, individually or collectively, if these deviations would have an effect on Social Services' overall risk. The monitoring plan is a dynamic tool that requires review and updating as significant changes in risk occur. Further, senior management should review and approve monitoring plans for risk acceptance and mitigation as they are developed or modified.

Without senior management's review and approval of monitoring plans and acceptance of risk, Social Services could be assuming risk that is not acceptable.

We recommend that Social Services develop a mechanism to adjust monitoring plans as changes in risk occur and that senior management review these modifications to ensure each division's actions are acceptable and that Social Services is not assuming too much risk as a whole.

**SECRETARY OF HEALTH AND HUMAN RESOURCES  
MEDICAL ASSISTANCE SERVICES  
SOCIAL SERVICES**

*As reported in management's corrective action plans, the complete and proper solution to this prior finding is taking more than a year. Due to the long-term commitment required to implement, monitor, and evaluate management's corrective actions for this finding, we are providing a follow-up on the progress that management is making.*

*We determined that management is making adequate progress through their corrective action plans reported to the federal government or modifying their plans to react to changing situations properly. We will continue to provide updates on this finding in future reports until management has had enough time to fully implement their corrective actions and we have evaluated them for effectiveness.*

**Obtain Valid Social Security Numbers – Follow-up**

Consistent with last year, we found that invalid social security numbers from local departments of social services created another \$5 million in possible questioned costs for the Medicaid program. This is a result of the Commonwealth not improving the process for obtaining valid social security numbers during fiscal 2011.

In the prior year audit, we notified the Secretary of Health and Human Resources, Medical Assistance Services, and Social Services that local departments of social services were not correcting unverified social security numbers as required. To confirm our finding, during fiscal 2011 Medical Assistance Services conducted a Medicaid Eligibility Quality Control (MEQC) pilot on the Social Security Number (SSN) verification process. In the cases reviewed, 22 percent had eligibility errors and 39 percent had technical errors. Medical Assistance Services issued its MEQC results on July 29, 2011 and subsequently implemented the Commonwealth's corrective action plan to obtain valid SSNs during fiscal 2012.

According to management, as of September 30, 2011 local departments of social services will only enroll an individual into Medicaid if they verify the applicant's SSN with the Social Security Administration. Staff must use either the State Verification Exchange System (SVES) or the State Online Query-Internet System (SOLQ-1) to verify an individual's SSN during the application process.

As a result of the time it took management to develop and implement a corrective action plan, we will test the effectiveness of the new process for obtaining valid SSNs during next year's audit.

## **BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES (BHDS)**

### **Refine Estimates and Report Annual Cost Settlements to the State Comptroller - New**

BHDS provides services which it can bill to Medicaid and Medicare. After each fiscal year, BHDS and Medicaid and Medicare agree on a settlement amount, the difference between allowable costs and the amount Medicaid and Medicare paid during the fiscal year.

BHDS has received an average of \$18 million each year over the past four years from settlements. BHDS factors these settlements into their budget. Fiscal staff estimated that BHDS will receive \$15.8 million in revenue in fiscal 2012 based on its billable costs from fiscal 2011. Going forward, management should have the fiscal staff refine their methodology for estimating BHDS' annual cost settlements using the best information available, and report to the State Comptroller the resulting receivable or payable.

### **Improve System Access Management - New**

During our review of access management at BHDS, we noted three areas in need of improvement.

#### *Granting Capabilities*

Management has not educated its system security officers on which system capabilities they should not combine because together they eliminate an internal control. We noted 32 instances where an employee was granted both entry and approval capabilities within the agency's accounts payable ledger. We also noted two employees with financial capabilities across multiple ledgers that could also change their abilities within the system. Management should limit these capabilities to maintain proper separation of duties.

The data owners should document and provide the system security officers with the user capabilities that when combined would compromise internal control within critical systems. The Security Officer in the central office should ensure system security officers do not combine incompatible roles and grant individuals these roles across the agency's information systems.

#### *Access Monitoring*

The Security Officer for the agency's financial system does not perform regular system access reviews. The Security Officer for the financial system relies on regional security officers to ensure that access to the system is reasonable and current and does not review users' capabilities in the system.

The Security Officer should work with the BHDS' Internal Audit Director to develop regular access reviews for the agency's financial management system and other critical systems. Security Officers should periodically review user capabilities for critical systems to ensure that users do not have capabilities that allow them to circumvent internal controls.

#### *Timely Deletion of User Accounts*

We found nine individuals with active accounts to critical systems that no longer required this access. Allowing terminated employees to retain their access increases the possibility that disgruntled employees could jeopardize BHDS' critical information. To reduce this risk, BHDS' Security Officers for critical systems should conduct periodic reviews to ensure that managers delete terminated employees' accounts from their systems promptly as required by the Commonwealth's System Security Standards.

#### **Improve Information Security Awareness Training - Repeat**

BHDS does not prevent employees who have not taken security awareness training from accessing mission critical, confidential and in some instances HIPAA protected data. We found four locations where all users had not had current security awareness training: Central Office (two percent), Central Virginia Training Center (19 percent), Eastern State Hospital (25 percent), and Southside Virginia Training Center (eight percent).

Requiring security awareness training and retaining employees' acknowledgment of training provides management some assurance that employees understand their responsibilities and allows management to take appropriate action when employees fail to protect BHDS's data and systems. For those facilities that combine HIPAA and security awareness training together, not receiving training is also a potential HIPAA violation.

While Human Resources track employees' completion of security awareness training, BHDS does not have a mechanism to enforce its training policy. Additionally, the Commonwealth's Information Security Standard, SEC501-06, "*Require information security training before (or as soon as practicable after) IT system users receive access rights to the agency's IT systems, and in order to maintain these access rights.*"

We recommend that BHDS dedicate the resources necessary to implement a mechanism to ensure that employees with access to sensitive data receive training according to its policy. For example, BHDS may institute and implement a policy to lock user accounts belonging to employees that have not completed the training requirements.

#### **Test IT Continuity of Operations and Disaster Recovery Plans – New**

While the Department of Behavioral Health and Development Services (BHDS) continues to improve its Continuity of Operations Plans (COOPs) and Disaster Recovery Plans (DRPs), BHDS does not perform periodic tests to ensure that these plans work.

We reviewed five locations, Central Virginia Training Center, Northern Virginia Training Center, Virginia Center for Behavioral Rehabilitation, Western State Hospital, and Southwestern Virginia Mental Health Institute and found that none had adequately tested and documented tests of their COOPs and DRPs during the previous year. Without performing sufficient tests over COOPs and DRPs, BHDS is unable to ensure the plans are sufficient when an interruption to service or disaster occurs.

We recommend that BHDS's management dedicate the resources necessary and delegate appropriate authority to its Information Security Officer to ensure each location is in compliance with its policy to test COOPs and DRPs annually.

## **REHABILITATIVE SERVICES**

### **Improve Timeliness of Eligibility Determination - Repeat**

While the Department of Rehabilitative Services (Rehabilitative Services) made improvements since the prior year, Rehabilitative Services continues to lack sufficient enforcement for timely eligibility determinations in the Vocational Rehabilitation (VR) program. Section 361.41 of the Code of Federal Regulations, requires Rehabilitative Services to determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless certain exceptional and unforeseen circumstances beyond the control of the agency preclude making an eligibility determination within 60 days. In this case, Rehabilitative Services and the individual must agree to a specific extension of time.

Our review found 1,100 cases within AWARE exceeded the 60 day eligibility determination limit based on recorded dates in the system. However, of those 1,100 cases, we reviewed thirty and found 18 (or 60 percent) that had no documentation of an extension of the eligibility period being granted. While this is an improvement over the prior year, the Rehabilitative Services is not in compliance with the federal regulation.

We recommend management continue to improve and enforce its eligibility determination policies. Management should also continue to provide additional training to counselors to increase awareness of the policy to ensure future compliance.

### **Improve IT System Controls - New**

Rehabilitative Services does not have a complete IT security program, and is lacking certain controls that improve the safeguards surrounding mission critical and confidential data. While Rehabilitative Services is actively working on improving its program, we found four incomplete or outdated essential components.

- Risk Management

- Contingency Planning
- IT Security Awareness and Training
- Logical Access Account Management

The Commonwealth Information Security Standard, SEC501, requires agencies to incorporate certain controls to provide mission critical and sensitive data a minimum set of safeguards. The Risk Management and Contingency Planning components provide the building blocks in creating a strong overall security program. Additionally, providing consistent security awareness to employees and ensuring prudent employee IT user account management are components that help protect the Commonwealth's data.

We recommend that Rehabilitative Services dedicate the necessary resources to update the information security program with the data safeguards identified above. We recognize that Rehabilitative Services assigned a new Security Analyst to continue improvements to Risk Management and Contingency Planning documents, as well as to assist the Information Security Officer in expanding the IT Security Program Manual.

**RESOLVED RECOMMENDATIONS FROM PRIOR AUDITS**

The following agencies, for areas that were in the scope of this year's audit, have taken or are taking adequate corrective action or justified why action is not warranted with respect to the following recommendations listed below:

**Aging**

Improve Sub-Recipient Monitoring Program

**Behavioral Health and Developmental Services**

Remove Terminated Employees Timely from Payroll  
 Coordinate Independent Peer Reviews  
 Manage Infrastructure Security Risk

**Health**

Improve Information Security Program

**Medical Assistance Services**

Improve Payment Transparency

**Office of Comprehensive Services**

Develop Monitoring Procedures to Review Locality Statistics  
 Improve Guidance and Background Provided to CPA Firms

**Rehabilitative Services**

Improve System Application Controls

**Social Services**

Continue Improving System Access

Improve and Comply with Information Security Program

**Department of Accounts and Department of Planning and Budget**

Improve Payment Transparency

## VIRGINIA'S MEDICAID PROGRAM

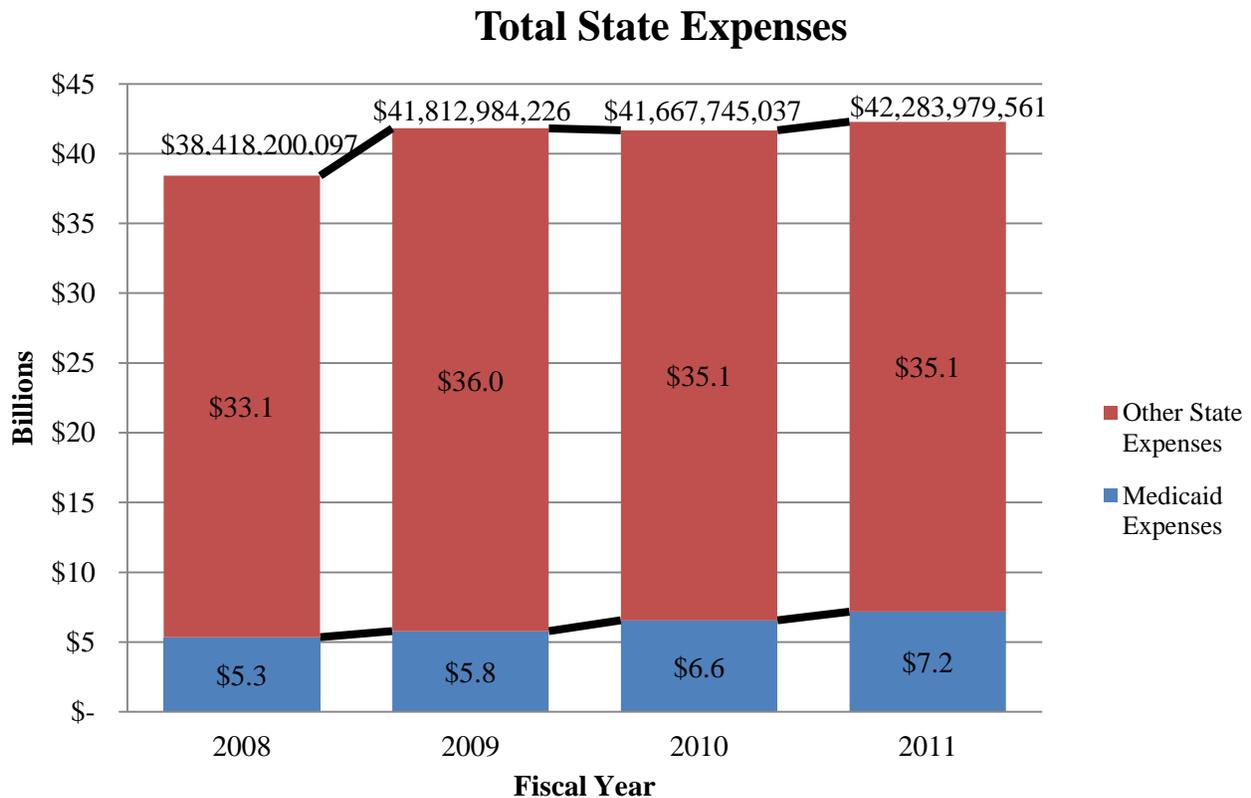
### AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

For fiscal 2012, Virginia's General Fund will need to commit an additional \$659 million to the funding of the Medicaid program. The funds are needed because on July 1, 2011, ARRA funding ended for the Medicaid program and Virginia returned back to splitting the program's costs 50/50 with the federal government. This \$659 million commitment assumes no growth in the program.

Historically, Virginia splits Medicaid costs 50/50 with the federal government; however, the American Recovery and Reinvestment Act (ARRA) increased the federal share to 61.59 percent from April 2009 until December 2010. An extension continued the enhanced funding for January through June 2011 at 58.77 percent and 56.88 percent for the third and fourth quarters of the fiscal year, respectively.

### MANAGING COSTS

The change in funding between the state and federal government has a large impact on the General Fund because of the size of the Medicaid program. In fiscal 2011, Virginia's Medicaid program grew to 17 percent of total state expenses or \$7.2 billion, as seen in the chart below.

