

**VIRGINIA DEPARTMENT OF HEALTH
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

We performed an audit of the Virginia Department of Health (Health) for the year ended June 30, 1999. This section summarizes our findings and the other sections of the report contain our detailed findings.

Management faces several major issues in the short term, which can affect the direction of Health's future system development efforts.

Management needs to determine how it believes it should operate the Office of Information Management and either recruit individuals for leadership positions, continue using consultants, or a combination of both, which require the preparation and issuance of proposals and contracts. Regardless of the choice, management will need to reach its decision quickly and have both the appropriate resources and controls in place.

Management will probably need to devote significant resources toward the Year 2000 resolution of non-mission critical systems over the next year.

Management should properly address the weaknesses within the old WIC system when implementing their new WIC system.

Both a short term and long term issue is the funding of Health's system development efforts. Management must either find the funding for its plans or adopt plans that more realistically reflect the availability of the resources.

Our audit also found:

- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no material instances of noncompliance with applicable laws and regulations that are required to be reported;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audits' findings, except as reported.

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AGENCY HIGHLIGHTS

The Virginia Department of Health's mission is to achieve and maintain personal and community health through promoting healthy behaviors, preventing disease, and improving the environment.

The State Board of Health, appointed by the Governor, provides advice to the Commissioner, determines the services Health provides, defines income limitations, and sets fees. Health has a central office, 35 health districts, and 172 operational sites. Operational sites include local health departments, dental clinics, environmental health sites, and locations where individuals receive federal assistance under the Women's, Infants, and Children (WIC) program.

OFFICE OF INFORMATION MANAGEMENT (OIM)

Prior audit reports have found problems with Health's current systems and weaknesses in the management of the Virginia Information Systems - Integrated On-line Network (VISION) and Year 2000 projects. Factors such as the turnover of leadership, poor project management, and inadequate funding have placed the successful completion of these projects at risk.

Management faces several major issues in the short term, which can affect the direction of Health's future system development efforts. On June 1, 1998, the Century Date Change Initiative Project Office (CDCI) began managing the Year 2000 project, focusing primarily on priority business and enterprise activities. Non-mission critical systems are not part of this effort; therefore, management will probably need to devote significant resources toward the Year 2000 resolution of these systems over the next year.

To resolve the Year 2000 issues with the priority business and enterprise activities, Health has relied on using consultants who, in many cases, are acting in leadership positions within the Office of Information Management. CDCI is providing contract management oversight over the consultants to ensure that they meet the deadlines for the priority business and enterprise activities conversion. Upon completion of these tasks, many of the consultants and CDCI personnel will begin work on other projects outside of Health. Management will need to replace these individuals, especially those working in either a leadership capacity or providing contract management oversight. Management needs to determine how it believes it should operate the Office of Information Management and either recruit individuals for leadership positions or continue using consultants, which requires the preparation and issuance of proposals and contracts. Regardless of the choice, management will need to reach its decision quickly and have both the appropriate resources and controls in place.

Both a short term and long term issue is the funding of Health's system development efforts. While many factors have contributed to the problems with VISION and the response to the Year 2000 issues, one of the primary factors is a lack of funding for these projects. Prior management teams have not successfully secured the funding and other resources to match Health's system development plans and objectives. Management must either find the funding for its plans or adopt plans that more realistically reflect the availability of the resources.

The above items affect several of the detailed issues within this report. How management addresses these issues will affect the future direction of Health's development efforts.

Establish Leadership within OIM

OIM still lacks leadership and proper staffing. Currently, temporary contractors placed by the Century Date Change Initiative Project Office (CDCI) hold many of the key positions, including the Director position. CDCI assumed direct oversight of the Year 2000 project on June 1, 1998. Since that time, CDCI has increased its role to ensure that the information systems of Health will function without disruption. CDCI essentially placed all of the Department's focus on Year 2000 compliance. According to CDCI, as of September 1999, Health was meeting its Year 2000 readiness goals for priority business and enterprise activities.

However, after completing the Year 2000 effort, the contractors will leave and the Health staff and its OIM department will become solely responsible for the successful completion of the remaining VISION modules and non-priority Year 2000 efforts. CDCI staff estimated the costs of completing the VISION system at \$6 million. To ensure continued success, Health needs to adequately plan for the departure of CDCI staff and contractors. Health management will need to either fill essential positions with competent personnel or continue using contractors to address the issues below.

Health has reached its Year 2000 milestones and many CDCI personnel will be leaving around January 2000. Management needs to have its solution to change in OIM leadership in place by that time. If the option elected is the continuation of consultants, management needs to replace the contract management function, which CDCI personnel are furnishing to this process. Their contract management has been a critical component of Year 2000 success to date.

Overview of VISION

VISION represents Health's 1992 redesign of its then existing plan to automate processes both in the central office and local health departments. The VISION plan