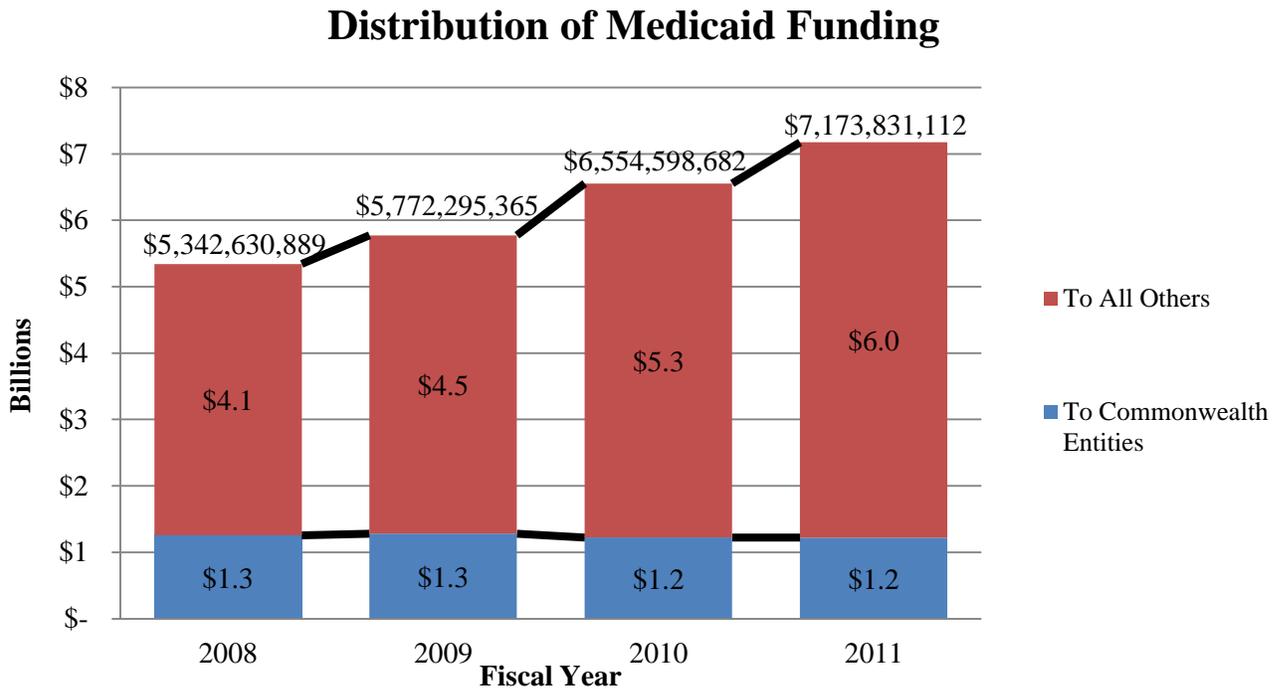


While Virginia’s Medicaid program is nearly 17 percent of Commonwealth total expenses, this percentage is a smaller percentage, when compare to other states. According to a national non-profit health policy research organization, Kaiser Family Foundation, the Commonwealth ranks fourth nationally at controlling Medicaid cost based on Medicaid expenses per capita. Virginia also ranks fourth in Medicaid enrollees as a percentage of the total state population at 11 percent, as compared to the national average of 19 percent.

In addition to cost containment strategies adopted by the state to control increases in Medicaid spending, the state has been able to control cost by not offering many of the optional services that other states are funding. Because of this and the federal government setting minimum requirements for services and redefining eligibility levels with the Healthcare Reform Act, there may be little opportunity for the Commonwealth to decrease future costs by changing services.

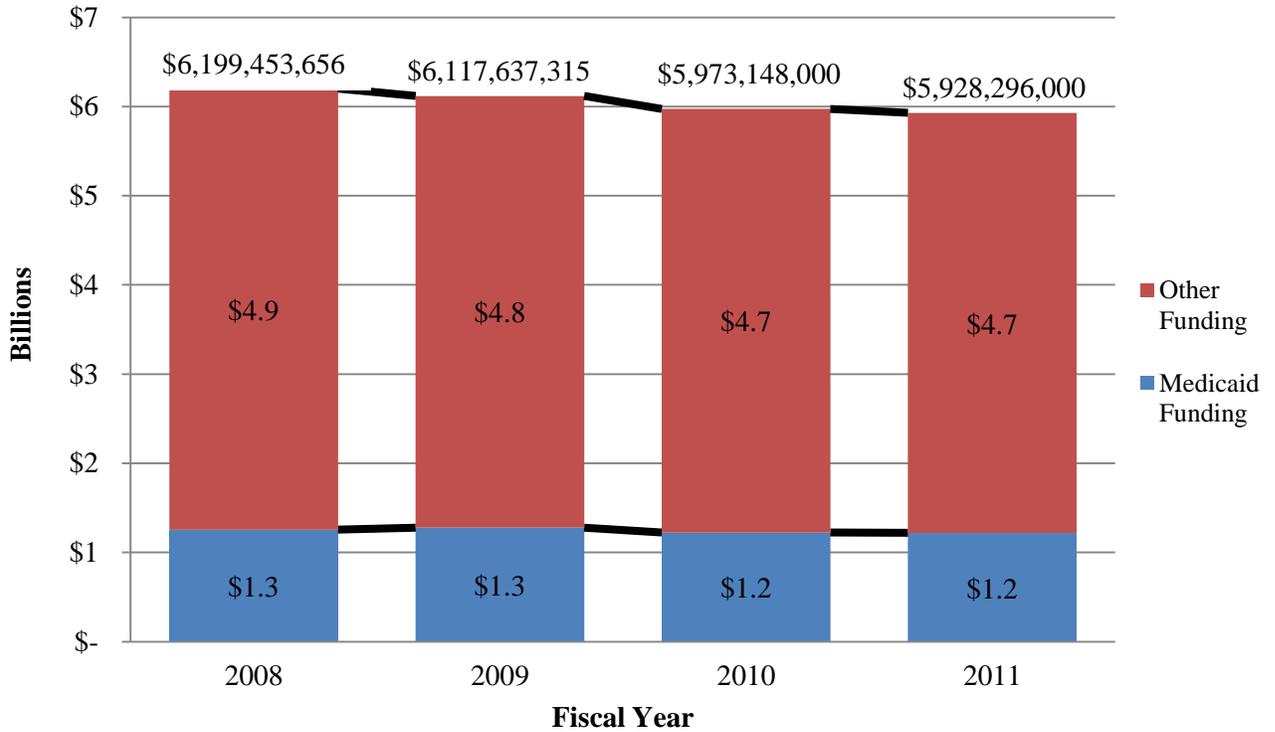
**INTERDEPENDENCE**

During fiscal 2011, the Department of Medical Assistance Services (Medical Assistance Services) continued to pay over \$1.2 billion in Medicaid funding to other state agencies and localities (Commonwealth entities). As seen in the following chart, while total Medicaid expenses increased by \$1.8 billion or 46 percent since 2008, payments to the top 11 Commonwealth entities receiving Medicaid funding has stayed relatively consistent at about \$1.2 billion.



While payments to the top eleven Commonwealth entities receiving Medicaid funding has stayed relatively consistent at about \$1.2 billion for the last four years, their total funding decreased by \$217 million, as seen in the chart below. Decreased funding from other sources is causing these entities to be more dependent on Medicaid funding to provide services.

## Funding for the Top Eleven Commonwealth Entities Relying on Medicaid



The table below shows the Medicaid funding percentage for each of the top 11 Commonwealth entities receiving Medicaid funding. Following the table is an impact analysis of Medicaid funding on state medical services.

Internal Medicaid Payments for Services  
(Dollars in Thousands)

<u>Commonwealth Entity</u>	<u>Medicaid Provided Funding</u>	<u>Total Available Funding for Services</u>	<u>Medicaid Funding as a Percent of Total Funding</u>
Department of Behavioral Health and Developmental Services	\$ 255,647	\$ 565,138	45.24%
Community Service Boards	351,878	973,539	36.14%
Office of Comprehensive Services	66,623	274,615	24.26%
UVA Health System	152,450	1,042,100	14.63%
VCU Medical Center	234,603	1,728,733	13.57%
Department of Social Services	99,973	753,985	13.26%
Local School Divisions	25,128	198,427	12.66%
Department of Health	13,717	236,387	5.80%
Department of Rehabilitative Services	1,879	104,558	1.80%
Department of Aging	231	32,448	0.71%
Woodrow Wilson Rehabilitation Hospital/Center	<u>20</u>	<u>18,366</u>	< 1%
Total	<u>\$1,202,149</u>	<u>\$5,973,148</u>	20.13%

**Fiscal Impact of Medicaid Funding on State Medical Services**

Over the years, all of the State agencies above, except for Social Services, have shifted medical services from direct General Fund sources only to the Medicaid program, and thus had the Federal government participate in providing these services. While shifts in funding have been deliberate, others have gradually occurred. Changes in the size and scope of the Medicaid program will have a significant impact on how these agencies delivery their services.

The \$255.6 million in Medicaid funding supports state services at Department of Behavioral Health and Developmental Services (BHDS), which represents 45.2 percent of its total funding. BHDS provides in-patient behavioral health and developmental services at its facilities. Historically, BHDS has been able to generate sufficient cash through its billings to provide some of its own General Fund match. However, in fiscal 2011, BHDS was not able to provide \$4.6 million for General Fund match, which caused the state to delay receiving \$4.8 in federal funds until fiscal 2012.

In addition to General funds received from BHDS, over a third of Community Service Boards' (Boards) services come from directly billing Medicaid, \$351.9 million. The Boards use funds from Medicaid billings along with state and local funds to provide community care for mentally ill individuals and persons with disabilities. Without Medicaid funds, the Boards would have to collect additional revenues or cut services to make-up for the 36 percent loss of their funding.

Comprehensive Services used \$66.6 million in Medicaid funding to provide residential psychiatric treatments for foster care children. Medicaid funding is available because the children that receive these services qualify for Medicaid. In the past the General Fund paid 100 percent for these services; in fiscal 2011 Comprehensive Services transferred approximately \$26.8 million of its General Fund monies to Medical Assistance Services to obtain Medicaid funding. Without Medicaid funding, Comprehensive Services would lose \$66.6 million or 24 percent of its funding.

In total, the two state University Medical Centers listed above received \$387 million from Medicaid for providing medical services to individuals in the Medicaid program and indigent patients. Medicaid funds represent 14.6 percent of the UVA Health System's, and 13.6 percent of the VCU Medical Center's total revenues.

As discussed above, these five Commonwealth's entities rely on Medicaid funding to provide medical services. Without Medicaid funding demands for General Funds and other resources would increase or the Commonwealth would have to decrease the amount of medical services it provides.

See appendix A of this report for a complete listing of Commonwealth entities that receive Medicaid funding and the services they provide.

## **HEALTH CARE REFORM**

Demands for Medicaid services are not likely to diminish and will only increase over time, especially with the passing of the Health Care Reform Act (Act) in March 2010. The Act expands coverage to areas of the population not currently eligible for Virginia's Medicaid and provides additional services to some existing Medicaid recipients.

Beginning in 2014, childless adults, without a disability, will qualify for Virginia's Medicaid program. All former foster care children will also receive coverage up to the age of 26 regardless of income. The maximum income requirements for all groups will rise to 133 percent of the federal poverty level. The new maximum income level will only affect those classified as "elderly and disabled" or a "parent", whose current level is capped at 80 and 24 percent of the federal poverty level, respectively. All other groups are already at 133 percent or will be new to Medicaid.

The Federal government will pay the cost of all newly eligible people between 2014 and 2016, and then Virginia's portion will gradually increase up to ten percent by fiscal 2021. Medical Assistance Services estimates that Virginia's Medicaid enrollment will increase by 270,000 to 425,000 new enrollees over the next three years. However, some of the enrollees may not be new to receiving medical services from the state. If management is able to identify and enroll these newly eligible individuals, the Commonwealth may be able to negate some the expected increase demands on the General Fund.

# MANAGING SERVICES AND SELECTED FINANCIAL INFORMATION

## AGENCIES OF THE SECRETARY OF HEALTH AND HUMAN RESOURCES

### Managing Services

Agencies in the Health and Human Resources secretariat are responsible for managing the delivery of human services, which include social and medical services. The four largest agencies account for 95 percent of the expenses of the Health and Human Resources agencies. Each agency provides services to eligible individuals and deploys a different management model.

The largest four agencies in the secretariat, in general provide the following services to qualified individuals.

- The **Department of Medical Assistance Services** provides health care services by paying medical providers for services.
- The **Department of Social Services** provides funding and guidance to local governments to operate social programs and transfers child support payments between parents.
- The **Department of Behavioral Health and Developmental Services** provides services to individuals either directly in its hospitals and training centers or indirectly through funding of Community Service Boards.
- The **Department of Health** provides health care services through its 117 local departments and operates inspection programs for food sanitation, environmental health, hospitals and nursing homes.

## Financial Information

### Analysis of Expenses by Agency (Dollars in Thousands)

<u>Agency</u>	<u>Expenses</u>	<u>Percent</u>
Department of Medical Assistance Services	\$ 7,564,347	66.09%
Department of Social Services	1,783,088	15.58%
Department of Behavioral Health and Developmental Services	976,841	8.54%
Department of Health	561,735	5.01%
Comprehensive Services for At-Risk Youths and Families	213,407	1.86%
Department of Rehabilitative Services *	189,183	1.65%
Department for the Aging	56,013	0.49%
Department for the Blind and Vision Impaired **	51,496	0.45%
Department of Health Professions	25,474	0.22%
Department for the Deaf and Hard-of-Hearing	9,962	0.09%
Virginia Board for People with Disabilities	<u>1,735</u>	<u>0.02%</u>
Total Fiscal Year 2011 Expenses - Secretary of Health and Human Resources	<u>\$11,433,281</u>	<u>100.0%</u>

\* Includes Woodrow Wilson Rehabilitation Center Expenses of \$27.8 million

\*\* Includes Virginia Rehabilitation Center for the Blind and Vision Impaired expenses of \$2.6 million

Source: Commonwealth Accounting and Report System 1419D1 report as of June 30, 2011

The top four agencies spent \$10.9 billion or 95 percent of the total expenses. These same four agencies represent almost 26 percent of the Commonwealth's total spending in fiscal 2011.

### **DEPARTMENT OF MEDICAL ASSISTANCE SERVICES**

#### Managing Services

Medical Assistance Services manages the federal and state-supported health care programs for eligible persons with limited income and resources. Medicaid is its largest program, other programs are:

- Family Access to Medical Insurance Security (FAMIS)
- Medical Assistance for Low-Income Children
- Involuntary Mental Commitments
- Health Insurance Premiums for HIV-Positive Individuals
- Uninsured Medical Catastrophe Fund

Medical Assistance Services operates these programs in a manner similar to an insurance company; Medical Assistance Services pays providers directly for their services to individuals. Additionally, for selected individuals, Medical Assistance Services contracts with Managed Care Organizations (MCO) to provide services. MCOs are paid a set per capita rate for each individual and takes on the responsibility of providing the medical services and controlling their own costs.

Demand for Services

Over 1,000,000 individuals received services from Medical Assistance Services’ programs last year. The Director of Medical Assistance Services projects that enrollment could possibly increase by 400,000 beginning January 2014 as a result of health care reform.

**Financial Information**

The table below summarizes Medical Assistance Services’ budgeted expenses by program as compared with actual results for fiscal 2011.

Analysis of Budgeted and Actual Expense by Program - Fiscal 2011  
(Amounts in Thousands)

Program	Original <u>Budget</u>	Adjusted <u>Budget</u>	Actual <u>Expenses</u>	2012 Proposed <u>Budget</u>
Medicaid	\$6,240,837	\$6,577,049	\$6,506,875	\$7,139,707
Medicaid - ARRA	362,159	669,441	659,294	-
Electronic Health Records – Incentive Payments	-	-	-	20,000
FAMIS	160,612	143,449	141,878	144,862
Administration and support	104,889	132,049	120,092	143,502
Medical Assistance for Low-Income Children	127,273	122,721	122,224	130,987
Involuntary Mental Commitments	13,298	13,365	13,309	12,336
Medical Assistance (Non-Medicaid)	<u>822</u>	<u>1,193</u>	<u>675</u>	<u>822</u>
<b>Total</b>	<u><b>\$7,009,890</b></u>	<u><b>\$7,659,267</b></u>	<u><b>\$7,564,347</b></u>	<u><b>\$7,592,216</b></u>

*Source: Original Budget: Appropriation Act Chapter 874, from the 2010 General Assembly session; Adjusted Budget and Actual Expenses: Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011; Fiscal 2012 Proposed Budget: Appropriation Act Chapter 890, from the 2011 General Assembly session*

Medical Expenses

Medical Assistance Services’ expenses were nine percent higher than the prior year’s amount of \$6.9 billion. However, Medical Assistance Services still recognized General Fund savings through the use of stimulus funding that continued throughout fiscal 2011.

The \$617 million (nine percent) increase in expenses is a result of rising medical cost, which increased 5.7 percent; along with the increase in Medicaid enrollment of 5.3 percent. Medicaid enrollment continues to increase because of the economic conditions that allow more individuals to qualify for the program.

### Funding Sources

As seen in the table below, Federal and Stimulus funds provided approximately 58 percent of the funding for Medicaid. Continued stimulus funding for fiscal 2011 allowed the Commonwealth to use an equal amount of General Funds for other items. There are no stimulus funds for Medicaid in fiscal 2012.

Analysis of Actual Expenses by Funding Source  
(Dollars in Thousands)

<u>Program</u>	<u>General</u>	<u>Federal</u>	<u>ARRA</u>	<u>Virginia Health Care Fund</u>	<u>Other Special Revenue</u>
Medicaid	\$2,706,452	\$3,531,422	\$659,294	\$269,000	\$ -
FAMIS	33,466	92,596	-	1,750	14,066
Administration and support services	45,468	74,045	-	-	579
FAMIS (PLUS)	42,214	80,011	-	-	-
Appellate processes	13,309	-	-	-	-
State and local hospitalization program	<u>547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128</u>
Total	<u>\$2,841,456</u>	<u>\$3,778,074</u>	<u>\$659,294</u>	<u>\$270,750</u>	<u>\$14,773</u>

Source: Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011

### Administrative Expenses

Medical Assistance Services spent \$120 million on administrative and support services, a 1.5 percent decrease from last year. Last year there were added costs due to the transitioning between fiscal agents for processing medical claims. In fiscal 2011, Affiliated Computer Services (ACS) was the sole fiscal agent, which caused contractual services expenses to decrease, as seen in the table below.

Administrative Expenses - Fiscal Year 2010 - 2011  
(Dollars in Thousands)

	Expenses	
	2011	2010
Contractual Services	\$74,916	\$76,810
Personal Services	29,472	28,911
Dental and Medical Claims Processing	12,601	12,550
Continuous Charges	2,589	2,837
Supplies and Materials	142	379
Transfer Payments	189	166
Equipment	183	110
Total	<u>\$120,092</u>	<u>\$121,763</u>

*Source: Commonwealth Accounting and Reporting System*

Contractual services includes fees for processing claims, FAMIS eligibility determination, recipient and provider enrollment, prior authorization of medical services, cost settlement and audit reviews, managed care enrollment, actuarial services, and reimbursement to K-12 schools for Medicaid and FAMIS administrative costs. Medical Assistance Services uses a number of contractors to help manage and carry out the requirements of the Medicaid program. The key contractual relationship for Medical Assistance Services is with its fiscal agent, ACS, who has the main duties of processing claims payments and enrolling providers.

## **DEPARTMENT OF SOCIAL SERVICES**

### **Managing Services**

Social Services' administers over 35 programs managed through six primary service areas: Child Support Enforcement Program, Benefit Programs, Child and Early Childhood Development Services, Community and Volunteer Services, Licensing, and Family Services. Social Services operates Child Support Enforcement and Licensing services from their own offices located throughout the state; 21 Child Support Offices and eight licensing offices.

Social Services depends on 120 locally operated social services offices across the state to provide Benefit Programs, Child and Early Childhood Development Services, and Family Services. These local offices receive direction and support from the Central Office of Social Services, but the local governments manage these offices. To aid in the oversight of local offices, Social Services operates five regional offices that are an extension of the state's Central Office.

Local social service offices deal directly with consumers, and perform a variety of functions, but their main two functions are determining eligibility for public assistance programs and case management for Social Services. The local governments' ability to determine eligibility is very important to the state and federal government.

In this capacity, the local offices are the “gatekeeper” for public assistance programs, which includes: Medicaid, Supplemental Nutrition Assistance Program (SNAP), Child Care, and Temporary Assistance for Needy Families (TANF). Therefore the local social service offices are controlling which individuals access over \$8 billion in total annual benefits.

To help the local offices, the Central Office establishes policies and procedures for adhering to federal and state requirements, which local offices must implement. Both the Central Office and regional offices monitor the local offices for compliance with these policies and procedures. The Central and regional offices often act in an advisory role by providing technical assistance to local offices, but do not impose sanctions, if a local office does not follow these policies and procedures.

Demands for eligibility determination and case management services are at record highs because of the economic decline. In addition, management is anticipating that demand for these services will increase dramatically when the provisions of Healthcare Reform Act cause more individuals to become eligible for Medicaid.

Further, Social Services contracts with community and volunteer organizations to provide other services through 29 local community action agencies and three statewide community action agencies, as well as other private and faith-based organizations.

**Financial Information**

As seen in the following table, Social Services’ expenses were less than its adjusted budget. This is because Social Services historically over budgets for federal expenses because of difficulties in forecasting local expenses as a result of changes in federal reimbursement policies, case loads, and eligibility determinations.

Analysis of Budgeted and Actual Funding by Funding Source

(Dollars in Thousands)

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Proposed Budget for 2012</u>
General	\$ 381,066	\$ 386,174	\$ 384,068	\$ 375,577
Special	710,667	708,189	670,299	706,537
Federal	768,510	809,405	683,244	811,257
ARRA	8,451	41,902	45,478	-
Total	<u>\$1,868,694</u>	<u>\$1,945,670</u>	<u>\$1,783,088</u>	<u>\$1,893,371</u>

*Source: Original Budget-Appropriation Act Chapter 874, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011, Proposed Budget - Appropriation Act Chapter 890.*

ARRA funding is nearing its end, as seen in the table below, at the end of 2011 only \$9 million remains. Social Services plans to use the remaining award balances in fiscal 2012.

ARRA Awards and Expenses to Date  
(Dollars in Thousands)

<u>Program</u>	<u>Award</u>	<u>Expenses</u>
Child Support Enforcement	\$ 50,666	\$ 50,666
Child Care	37,892	30,006
Temporary Assistance for Needy Families	31,012	31,012
Community Service Block Grant	16,008	15,986
Foster Care and Adoption Assistance	14,620	14,620
Head Start	1,217	119
Supplemental Nutrition Assistance Program	5,261	5,261
AmeriCorps	526	447
State Victim Assistance *	-	249
Total	<u>\$157,202</u>	<u>\$148,366</u>

\* This grant was awarded to Criminal Justice Services

Source: Award - [www.stimulus.virginia.gov](http://www.stimulus.virginia.gov); Expenses - Commonwealth Accounting and Reporting System

Each program at Social Services depends on federal funds, as seen in the following table. Excluding payments between parents within Child Support Enforcement Services, federal funds and ARRA cover 64 percent of the remaining expenses. A bulk of General Fund expenses are state matching dollars spent according to agreements with the federal government.

Analysis of Actual Expenses by Funding Source  
(Dollars in Thousands)

<u>Program</u>	<u>General Fund</u>	<u>Special Revenues</u>	<u>Federal Funds</u>	<u>ARRA Funds</u>	<u>Total</u>
Child Support Enforcement Services	\$ 6,222	\$667,273	\$49,255	\$ 8,004	\$730,754
Financial Assistance for Local Social Services Staff	115,637	1,360	240,165	2,606	359,768
Financial Assistance for Self-Sufficiency Programs and Services	95,028	-	166,794	24,154	285,976
Child Welfare Services	86,369	180	69,068	4,092	159,709
Financial Assistance for Supplemental Assistance Services	2,040	-	66,952	-	68,992
Administrative and Support Services	30,368	52	32,934	-	63,354
Adult Programs and Services	24,065	-	13,190	79	37,334
Program Management Services	15,237	-	17,305	85	32,627
Financial Assistance to Community Human Services Organizations	5,105	-	19,174	6,458	30,737
Regulation of Public Facilities and Services	3,997	1,435	8,407	-	13,839
Total	<u>\$384,068</u>	<u>\$670,300</u>	<u>\$683,244</u>	<u>\$45,478</u>	<u>\$1,783,090</u>

Source: Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011.

**DEPARTMENT OF BEHAVIORAL HEALTH  
AND DEVELOPMENTAL SERVICES**

**Managing Services, the Department**

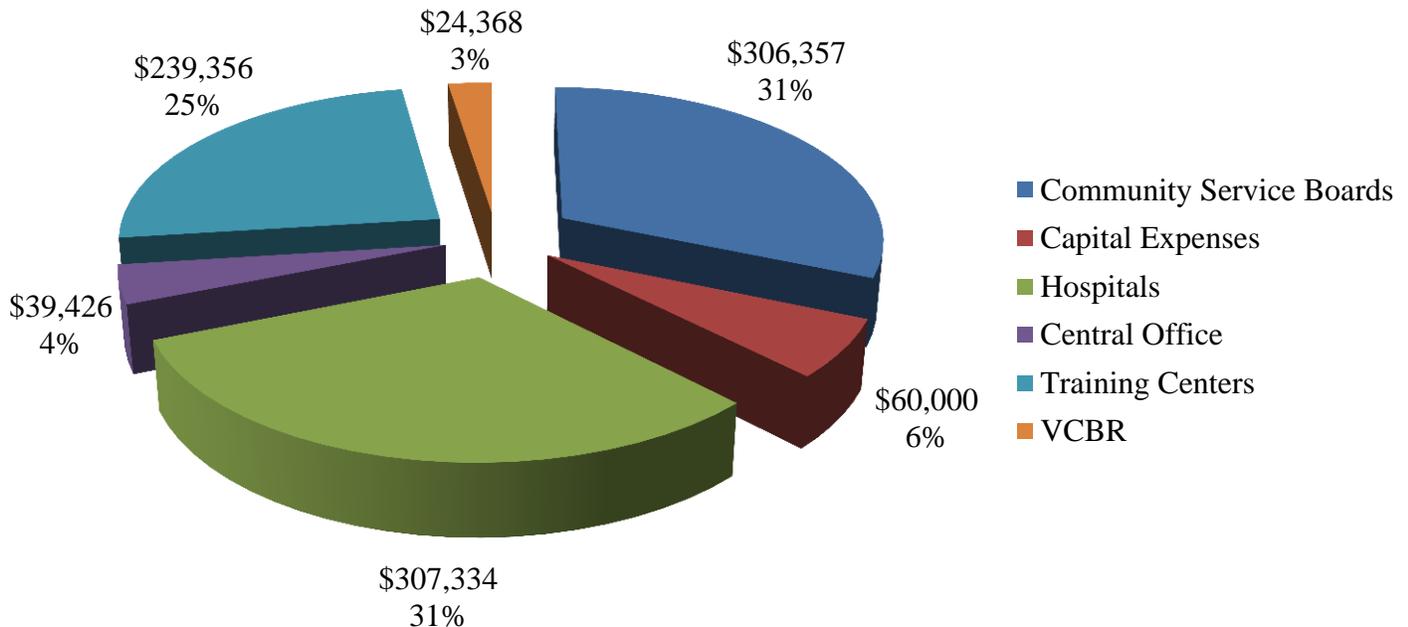
The Department funds and provides behavioral health and developmental services. The Department provides these services directly in 16 state-operated facilities and indirectly through the Department’s funding of community service boards.

The Department consists of a central office and 16 facilities. While the Central Office provides oversight to the facilities, the facilities provide most of their own administrative functions and provide all direct services to the Department’s consumers. In addition, the Central Office contracts, funds, and monitors 39 local community service boards and one behavioral health authority, collectively referred to as CSBs, that provide services within the community.

**Financial Information, the Department**

The chart below shows the Department’s expenses. The Department spent \$977 million, an increase of \$36 million over the prior year. Capital projects increased by \$12 million to \$60 million. Expenses increased for the Virginia Center for Behavioral Rehabilitation and CSBs by \$7 million and \$6 million, respectively.

Analysis of 2011 Expenses by Service Areas  
(Dollars in Thousands)



Source: Commonwealth Accounting and Reporting System

The table below shows the Department’s budgeted operating revenues and expenses compared with actual results for fiscal 2011.

Analysis of Budgeted and Actual Operating Expenses by Fund - Fiscal Year 2011  
(Dollars in Thousands)

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Proposed Budget For 2012</u>
General	\$528,868	\$545,114	\$543,107	\$577,978
Special	318,572	321,636	303,660	321,238
Federal	71,942	72,954	66,081	72,942
ARRA	-	<u>6,468</u>	<u>4,105</u>	-
Total	<u>\$919,382</u>	<u>\$946,172</u>	<u>\$916,953</u>	<u>\$972,158</u>

*Source: Original Budget-Appropriation Act Chapter 874, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011, Proposed Budget - Appropriation Act Chapter 890.*

The Department’s total expenses were about three percent less than its adjusted budget. This was primarily due to \$18 million in savings from closing the geriatric unit at the Southwest Virginia Mental Health Institute and the deferral of payments to the Virginia Retirement System in the final quarter of fiscal 2011.

The Department’s proposed operating budget for fiscal 2012 is \$56 million more than its 2011 expenses. Nearly \$39 million of the proposed budget increase relates to increased funding for Community Service Boards, including \$30 million established as a trust fund to create community capacity for individuals currently residing in training centers.

The remaining fiscal 2012 General Fund budget for Virginia Center for Behavioral Rehabilitation (Behavioral Rehabilitation) is \$600 thousand less than its actual expenses for fiscal 2011. While the 2012 proposed budget for Behavioral Rehabilitation was \$32.6 million, the Governor transferred \$8.3 million to fiscal 2011 to maintain operations. If Behavioral Rehabilitation is not able to maintain its 2012 expenses at the prior year level of almost \$24 million, it will require an increase to its 2012 budget. As discussed later in this report, management expects the census for Behavioral Rehabilitation to increase, which historically causes expenses to increase.

**Central Office**

The Department’s Commissioner is responsible for the programmatic, financial, and administrative operations of the 16 facilities. However, for many operational functions, the Commissioner has delegated responsibility to facility directors. The Central Office also has responsibility for monitoring and overseeing the programmatic and financial activities of the CSBs. Additionally, there is the Office of Inspector General that independently investigates and monitors human rights issues at the facilities and CSBs. Beginning in fiscal 2013, the Department’s Inspector General will be part of the newly created State Office of Inspector General.

In fiscal 2011, Central Office expenses were about \$39.4 million or about four percent of the Department’s total expenses. In addition, the Central Office paid about \$60 million for construction

activities on behalf of the facilities, an increase of \$11.7 million over the prior year. An overview of major facility projects is located in Appendix B of this report.

In fiscal 2012, the Department will deposit \$30 million in General Funds into the Behavioral Health and Developmental Services Trust fund to transition individuals from state training centers to community-based services. This transition will address concerns raised by the U.S. Department of Justice's February 10, 2011 letter to the Commonwealth. Funding will create a broad array of community-based services including, but not limited to, additional intellectual disability waiver slots.

## **Facilities – Hospitals and Training Centers**

### **Managing Services**

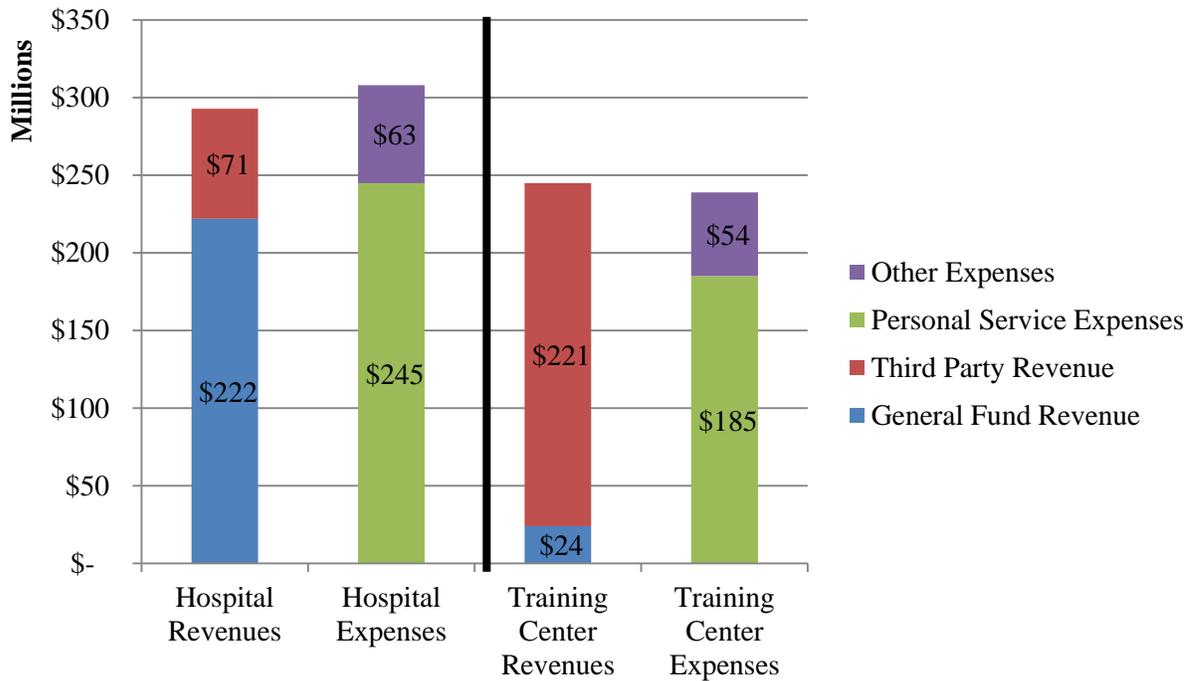
Ten behavioral health facilities, referred to as “Hospitals”, provide acute care and chronic psychiatric services to children, adults, and the elderly. There are also five developmental services facilities, referred to as “Training Centers”, that offer residential care and training in such areas as language, self-care, independent living, academic skills, and motor development.

In total, the facilities employ about 8,200 individuals and provide consumer care to about 2,500 individuals. As highlighted in the following Financial Information section, payroll expenses account for nearly 80 percent of the annual cost of providing services in the facilities.

### **Financial Information**

The following chart illustrates the major sources and uses of revenues for the Hospitals and Training Centers.

Analysis of Revenues by Funding Source and Expenses by Type  
(Amounts in Millions)



Source: Commonwealth Accounting and Reporting System

The General Fund provides \$246 million or 46 percent of the facilities' total resources, with Hospitals receiving \$222 million or 90 percent of these funds. The largest source of revenue for Training Centers is collections from third-party payers, primarily Medicaid. In fiscal 2011, these third-party payers represented about \$292 million or 54 percent, of the facilities' total available resources, with Training Centers receiving \$221 million or 90 percent of their revenue from third-party payers.

As the Department works to comply with the recommendations of the Department of Justice letter and move more individuals out of training facilities and into the community, residents supported by third-party payers may decrease. However, the U.S. Department of Justice letter recommended that the Department increase its staffing levels in the training centers to improve services. Decreases in the facilities' resident census along with increases in staffing expenses will increase the expense per resident for the remaining individuals.

In fiscal 2011, payments from third-party payers decreased by over \$21 million. About \$9.8 million of this decrease is due to the Medicaid decertification of the Hancock Geriatric Unit at Eastern State Hospital. Also, institutional revenue at Piedmont Geriatric Hospital, which received a large cost settlement in fiscal 2010, decreased by about \$6.6 million to return to levels consistent with fiscal 2008 and 2009.

As noted earlier, personal services are the facilities' single largest expense. In fiscal 2011, the Hospitals and Training Centers spent about \$430 million, or nearly 80 percent, of their total expenses on payroll and other related expenses.

### **Average Daily Expenses and Patient Census**

The following section analyzes the average daily expenses as reported in the Commonwealth Accounting and Reporting System as compared to the average daily census of residents for each hospital and training center.

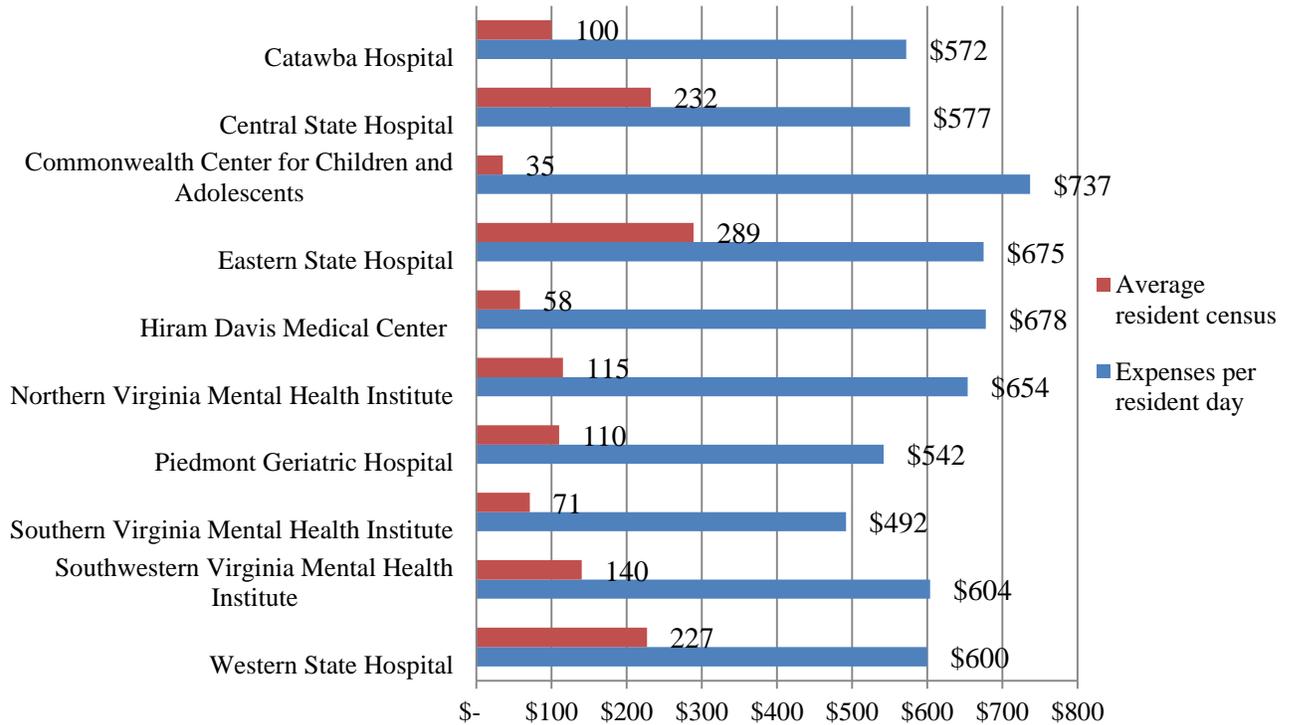
#### *BEHAVIORAL HEALTH HOSPITALS*

The Hospitals' expenses per resident day range from \$492 to \$737 with an average cost per resident day of \$611. The Hospitals' average daily census ranges from 35 to 289. Overall, there was a decrease of 30 patients in the hospitals, but an increase in cost per patient day of \$17. The net result was a slight increase in hospital expenses between fiscal 2010 and 2011.

The Commonwealth Center for Children and Adolescents reflects the lowest average daily census at 35, an increase of ten over the prior year, with the highest cost per patient day of \$737, a decrease of \$351 over the prior year. The Commonwealth Center for Children and Adolescents illustrates the inverse relationship between a facility's census and its costs per patient day. Since most facility costs are the semi-fixed costs of operating the facility and maintaining standards of care, costs per patient days increase as the number of patients decline and vice-versa.

Hiram Davis Medical Center has the second highest daily cost per resident day of \$678 due to the severe nature of its residents' physical and psychiatric conditions. Additionally, all pharmacy expenses for the Petersburg campus, which also includes the facilities of Central State Hospital and Southside Virginia Training Center, is within Hiram Davis' amounts.

Analysis of Hospitals Census and Cost per Day



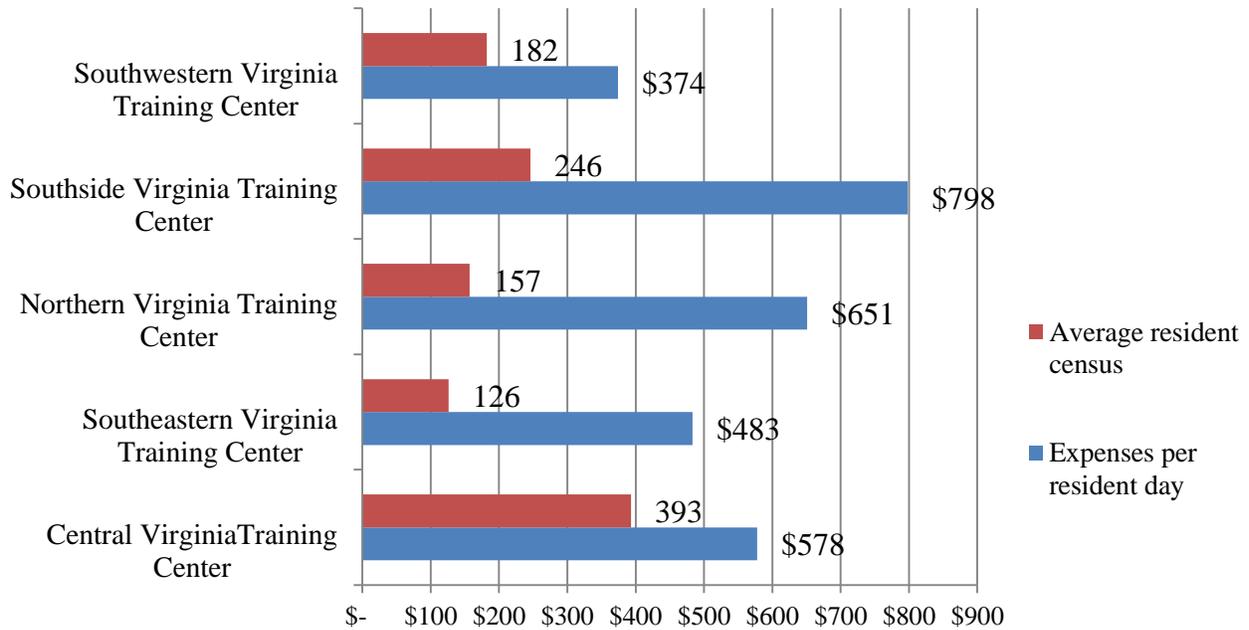
Source: Commonwealth Accounting and Reporting System, Department of Behavioral Health & Developmental Services

**DEVELOPMENTAL TRAINING CENTERS**

Training Centers’ expenses per resident day range from \$374 to \$798, with an average cost per resident day of \$593, or \$58 higher than in fiscal 2010. The increase cost per resident day is the result of the total average resident census for the training centers decreasing by 7.5 percent, or about 90 residents. As the chart below shows, Southside Virginia Training Center has the highest cost per resident day at \$798; however, this facility pays for and provides administrative support for all the other facilities at the Petersburg campus.

As a group, the total cost of Training Centers increased by about \$5.8 million in fiscal 2011. As with the Hospitals, costs per day will continue to increase even with decreasing populations since most of the costs are semi-fixed-costs associated with physically operating a facility and maintaining standards of care.

Analysis of Training Centers Census and Cost per Day



Source: Commonwealth Accounting and Reporting System, Department of Behavioral Health & Developmental Services

**Virginia Center for Behavioral Rehabilitation**

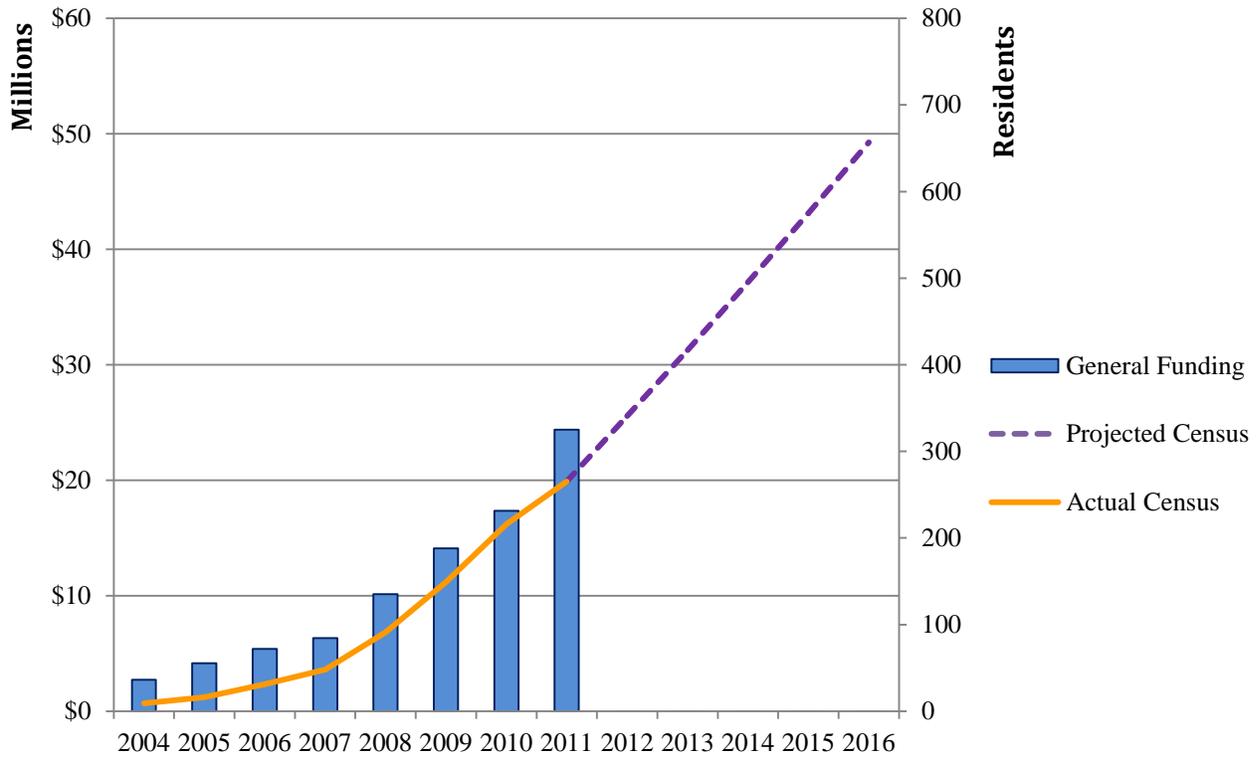
**Managing Services**

Behavioral Rehabilitation houses convicted sex offenders who are civilly committed at the end of their prison sentence if the Department of Corrections deems them “sexually violent predators”. The Department completed construction of a \$62 million, 300-bed facility in Nottoway County in fiscal 2009 in response to anticipated increase in demand for services from an imposed change in the screening criteria for facility placement. Its in-patient population grew from 205 at the end of fiscal 2010 to 264 by the end of fiscal 2011. According to the Joint Legislative Audit and Review Commission, the Nottoway facility is moving to double bunking to increase capacity to 450 individuals.

**Financial Information**

Behavioral Rehabilitation receives all of its funding from the General Fund. The following table trends the resident census at year end and General Fund support from its inception in fiscal 2004 through 2011. In fiscal 2011, the census grew to 264 individuals supported by a General Fund appropriation of \$24.4 million. With the expectation of further increases in census, the Department and the Commonwealth will need to plan accordingly.

## Analysis of Behavioral Rehabilitation's Census and General Funding



Source: *General Funds: Commonwealth Accounting and Reporting System and Census, Actual and Projected, the Department Behavioral Health and Developmental Services*

### **Community Service Boards**

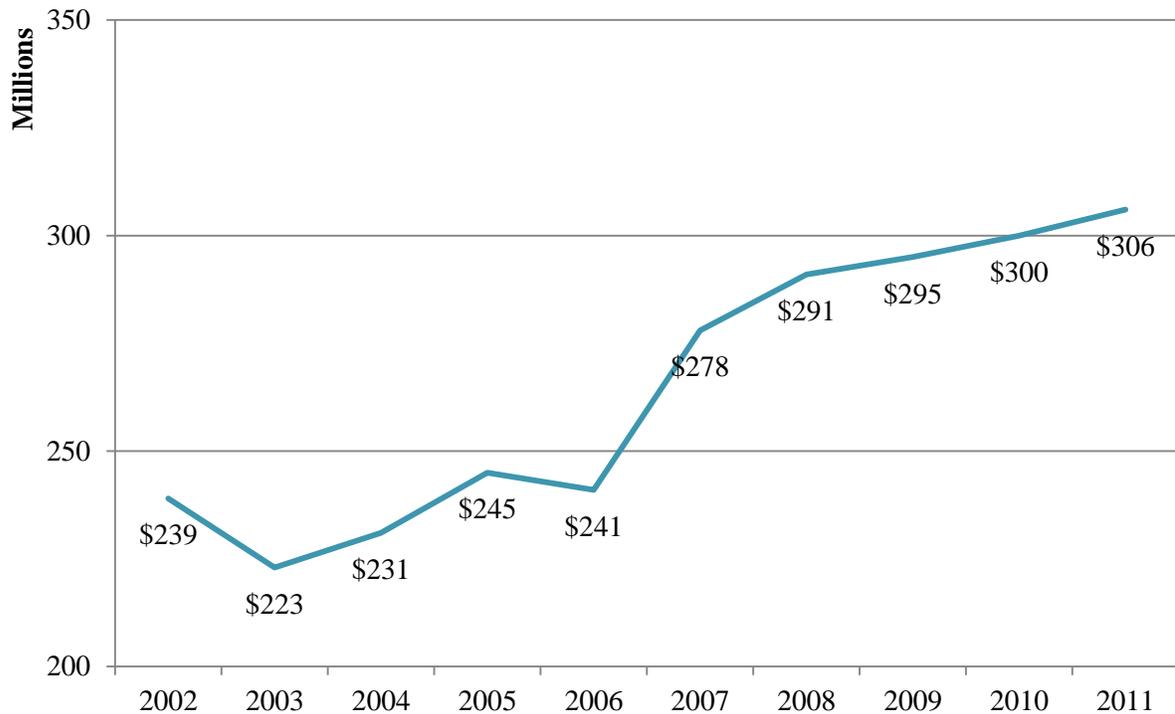
#### **Managing Services**

The Department contracts with, provides consultation to, funds, monitors, licenses, and regulates CSBs because they are the single point of entry into the Commonwealth's behavioral health and developmental services system. The CSBs provide pre-admission screening and discharge planning services for consumers entering or leaving state facilities. Additionally, the CSBs function as advisors to their local government and are providers (directly or contractually) of community based behavioral health and developmental services.

#### **Financial Information**

During fiscal 2011, the Department transferred about \$306 million in state and federal funds, or one-third of its total expenses, to CSBs. Over the past ten years, the Commonwealth, through the Department, has consistently increased its payments to CSBs as part of its commitment to provide more services in the community. As noted earlier, in fiscal 2012, the Department will deposit \$30 million in General Funds into the Behavioral Health and Developmental Services Trust fund to transition individuals from state training centers to community-based services and to address concerns raised by the U.S. Department of Justice's February 10, 2011 letter to the Commonwealth.

Funding to the Community Services Boards  
Fiscal Years 2002 through 2011



Source: Commonwealth Accounting and Reporting System

In order to have more resources in the community, the Department implemented a system transformation initiative to rebuild, resize, relocate, and renovate existing facilities. An overview of major facility projects is located in Appendix B of this report.

**DEPARTMENT OF HEALTH**

**Managing Services**

Health's delivery system consists of a central office and 119 local health departments grouped geographically into 35 health districts. Some health districts cover multiple localities, but for larger localities the health district has the same borders as the locality.

The local departments provide a variety of environmental services and both mandated and non-mandated community healthcare services. Health operates the local health departments under Cooperative Agreements (Agreements) between Health and local governments, which sets forth the funding participation between the state and local government.

The Agreements cover both mandated and non-mandated health services that each local jurisdiction must provide. The Code of Virginia requires Health to fund at least 55 percent of the mandated services. Employees in 33 health districts are state employees and subject to state policies

and procedures, except for Arlington and Fairfax, who manage their own local health departments and health districts while receiving reimbursement for mandated services at the same rate as local health departments managed under the Agreements.

## Financial Information

In total, Health expended \$561.7 million throughout 13 programs in fiscal 2011. Six of the 13 programs account for nearly 89 percent of Health's total expenses. As seen in the following table, Health's expenses were \$6.1 million (one percent) below its original budget.

### Analysis of Budget to Actual Expenses by Program (Dollars in Thousands)

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Proposed Budget for 2012</u>
Community Health Services	\$236,688	\$236,387	\$221,238	\$237,711
State Health Services	115,723	132,839	130,024	114,222
Communicable and Chronic Disease Prevention and Control	46,208	58,578	54,764	49,771
Emergency Medical Services	38,953	40,712	30,521	38,953
Emergency Preparedness	34,958	29,310	27,156	34,758
Drinking Water Improvement	29,171	43,479	34,780	29,171
Financial Assistance To Community Human Services Organizations	14,107	13,892	13,809	13,668
Administrative and Support Services	14,709	16,804	14,623	17,569
Health Research/Planning/Coordination	12,670	15,408	12,146	12,746
Medical Examiner and Anatomical Services	9,747	10,772	9,586	10,284
Environmental Health Hazards Control	8,026	9,400	7,038	8,842
Vital Records And Health Statistics	6,780	7,130	5,756	6,780
Higher Education Student Financial Assistance	<u>125</u>	<u>602</u>	<u>294</u>	<u>125</u>
Total	<u>\$567,865</u>	<u>\$615,313</u>	<u>\$561,735</u>	<u>\$574,600</u>

Source: Original Budget: Appropriation Act Chapter 874, from the 2010 General Assembly session; Adjusted Budget and Actual Expenses: Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011; Fiscal 2012 Proposed Budget: Appropriation Act Chapter 890, from the 2011 General Assembly session.

## Revenues

Health receives funding primarily from three sources: federal grants, the General Fund, and through the collection of fees, charges and other revenues. Health's Federal revenue increased by more than \$31 million between fiscal 2010 and 2011 primarily due to two new federally funded child and adult feeding programs. Also, increases in motor vehicle registration and license reinstatement at the Department of Motor Vehicles generated more special revenues, which we discuss below.

Of the \$173 million in special revenue, four revenue streams accounted for \$150 million (87 percent); locality reimbursement for health services, Department of Motor Vehicles and local court transfers, patient collections and fees for health services, and non-medical permits, license, and fee revenue.

Analysis of Material Special Revenue Sources  
(Dollars in Thousands)

Revenue Type	Amount
Department of Motor Vehicles Transfers	\$57,991
Locality Reimbursement for Health Services	54,972
Non-medical Permits, Licenses, Fees, etc.	19,666
Patient Collections and Fees for Health Services	17,367
Vital Statistics Fees	10,121
Other Revenue (Fines, Penalties, Refunds, etc.)	8,915
Private Donations, Gifts, and Grants	4,262
Total	\$173,294

Source: Commonwealth Accounting and Reporting System

Of the amounts listed above, Health does not provide direct services to citizens from the funds transferred from the Department of Motor Vehicles (DMV). DMV transfers the funds it collects from the “4.25 for Life” vehicle registration, which increased from \$4.25 to \$6.25 per vehicle registration and DUI reinstatement fees, which increased from \$50 to \$100, to Health. The majority of the increases went to the General Fund. Funds available to Health support emergency medical services in the local health districts and other services required by the Code of Virginia.

- \$28 million to support, train, and provide grants to local rescue squads
- \$20 million to the General fund as part of budget reduction strategy
- \$7 million to award grants to qualifying trauma centers
- \$3 million to the Virginia State Police to support their Medical Flight Program

Expenses

As seen in the following table, Health gained a federal program in 2011. The U.S. Department of Agriculture transferred the administration responsibility to Health for the Virginia operation the Child and Adult Care Food Programs. As a result, Health now monitors compliance with this program at child and adult day care facilities and other organizations that now receive federal assistance through Health.

While Health added another federal program in fiscal 2011, overall federal expenses decreased because there was no H1N1 outbreak in fiscal 2011. Last Year’s H1N1 flu outbreak caused a spike in fiscal 2010 for Public Health Emergency Preparedness expenses.

Federal Program Expenses  
(Dollars in Thousands)

<u>Federal Program</u>	<u>2010 Expenses</u>	<u>2011 Expenses</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 90,313	\$ 96,800
Immunization Grants	51,874	63,255
HIV Care Formula Grants	32,925	30,027
Child and Adult Care Food Programs	-	28,248
Public Health Emergency Preparedness	66,946	23,495
Capitalization Grants for Drinking Water State Revolving Funds	18,132	22,477
Maternal and Child Health Services Block Grant to the States	12,663	12,527
Other Federal Programs	<u>54,947</u>	<u>45,571</u>
Total Federal Expenses	<u>\$327,800</u>	<u>\$322,400</u>

*Source: 2010 and 2011 Schedule of Expenditures of Federal Awards from Health*

**COMPREHENSIVE SERVICES FOR AT-RISK YOUTH AND FAMILIES**

**Managing Services**

The Office of Comprehensive Services for At-Risk Youth and Families (Office) administers the Comprehensive Services Act for At-Risk Youth and Families (Act), which funds and provides an organizational structure to address the needs of emotionally, and behaviorally disturbed youth and their families. The Office works to return at-risk youth back to their homes and schools through a collaborative effort of local government, private providers, and family members that address each child’s and family’s individual needs.

The State Executive Council (Council) oversees the Office, establishes interagency programmatic policy development and fiscal policies, identifies and establishes goals for comprehensive services, and advises the Governor on proposed policy changes. The Department of Education serves as the fiscal agent and has assigned one employee in its central office to process disbursements. The Office has thirteen programmatic staff that are all employees of the Department of Social Services.

Program delivery under the Act occurs through management of the cases at the local level and includes funding sources other than those disbursed through the Office. This report discusses other funding sources below in the section entitled, “Financial Information.” The Office uses three types of teams to manage the collective efforts of state and local agencies.

**State and Local Advisory Team**

The State and Local Advisory Team makes recommendations to the Council on interagency programs and fiscal policies and advises the Council on the impacts of proposed policies,

regulations, and guidelines. They also offer training and technical assistance to state agencies and localities.

### Community Policy and Management Teams

Community Policy and Management Teams (Community Team) serves as a community's liaison to the Office. A Community Team coordinates long-range, community-wide planning, which ensures the development of resources and services needed by children and families in its community. Their duty is to establish policies governing referrals and reviews of children and families to a Family Assessment and Planning Team. Each Community Team establishes and appoints one or more Family Assessment and Planning teams based on the needs of the community. Community Teams also authorize and monitor the disbursement of funds for services recommended by each Family Assessment and Planning Team.

### Family Assessment and Planning Teams

Family Assessment and Planning Teams (Family Team) assesses the strengths and needs of troubled youth and families, and develops an individual family service plan to ensure appropriate services. A Family Team recommends services to a Community Team.

### **Central Monitoring and Guidance**

Our prior year report included issues we discovered through a separate review of the Comprehensive Services Act program in Pittsylvania County. These issues related to the administration of the program in Pittsylvania County, but also brought to light areas in which the Office could improve its monitoring and support of all localities.

The Office collects and publishes a wealth of data on CSA expenditures and services on their website. They collect data by locality, region, and statewide. The Office implemented reviews of this data, which they perform periodically, and investigate any outliers or inconsistencies between localities and regions. In several cases, these reviews have helped the Office identify errors and compliance issues at the localities.

Local CPA firms audit compliance with the CSA program during the locality's annual financial audit through audit specifications developed by the Office and distributed by the Auditor of Public Accounts. The Office refined the information provided in the audit specifications for the 2011 audits to provide better guidance to the auditors. During the summer of 2011, the Office offered CSA Overview training to local CPA firms and locality internal auditors to help them understand the intricacies of the Act. The Office has also established a function internally to provide technical assistance to the localities. All of these changes occurred to improve locality compliance with the Act.

## Financial Information

The Office receives funding from the Commonwealth's General Fund and federal grants. In fiscal 2011, actual expenses decreased five percent from the prior year. The number of children receiving services decreased from 17,568 in fiscal year 2010 to 16,567. One of the main reasons for this reduction in children served was the Office's identification of the inappropriate use of behavioral aides for children in public schools. The following table summarizes 2011 budget and actual activities, with analysis following.

### Analysis of Budget and Funding Sources (Dollars in Thousands)

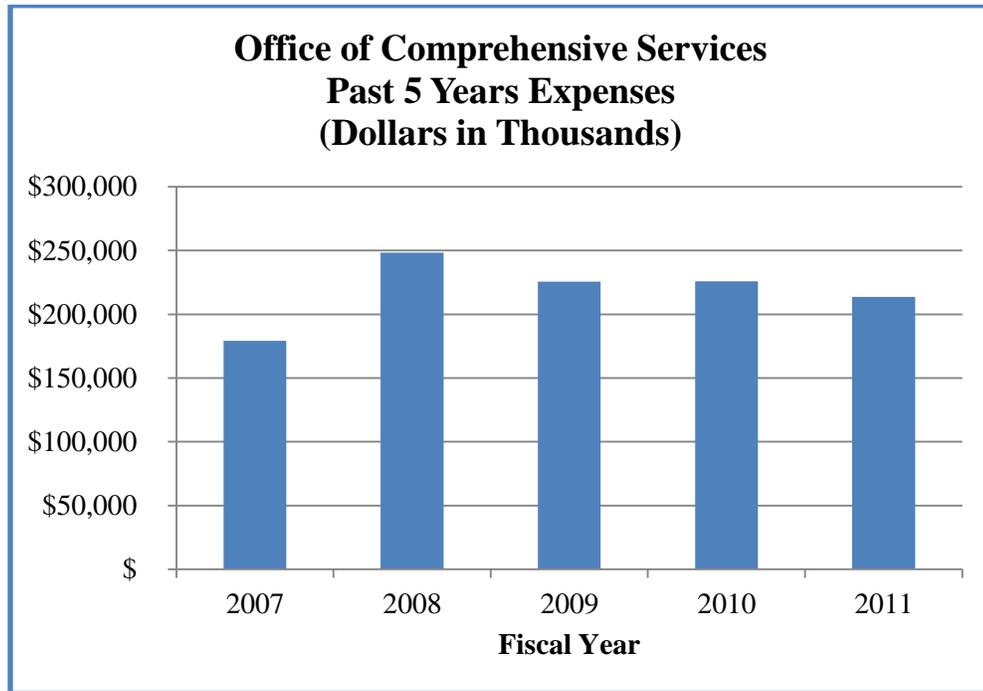
Funding Source	Original Budget	Adjusted Budget	Actual Expenses
General Fund	<u>\$272,234</u>	<u>\$236,436</u>	<u>\$203,987</u>
Federal grants	<u>57,609</u>	<u>9,420</u>	<u>9,420</u>
Total	<u>\$329,843</u>	<u>\$245,856</u>	<u>\$213,407</u>

*Source: Commonwealth Accounting and Reporting System*

The Office did not spend its entire original budget because of the following budgetary transfers and other reductions:

- \$28.7 million, as in prior years, General Fund transfer to the Department of Medical Assistance Services (Medical Assistance Services) to make payments for the Medicaid portion of the Act's costs.
- \$6 million transferred to Central Appropriations to cover the Comprehensive Services portion of the localities reductions in aid.
- \$11 million reduction in Medicaid expenses due in large part to the Commonwealth's continued emphasis on using community based services versus higher end services, such as residential services.
- \$9.5 million reduction in expenses for services in the public schools as a result of the Office providing additional training to local CPA firms and performing increased compliance activities.
- \$6 million reduction in expenses due to fewer children in foster care.
- \$48 million, federal budget transferred to Medical Assistance Services to pay Medicaid provider claims.

To encourage localities to provide more community-based treatment, which is less expensive than institutional treatment, the General Assembly lowered the locality’s match rate for these services in 2008. Conversely, the locality’s match rates for congregate care services have increased. As seen in the chart below, the changes in match rates have lowered the Office’s total expenses over the past three years.



Sources: Commonwealth Accounting and Reporting System

## DEPARTMENT OF REHABILITATIVE SERVICES

### Managing Services

Rehabilitative Services helps Virginians with physical, mental, and emotional disabilities become employable, self-supporting, and independent. Rehabilitative Services uses the definition of “disabled” found in the *Americans with Disabilities Act*, which defines a disability as a physical or mental impairment that substantially limits one or more of the major life activities of an individual. Rehabilitative Services provides the following services: Vocational Rehabilitation, Social Security Disability Determination Program, Community Rehabilitation Program, and Management and Administrative Support Services.

## Financial Information

The table below summarizes Rehabilitative Services' original and adjusted budget and actual expenses for fiscal 2011.

### Analysis of Budgeted to Actual Expenses by Program (Dollars in Thousands)

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Rehabilitation Assistance Services	\$90,599	\$104,558	\$98,878
Continuing Income Assistance Services	40,197	50,704	49,397
Administrative and Support Services	<u>12,509</u>	<u>15,173</u>	<u>13,134</u>
<b>Total</b>	<b><u>\$143,305</u></b>	<b><u>\$170,435</u></b>	<b><u>\$161,409</u></b>

*Source: Original Budget-Appropriation Act Chapter 879, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011.*

Between original and final, Rehabilitative Services' budget increased across all of its programs. The majority of the increase resulted from the continued use of ARRA funding. Also, there was a substantial increase in the Disability Determination Program of \$10.2 million because of increased demand.

The following table illustrates the type of expenses Rehabilitative Services made in fiscal 2011.

### Analysis of Expenses by Type (Dollars in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Transfer Payments	\$ 64,116	39.7%
Personal Services	62,511	38.7%
Contractual Services	24,504	15.2%
Continuous Charges	6,113	3.8%
Equipment	2,113	1.3%
Supplies and Materials	1,958	1.2%
Plant and Improvements	<u>94</u>	<u>0.1%</u>
<b>Total</b>	<b><u>\$161,409</u></b>	<b><u>100.0%</u></b>

*Source: Commonwealth Accounting and Reporting System*

Rehabilitative Services makes transfer payments to a number of state and non-state entities such as Community Services Boards, Independent Living Facilities, and Colleges and Universities. Services and programs provided by these entities assist individuals with significant disabilities to maximize their education, independence, employment, and full inclusion into society.

## Woodrow Wilson Rehabilitative Center (Center)

### Managing Services

The Center is a sub-agency of Rehabilitative Services. It provides residential, outpatient, and community based medical rehabilitation services for individuals with functional limitations and physical disabilities through the Center's comprehensive rehabilitation facility.

### Financial Information

Rehabilitative Services transferred approximately \$17.3 million to the Center during fiscal 2011 to help administer the Center's Vocational and Medical Service Programs. Transfers from Rehabilitative Services account for approximately 89 percent of the Center's total revenue. Revenues collected include Third Party Medical Reimbursements from insurers, such as Medicare and Medicaid. Other revenues include charges collected from private insurance carriers, private funds, and student financial aid assistance. In addition to the revenues received from Rehabilitative Services, the Center received approximately \$5.6 million in general funds and \$375,000 in federal funds during fiscal 2011.

The table below summarizes the Center's expenses by type for fiscal 2011.

#### Analysis of Expenses by Type (Dollars in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Personal Services	\$18,783	67.6%
Contractual Services	5,296	19.1%
Supplies and Materials	2,296	8.3%
Continuous Charges	1,037	3.7%
Equipment	323	1.2%
Transfer Payments	32	0.1%
Property and Improvements	<u>7</u>	<u>&lt; 0.1%</u>
Total	<u>\$27,774</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

Personal services account for approximately 68 percent of the Center's expenses. Total personal service expenses increased by approximately ten percent between fiscal 2010 and 2011 as a result of increased funding from the federal Vocational Rehabilitation grant. Additionally, payments for contractual services decreased by approximately 44 percent between 2010 and 2011 due to decreased expenses for capital projects and the reclassification of contract employees.

## DEPARTMENT FOR THE AGING

### Managing Services

Aging provide services to older Virginians by contracting with 25 Area Agencies on Aging (Area Agencies). The Area Agencies, directly or through their contractors, provide a variety of services including delivered meals, congregate meals, transportation, homemaker services, personal care services, care coordination, volunteer programs, disease prevention and health promotion and information and assistance, a long-term care ombudsman, and other services that foster the independence and meet the care needs of older Virginians.

Of the Area Agencies, 14 are private nonprofit corporations, five are local government units, five consist of two or more local governments that exercise joint powers to create the Area Agency, and one is part of a Community Services Board. All Area Agencies must first submit to Aging an annual “area plan” of service provision. Once Aging approves the area plan, it signs a contract with the Area Agency, which receives funding in accordance with the approved plan.

The Older Americans Act requires Aging to allocate a portion of its federal funds to the Area Agencies based on a formula that weighs several factors related to the population of older Virginians in each locality. The U.S. Administration on Aging contracts with the U.S. Bureau of the Census once every ten years to perform a special tabulation of the weighted factors.

### Financial Information

The table below shows an analysis of Aging’s budgeted and actual expenses as well as the proposed budget for fiscal 2012. The only significant change from the original budget is an increase in federal funds and a small appropriation for ARRA funding. Aging’s final expenses were within one percent of its adjusted budget.

Analysis of Budgeted and Actual Expenses by Funding Source  
(Amounts in Thousands)

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Proposed Budget for 2012</u>
Federal	\$34,327	\$38,025	\$37,965	\$36,727
General	16,920	16,743	16,743	16,747
Special	160	160	79	160
ARRA	-	<u>1,401</u>	<u>1,226</u>	-
Total	<u>\$51,407</u>	<u>\$56,329</u>	<u>\$56,013</u>	<u>\$53,634</u>

*Source: Original Budget-Appropriation Act Chapter 879, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011.*

As depicted in the next table, nearly 95 percent of Aging’s total expenses were transfer payments for grants to Area Agencies and other contractors and service providers.

2011 Analysis of Expenses by Type  
(Amounts in Thousands)

<u>Type of Expenses</u>	<u>2011</u>	<u>Percent</u>
Transfer payments	\$52,993	94.6%
Personal services	2,043	3.7%
Other	<u>977</u>	<u>1.7%</u>
 Total	 <u>\$56,013</u>	 <u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

**DEPARTMENT FOR THE BLIND AND VISION IMPAIRED**

**Managing Services**

Blind and Vision Impaired enables blind, deaf-blind, and visually impaired individuals to achieve their maximum level of employment, education, and personal independence. Blind and Vision Impaired provides vocational training and placement services, daily living skills instruction, orientation and mobility services, counseling, Braille, and training in the use of various types of adaptive equipment.

Blind and Vision Impaired works cooperatively with the Department of Education and the public school systems to assist in the education of blind, deaf-blind, or visually impaired students. Blind and Vision Impaired provides these services and devices through a variety of entities such as Vocational Rehabilitation, Rehabilitation Teaching and Independent Living, Educational Services, Virginia Industries for the Blind, the Library and Resource Center, Randolph Sheppard Vending Program, and Virginia Rehabilitation Center for the Blind and Vision Impaired.

**Financial Information**

As indicated in the table below, Blind and Vision Impaired spends approximately 44 percent of its funds on supplies and materials. These expenses are mostly for merchandise and manufacturing supplies used in the enterprise division, Virginia Industries for the Blind.

Analysis of Expenses by Type  
(Amounts in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Supplies and Materials	\$21,713	44.4%
Personal Services	12,626	25.8%
Plant and Improvements	3,932	8.0%
Transfer Payments	3,836	7.8%
Contractual services	3,180	6.5%
Continuous Charges	2,438	5.0%
Equipment	919	1.9%
Obligations	279	0.6%
Property and Improvements	<u>3</u>	<u>0.0%</u>
Total	<u>\$48,926</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

## **Virginia Rehabilitation Center For The Blind And Vision Impaired**

### **Managing Services**

The Blind and Vision Impaired Center is a sub-agency of Blind and Vision Impaired that provides comprehensive services to severely visually impaired Virginians. The Blind and Vision Impaired Center provides a program of evaluation, adjustment, and prevocational training, which enables students to learn skills necessary for greater independence and efficiency and safety on the job, at home, and in social settings.

The Blind and Vision Impaired Center provides specialized training and evaluation in computer technology, Braille technology, and customer service representative training. The Blind and Vision Impaired Center has cooperative programs with other community agencies to meet the needs of the students in evaluation and training. A 40-bed dormitory is available to students who are receiving services at the Blind and Vision Impaired Center.

### **Financial Information**

As seen in the table below, personal services, plant and improvement, and contractual services expenses made up approximately 90 percent of all expenses during fiscal 2011.

Analysis of Expenses by Type  
(Amounts in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Personal Services	\$1,513	58.9%
Plant and Improvements	403	15.7%
Contractual Services	396	15.4%
Continuous Charges	110	4.3%
Supplies and Materials	84	3.3%
Transfer Payments	62	2.4%
Equipment	<u>2</u>	<u>0.1%</u>
Total	<u>\$2,570</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

## **Virginia Industries for the Blind**

### **Managing Services**

Industries works in conjunction with the Division for Services at Blind and Vision Impaired and the Virginia Rehabilitation Center for the Blind and Vision Impaired to provide employment, training, and other vocational services to blind individuals across the Commonwealth. Services provided by Industries include vocational evaluation, work adjustment, on-the-job training, skill enhancement, and cross training, placement counseling, and a summer work program.

Industries is a self-supporting division that manufactures and sells items to military bases and government offices. Currently, Industries has manufacturing locations in Charlottesville and Richmond and 16 satellite operations across Virginia, including 11 self-service and base supply stores that serve military and other federal employees. Products manufactured by Industries include gloves, mattresses, writing instruments, mop heads and handles, safety vests, and physical fitness uniforms. Industries also operates a mail handling service.

## **DEPARTMENT OF HEALTH PROFESSIONS**

### **Managing Services**

Health Professions provides administrative services, coordination, and staff support to the following regulatory boards which have responsibility for ensuring the safe and competent delivery of healthcare services through the regulation of assigned healthcare professions.

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	

The Board of Health Professions (Board) supervises the staff of the agency. The Board consists of one member from each of the 13 health regulatory boards above and five citizen members. The Board recommends policy and reviews budget matters and monitors agency activities whereas each of the regulatory boards adopts standards to evaluate the competency of their respective professions and then certifies compliance with those standards. For all boards, the Governor appoints their members, who may serve up to two four-year terms.

**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. The following table summarizes Health Professions’ budgeted expenses compared with actual results for fiscal 2011.

Analysis of Budgeted and Actual Expenses by Program and Funding Source  
(Amounts in Thousands)

<u>Service Area</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Proposed Budget for 2012</u>
Regulation of Professions and Occupations	\$27,316	\$27,316	\$25,420	\$27,316
Higher Education Student Financial Assistance	65	65	54	65
Total	<u>\$27,381</u>	<u>\$27,381</u>	<u>\$25,474</u>	<u>\$27,381</u>

*Source: Original Budget: Appropriation Act Chapter 874, from the 2010 General Assembly session; Adjusted Budget and Actual Expenses: Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2011; Fiscal 2012 Proposed Budget: Appropriation Act Chapter 890, from the 2011 General Assembly session*

**DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING**

**Managing Services**

Deaf and Hard-of-Hearing works to reduce communication barriers between individuals who are deaf or hard-of-hearing, their families, and the professionals who serve them.

Deaf and Hard of Hearing provides services through the following programs: Relay Services; Interpreter Services Coordination; Quality Assurance Screening; Technology Assistance Program; and Outreach, Information, and Referral. Deaf and Hard of Hearing serves as the oversight agency for the operation of the telecommunications relay services in the state.

### **Financial Information**

Deaf and Hard of Hearing receives' funds from the State Corporation Commission from earmarked tax collections. The table below summarizes Deaf and Hard of Hearing's use of these funds for fiscal 2011. Contractual services make up approximately 90 percent of Deaf of Hard of Hearing's fiscal 2011 expenses. Sprint and AT&T receive approximately 94 percent of contractual services payments for the Relay Center in Norton. The Relay Center provides telecommunication relay services for the deaf and hearing-impaired population across the Commonwealth.

Analysis of Expenses by Type  
(Dollars in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Contractual Services	\$8,960	89.9%
Personal Services	666	6.7%
Equipment	212	2.1%
Continuous Charges	120	1.2%
Supplies and Materials	3	0.0%
Transfer Payments	1	0.0%
 Total	 <u>\$9,962</u>	 <u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

During fiscal 2011, contractual services expenses decreased by approximately 15 percent due to a change in the relay contract with AT&T from a per minute fee to a fixed monthly fee, resulting in savings of approximately \$1.6 million.

## **VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES**

### **Managing Services**

The Board serves as the Developmental Disabilities Planning Council for addressing the needs of people with developmental disabilities as established under the federal *Developmental Disabilities Assistance and Bill of Rights Act* and the State's *Virginians with Disabilities Act*. The Board advises the Secretary of Health and Human Resources and the Governor on issues related to people with disabilities in Virginia. The Board's expenses for fiscal 2011 were \$1.7 million.

## Financial Information

The Board receives the majority of its funding through State General Funds and federal grants. In addition, the Board also receives periodic donations through the Youth Leadership Forum.

Expenses of the Board consist mainly of personal services and transfer payments to run the boards programs including, but not limited to the Partners in Policy Making Program, Youth Leadership Forum, Disability Policy Fellowship, and Developmental Disabilities Competitive Grant Program.

The table below summarizes the Board's expenses for fiscal 2011.

### Analysis of Expenses by Type (Dollars in Thousands)

	<u>Expenses</u>	<u>Percent</u>
Personal Services	\$ 737	42.5%
Transfer Payments	439	25.3%
Contractual Services	380	21.9%
Continuous Charges	127	7.3%
Equipment	33	1.9%
Supplies and Materials	<u>19</u>	<u>1.1%</u>
Total	<u>\$1,735</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*



# Commonwealth of Virginia

*Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Health and Human Resources**, as defined in the Audit Scope and Methodology section below, for the year ended June 30, 2011. 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 objective was to evaluate the accuracy of the Agencies of the Secretary of Health and Human Resources financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2011 and test compliance for the Statewide Single Audit. In support of this objective, for those agencies with significant cycles, as listed below, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, their accounting systems, and other financial information they reported to the Department of Accounts, reviewed the adequacy of their 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

Management of the Agencies of the Secretary of Health and Human Resources have 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, account balances, and systems.

Department of Medical Assistance Services

Medicaid revenues, expenses, and compliance	Adjusting journal enteries
Accounts receivable	Contract management
Accounts payable	System access controls
	Utilization units

Department of Social Services

Federal revenues, expenses, and compliance for:	Budgeting and cost allocation
Supplemental Nutrition Assistance Program	Network security and system access
Temporary Assistance for Needy Families	Payroll expenses
Low Income Home Energy Assistance Program	eVA Procurement System
Social Services Block Grant	Systems access controls
Foster Care Title IV-E	Adjusting journal enteries
Adoptions Assistance	Contract administration
Community Services Block Grant	
Child Support Enforcement	

Department of Behavioral Health and Developmental Services

Payroll expenses	Contracts with Community Service Boards
Institutional revenues	Network security
Accounts receivable	Financial Management System
Adjusting journal enteries	Patient Management System

Department of Health

Federal revenues, expenses, and compliance for:	Cooperative agreements between Health and local government, which includes:
Capitalization Grants for Drinking Water State Revolving Funds	Aid to local governments
Support for local rescue squads	Allocation of costs
Collection of fees for services	Reimbursement from local governments
Payroll expenses	Network security
	Financial and Accounting system

Comprehensive Services for At-Risk Youth and Families

Administrative controls at the  
Department of Education

Revenues and expenses

Department of Rehabilitative Services

Payroll expenses  
Financial and case management  
controls  
Information system security controls

Federal revenue, expenses, and compliance for:  
Vocational Rehabilitation including  
ARRA

Department for the Aging

Federal revenue, expenses, and compliance for:  
Special Programs for the Aging – Title III,  
Parts B and C including ARRA  
Nutrition Services Incentive Program

Our Office, for certain business processes, which are listed below in alphabetical order, has or is planning to issue statewide reports that cover these topics from the perspective of the entire Commonwealth. To view these reports or request electronic copies as they come available go to: [www.apa.virginia.gov](http://www.apa.virginia.gov).

Disbursement Processes  
Cell Phone Usage  
VITA and the Northrup Grumman Partnership  
Commonwealth Information Security Program

Agency Performance Measures  
Statewide Budget and Appropriation  
Processing Control  
Commonwealth Data Point, Review of  
Transparency Best Practices

Department of Rehabilitative Services includes analytical reviews of the activities and observation of significant processes of six agencies it provides administrative services for, which are: Woodrow Wilson Rehabilitation Center, Department for the Blind and Vision Impaired, Virginia Industries for the Blind, Virginia Rehabilitation Center for the Blind and Vision Impaired, the Department for the Deaf and Hard-of-Hearing, and the Virginia Board for People with Disabilities. Additionally, Comprehensive Services for At-Risk Youth and Families receives administrative services from the Department of Education, which were audited and reported on under a separate report.

We performed audit tests to determine whether the Agencies' 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, records, contracts, reconciliations, board minutes, and the Code of Virginia, and observation of the Agencies' operations. We tested transactions and

system access, performed analytical procedures, including budgetary and trend analyses. Where applicable, we compared an agency's policies to best practices and Commonwealth standards.

### Conclusions

We found that the Agencies of the Secretary of Health and Human Resources properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in other financial information reported to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia. The Agencies record their 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 or from the Agencies.

We noted certain matters involving internal control, compliance with applicable laws and regulations, and agency operations that require management's attention. These matters are described in the section entitled "*Recommendations*". The internal control and compliance matters that require corrective action are individually entitled: Support Title IV-E Financial Claims in a Client's Case Record; Reduce Benefit Payments for Individuals Refusing to Work; Modify Monitoring Plans for Changing Risk and Obtain Senior Management Approval; Obtain Valid Social Security Numbers; Refine Estimates and Report Annual Cost Settlements to the State Comptroller; Improve System Access Management; Improve Information Security Awareness Training; Test IT Continuity of Operations and Disaster Recovery Plans; Improve Timeliness of Eligibility Determination Repeat; and Improve IT System Controls.

There was one operational matter that management needs to evaluate; we issued it as a risk alert entitled: High Error Rate in Foster Care Title IV-E Cases. This matter is described in the section entitled "*Recommendations*".

The Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report as summarized in the section "*Resolved Recommendations from Prior Audits*".

### Exit Conference and Report Distribution

We discussed this report with management at the Agencies of the Secretary of Health and Human Resources as we completed our work on each agency. Management's responses have been included at the end of this report. We did not audit management's responses and, accordingly, we express no opinion on them.

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

GDS/clj

## APPENDIX A

### MEDICAL ASSISTANCE SERVICES' RELATIONSHIP WITH COMMONWEALTH ENTITIES

The list on the following pages shows the state agencies that have a funding relationship with Medical Assistance Services along with the services they provide using funding from Medicaid.

#### Department of Rehabilitative Services

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- Medicaid Eligibility Determinations for the Disabled
- Administration of the Medicaid Buy-In Program for the Medicaid Infrastructure Grant

#### Department of Social Services

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- Eligibility Determinations for Medicaid, FAMIS, and Medicaid Expansion
- EPSDT Outreach
- Identification of Recipients with Third Party Liability
- Client Medical Management Program
- Nursing Home Pre-admission Screenings and Assessments
- Reimbursement of Medicaid Refugee Costs from a Federal Grant Provided to DSS
- Identification of Suspected Fraud and Non-Entitled Benefits
- Licensure for Adult Care Residence
- Home Visiting Consortium

#### Department of Health

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- Licensure and Certification of Nursing Facilities
- EPSDT Support (Training)
- Nursing Home Pre-admission Screenings and Assessments
- Resource Mothers Program - Support Persons for Indigent Young Pregnant Women
- Health Clinic Medical Services and Home Health Services
- Case Management Services for Pregnant Women and Children
- Plan First and Teen Pregnancy Prevention Programs
- Certificate of Public Need (COPN) Approvals for Nursing Homes and Hospitals
- Screening of Children for Lead Poison
- Governor's Initiative for the Home Visiting Consortium

#### Attorney General's Office

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- Medicaid Legal Representative
- Medicaid Fraud and Control Unit

#### Department for the Aging

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- Case Management for the Elderly
- Quality Care Assurance-Nursing Facilities
- Relocation of Residents of Nursing Homes
- Outreach for Dual Eligibles
- Medicaid Ombudsman Program
- Research and Consulting for the Systems Transformation Grant

#### Department of Education

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- School-Based Health Centers
- Rehabilitative Services (speech, occupational and physical therapy, and audio logical screenings)
- Skilled Nursing Services
- Psychological Services
- Home Visiting Consortium

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Department of Taxation

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- DMAS uses the tax debt setoff for uncollectible accounts

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Department of Behavioral Health and Developmental Services

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- Inpatient Psychiatric and Community Services for Medicaid Mental Health and Intellectually Disabled Recipients
- Nursing Home Pre-admission Screenings and Resident Reviews
- Certification of Providers of Mental Health and Intellectually Disabled Case Management Services
- Early Intervention Services for Infants and Toddlers
- Staffing support to assist with the transition process of recipients enrolled in the Money Follows the Person Demonstration grant moving from an institution to a community-based setting
- Home Visiting Consortium
- CSA Utilization Management Reviews

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MCV/UVA Hospitals

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- Inpatient and Outpatient Care
- Nursing Home Pre-admission Screenings
- Infrastructure Grant Projects
- Revenue Maximization Support
- Medicaid Buy-In Study
- Consumer Directed Services

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Supreme Court of Virginia

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- Payments to Hospitals and related providers of medical and health services for individuals subject to Involuntary Mental Commitment proceedings

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Department of Health Professions

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- Nurse Aide Certification
- Licensure of providers
- Investigation of complaints (Quality of Care)

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Virginia Employment Commission

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- Access to Virginia Employment Case Management Files

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Department of Accounts

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- Financial Reporting
- Payroll processing fees
- Processing of the agency's travel voucher and vendor payments

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Treasury Department

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- Processing of the agency's revenue, wire transfers and vendor payments
- Tort, Bond and Property Insurance

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Department of Planning and Budget

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- Oversee the agency's administrative and medical appropriation

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Office of Comprehensive Services

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- Comprehensive Services Act

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Library of Virginia

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- Document Storage

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Virginia Information Technology Agency

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- Memorandum of Understanding for in-scope network and computer services
- Telecommunication Services
- Design and Development of the Service Oriented Architecture for the Commonwealth of Virginia State Government Insurance Exchange
- Systems Development Services
- Procurement of out-of-scope computer hardware and software purchases

Virginia Commonwealth University

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- Support for Revenue Maximization Project
- Personal Care Aid and Certified Nurse Assistant Training Program
- Partnership for People with Disabilities
- Area Health Education Centers Program
- Consulting and Research for the Systems Transformation Grant
- Consulting and Research for the Medicaid Infrastructure Grant
- IFDDS Screenings

Department of General Services

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- Building Rental
- Pool Car Rentals
- eVA/SPCC Fees

Department of Human Resource Management

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- Workers Compensation
- Training

Department of Corrections

---

- Office Supplies
- Office Furniture
- Printing and Production Services

Auditor of Public Accounts

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- Compliance Audits

Community Service Boards

---

- Various Mental Health Medical services

Department of Motor Vehicles

---

- Design and Development of the Master Person Index and Commonwealth Authentication System for the Commonwealth of Virginia State Government Insurance Exchange

George Mason University

---

- Consulting and Research Services for the Virginia Health Reform Initiative

Office of the Secretary Health and Human Resources

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- Virginia Health Reform Initiative Financial

Support

Virginia Office for Protection and Advocacy

---

- Training and Outreach for the Children's Mental Health Waiver and Demonstration Grant

## Appendix B

### **Major Construction Projects for Behavioral Health and Developmental Services**

- Eastern State Hospital completed the Phase I rebuilding of the facility in fiscal 2008 with Phase II, the Adult Mental Health Treatment Center, completed in September 2010. The Department submitted funding consideration for Phase III, the final step in reducing the campus footprint, to the 2012 General Assembly.
- The Department sold the Western State Hospital property in April 2010 to the City of Staunton's Industrial Development Authority in exchange for 60 acres of adjacent land. In addition there was a \$15 million appropriation for the construction of the new facility. Western State Hospital will continue operating on a portion of the existing campus until the completion of the new 246-bed facility. The new facility is about 34 percent complete with an expected completion date of July 2013.
- Southeastern Virginia Training Center's plans include two elements: first, the creation of homes in the community that will allow current residents to move off-campus; second, the construction of on-campus replacements homes that will reduce the facility's capacity from 200 to 75 beds.

The first component, community housing, consists of the construction of 13 homes; the Commonwealth will fund six homes and the Department is arranging a combination of state and community funds for the remaining seven homes. Five of the six Commonwealth homes are complete, while the seven jointly-funded homes are under construction with varying expected completion dates. Management expects completion of all homes in the spring of 2012.

The second component, construction of on-campus housing, had an original completion date around January 2012. However, construction delays due to wetland concerns raised by the Army Corps of Engineers have changed that date. The Department is continuing to resolve these issues while construction is on-going. Management now expects completion of construction of the 15 five-bedroom homes by March 2012.

- At Central Virginia Training Center, construction is underway to renovate existing buildings, resize and consolidate the campus, while simultaneously building community housing. Management expects completion of the community housing by December 2013. The on-campus renovations are on-going, with the construction of certain buildings to begin in the fall of 2012 and the entire renovation expected to be complete by November 2016.



COMMONWEALTH of VIRGINIA  
DEPARTMENT OF SOCIAL SERVICES  
*Office of the Commissioner*

Martin D. Brown  
COMMISSIONER

January 12, 2012

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

We have reviewed your Report on Audit for the year ended June 30, 2011. We concur with your findings. Copies of the corrective action plans are attached.

If you have questions, please contact J. R. Simpson, Chief Financial Officer at [j.r.simpson@dss.virginia.gov](mailto:j.r.simpson@dss.virginia.gov) or (804) 726-7204.

Sincerely,

A handwritten signature in cursive script that reads "Martin D. Brown".

Martin D. Brown

MDB/jrs  
Attachment  
cc: VDSS Executive Team

## **Support Title IV-E Financial Claims in the a Client's Case Record - Repeat**

In the prior year, we recommended that the Division of Family Services develop an enforcement mechanism to compel localities to provide support in a client's case record of all foster care and adoption assistance Title IV-E payments. Before implementing the new policy, we recommended that management have the Secretary of Health and Human Resources to obtain the administration's support for the change.

We found the Division of Family Services performed no reviews of locality reconciliations during fiscal 2011 to determine whether the client's case record had support for payments. Further management developed the policy without submitting it to the Secretary of Health and Human Resources for his consideration or support.

As required by 45 CFR 1356.71, the case record must contain sufficient documentation to verify a child's eligibility in order to substantiate payments. Without an enforcement mechanism to compel localities to link all payments to a client's case record, the program will have, disallowed costs. We again recommend that the agency develop an effective enforcement mechanism, with the support of the Secretary of Human Resources that ensures localities support each of their payments with a case record reflecting the client's eligibility.

### **Management Plan for Corrective Action**

*The Virginia Department of Social Services (VDSS), Division of Family Services (DFS), will require local departments of social services (LDSS) to provide monthly certification statements confirming that only eligible individuals are receiving foster care and adoption payments and confirm that proper documentation is entered into OASIS and the client's case record. A progressively severe enforcement mechanism will be introduced at the start of State Fiscal Year (SFY) 2013 to hold localities accountable, (1) in their response to DFS to provide a certification as to the accuracy of the information, and (2) certify that necessary documentation is included in the client's case record. Additionally, DFS will require LDSS to provide an electronic record of the individuals receiving foster care and adoption payments and DFS will conduct quarterly financial reconciliations process to validate the financial certification process. The initial quarterly reconciliation will occur within 60 days of the end of the first quarter of SFY 2013.*

*The progressively severe enforcement mechanism will hold localities accountable, up to the withholding of local reimbursement. This will include escalating steps of informal communication with the local director; to formal correspondence with the local director; to formal correspondence with the local governing body or board; to the option of withholding local reimbursement in the absence of compliance.*

*Responsible Party: Jack Ledden, Director, Division of Family Services*

*Estimated Completion Date: December 1, 2012*

## **Reduce Benefit Payments for Individuals Refusing to Work - New**

Social Services is not following up with Local Departments of Social Services Offices (Local Offices) to ensure they are reducing benefits for individuals who fail to participate in the Virginia Initiative for Employment not Welfare (VIEW) program. Federal regulations require the State to reduce or terminate the assistance payments to a family if an individual within the family refuses to work, except where there is good cause or other exemptions established by the State. If Local Offices do not take timely action, the federal government can reduce the Commonwealth's total State Family Assistance Grant by up to five percent.

During its most recent review of random cases, Social Services found that Local Offices incorrectly handled 21 percent of their VIEW cases. We audited a sample of Social Services' reviews and agreed with their findings; however, we found in ten percent of cases audited, Local Offices failed to reduce or terminate the benefits after Social Services notified them of the error.

Social Services should follow-up with Local Offices on the cases with known errors to ensure their correction and ensure the Local Offices are following-up to correct the underlying issues that caused the errors in their cases. By further strengthening its monitoring process, Social Services can reduce its risk of receiving financial penalties from the federal government.

### **Management Plan for Corrective Action**

*Local case records will be reviewed by VDSS Home Office staff on a monthly basis to ensure the information in the automated system is accurate and that there is sufficient documentation to support the data entered. Any errors that are discovered will be reported to the local department of social services (LDSS), including the Local Director. Monitoring procedures will be amended to require follow-up with LDSS staff to ensure identified errors are corrected, i.e., hours of participation are correctly entered in the automated system and the client has been sanctioned, if appropriate. In addition, LDSS staff will be required to submit documentation of corrective actions taken.*

*Person Responsible: Thomas J. Steinhauer, Director, Division of Benefit Programs*

*Estimated Completion Date: These actions will be implemented by February 15, 2012 for the month of January 2012. The actions will be on-going post implementation. Including the Local Director on the report of errors identified will ensure that local management is aware if documentation issues persist.*

**Modify Monitoring Plans for Changing Risk and Obtain Senior Management Approval - New**

When changes in risk occur, Social Services does not adjust and approve a division's monitoring plans for grantees. The Division of Community and Volunteer Services coordinates the development of the various division monitoring plans to address the risks associated with the grantee's management of programs; however, each division executes their plans. But, when changes in risk occur the divisions can deviate from their plans, but are not required to document the modification or justify their deviation from their original plans.

During fiscal 2011 we compared each division's actions to their approved plans and found the following deviations.

- As a result of the federal government conducting a primary review, the Division of Family Services decided not to conduct any grant monitoring reviews for their Foster Care or Adoption Assistance Title IV-E programs as planned.
- The monitoring coordinator for the Division of Benefit Programs left the agency and the position remains vacant. Due to the staff vacancy in this division, five of 36 monitoring reviews planned were not completed.

In both cases, because the divisions did not modify their monitoring plans, senior management could not assess, individually or collectively, if these deviations would have an effect on Social Services' overall risk. The monitoring plan is a dynamic tool that requires review and updating as significant changes in risk occur. Further, senior management should review and approve monitoring plans for risk acceptance and mitigation as they are developed or modified. Without senior management's review and approval of monitoring plans and acceptance of risk, Social Services could be assuming risk that is not acceptable.

We recommend that Social Services develop a mechanism to adjust monitoring plans as changes in risk occur and that senior management review these modifications to ensure each division's actions are acceptable and that Social Services is not assuming too much risk as a whole.

**Management Plan for Corrective Action**

*The Department will develop a mechanism to adjust monitoring plans as changes in risk occur and secure senior management review of these modifications to ensure each division's actions are acceptable and that the Department is not assuming too much risk.*

*Responsible Party: Jack Frazier, Director, Division of Community and Volunteer Services*

*Estimated Completion Date: April 1, 2012*



COMMONWEALTH of VIRGINIA  
*Department of Medical Assistance Services*

CYNTHIA B. JONES  
DIRECTOR

SUITE 1300  
600 EAST BROAD STREET  
RICHMOND, VA 23219  
804/786-7933  
800/343-0634 (TDD)  
[www.dmas.virginia.gov](http://www.dmas.virginia.gov)

December 21, 2011

Mr. Walter J. Kucharski  
The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Mr. Kucharski:

We have reviewed your Report on Audit for the Fiscal Year Ended June 30, 2011. We concur with your findings and will continue corrective action as indicated below.

**Obtain Valid Social Security Numbers (Repeat Finding)**

DMAS/DSS added language in the Medicaid Eligibility Policy manual last fall (September 2010) to clarify that the individual's Social Security Number (SSN) must be verified with the Social Security Administration (SSA). At the time of application or when the SSN is provided, the local social service worker must verify the SSN through SOLQ-I or SVES (data matches with SSA), prior to enrollment in MMIS. By requiring local agency staff to verify the SSN through either SOLQ-I or SVES, we hope to obtain more accurate information at the time of application and reduce the number of SSNs that fail to match with SSA records when our file is sent for comparison. The policy manual further states that if the SSN is not verified, then the individual cannot be enrolled in Medicaid.

Once enrollment takes place, the individual's SSN will then be sent to SSA for official verification. DMAS sends a monthly file to the SSA around the 21st of each month. If the SSN is matched and verified by SSA, then the MMIS is updated to show that verification has taken place.

SSA also returns a file listing SSNs that didn't match and the information is processed and reported by the MMIS on the *SSN and Citizenship Update Report (RS-O-485A)*. The report is posted on the DSS Intranet in the Management Reports section. The file received back from SSA provides information about why the SSN verification failed. Per our policy requirements, local agency staff is expected to review the report to

**The Auditor of Public Accounts**

**December 21, 2011**

**Page 2 of 3**

determine if any client in their caseload was rejected. If the SSN is not verified, then the worker must attempt to resolve the discrepancy.

If it is determined that the discrepancy is the result of worker error (transposition of numbers, name or date of birth data entry error), then the worker must correct the information in the MMIS and/or ADAPT so that a new data match with SSA can occur.

If the discrepancy is not the result of worker error, then the individual must be given 10 days to resolve the issue or provide written verification from SSA of the individual's correct SSN. If the issue is not resolved by the individual during that time frame, the case is closed.

The corrective action for the procedural process is complete and our ongoing monitoring strategy is to improve the accuracy of SSNs. We continue to have a number of SSNs that fail the SSA verification match each month, so we know that workers are either not verifying prior to enrollment or they are not working with the monthly reports to complete all corrections. We are continually monitoring the reports to see what progress is being made and trying to determine if there are other changes that we can make to strengthen the process. Ultimately, the accuracy of SSNs is dependent upon local agency staff following the policy requirements that are in place; however, as has been stated before, DMAS has no authority to enforce or sanction locally-operated DSS offices. The Department will continue to explore alternative solutions with the Department of Social Services (DSS) and local DSS offices to improve both performance and accountability.

In our effort to proactively improve Medicaid eligibility determination in Virginia, DMAS Management engaged a contractor, CGI, on November 21, 2011 to assist us in improving eligibility accuracy. CGI will be evaluating and making recommendations for improving existing eligibility determination processes.

While CGI will be working with us on several different issues dealing with technology and an analysis of the Patient Protection and Affordable Care Act and its impact on our technology infrastructure project, they will also provide us with assistance in developing strategies and processes to reduce errors in local department of social services offices. Specifically, over the course of the project, CGI will provide us with: 1) short term business process measures available to reduce Medicaid/CHIP eligibility errors at local DSS offices; 2) recommendations for policy simplification/change and/or modifications and including considerations for increasing local accountability such as implementation of performance standards and other metrics; 3) recommendations for modifications to existing business processes to target a reduction in errors; and 4) recommendations for targeting training, education and change management opportunities.

The project began November 21, 2011 and is anticipated to be finalized by August 2012.

**Responsible Person:** Karen Lawson, Director, Policy and Research Division

**The Auditor of Public Accounts**  
**December 21, 2011**  
**Page 3 of 3**

**Estimated Implementation Date:** August 2012.

If you have any questions, please do not hesitate to contact our Director of Internal Audit,  
Paul Kirtz.

Sincerely,

  
Cynthia B. Jones



# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES

Post Office Box 1797  
Richmond, Virginia 23218-1797

JAMES W. STEWART, III  
COMMISSIONER

Telephone (804) 786-3921  
VOICE/TDD (804) 371-8977  
[www.dbhds.virginia.gov](http://www.dbhds.virginia.gov)

### MEMORANDUM

**TO:** Walt Kucharski  
Auditor of Public Accounts

**FROM:** James W. Stewart, III

A handwritten signature in black ink, appearing to read 'JWS', written over the printed name 'James W. Stewart, III'.

**SUBJECT:** Response to Management Recommendations

**DATE:** December 6, 2011

The purpose of this correspondence is to respond to the four management recommendations offered by the Auditor of Public Accounts during the conduct of the Fiscal Year 2011 annual audit. Each recommendation is addressed in the sections that follow.

#### Access to Major Systems

DBHDS concurs with this recommendation. The following responses are specific to this issue:

- The DBHDS Office of Internal Audit and DBHDS will work with each security region to determine what access needs to be removed from the 32 employees identified as having inappropriate access levels. Completion of required job duties will be considered when determining the access levels of these employees.
- The Table Maintenance access of those employees with financial duties will be reviewed and deleted where possible.
- FMS and Avatar access reviews will be a part of the Office of Internal Audit's annual audit plan.
- In the past, access has been inactivated for those employees who separated employment from DBHDS. Access will now be deleted for employees who are no longer employed with DBHDS.
- Additional training on internal controls as it relates to systems access will be conducted by the Office of Internal Audit.

**Responsible Parties:** Director, Information Technology and Director, Internal Audit

**Completion Date:** July 1, 2012 although training and monitoring efforts will be continuous.

### **Information Technology Security Awareness Training**

DBHDS concurs with this recommendation. DBHDS is aware of the need to proactively monitor and enforce mandatory training for our staff. DBHDS will implement a lock out policy for staff who do not comply with this requirement.

**Responsible Parties:** Director, Information Technology Security

**Completion Date:** July 1, 2012

### **Continue Improving IT Continuity of Operations and Disaster Recovery Plans**

In the past DBHDS has relied on VITA server or data base restoration requests to represent “partnership assurance” that our data and servers can be restored. In the future DBHDS will no longer rely on these methods and will implement our COOP and DRP procedures (either table top exercises or actual implementation) to comply with this requirement.

**Responsible Parties:** Director, Information Technology and Director, IT Security

**Completion Date:** July 1, 2012

### **Report Estimated Annual Cost Settlements to State Comptroller**

DBHDS has researched this issue with the Department of Medical Assistance Services (DMAS) and found that DMAS computes an estimated settlement amount for all of its providers including DBHDS. This amount is reported to the Department of Accounts as part of DMAS’ attachment process. The estimate by DMAS now forces a requirement by DBHDS to report the exact estimate as DMAS in order to produce the proper netting out effect of the receivable/payable on the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. We have discussed this issue with DMAS staff and will use their estimate of the settlement amount as part of our attachment financial reporting to the Department of Accounts. This will commence with the fiscal year 2012 year end closing and GAAP basis financial reporting process.

DBHDS views this issue as a financial reporting issue only and not an internal control weakness or a compliance issue. DBHDS feels that neither DMAS nor DBHDS should make significant management decisions based upon these estimates. DBHDS does not feel that DMAS should use the estimates alone to draw down more or less federal funds. From our perspective at DBHDS, we must manage our Special Revenue Fund very carefully since the capacity of this fund to generate revenues and cash flows is what supports over 50% of our \$556 million facility operations.

**Responsible Parties:** Director, Budget and Financial Reporting (DBHDS)  
Controller (DMAS)

**Completion Date:** FY 2012 Year End Close and Attachment Process

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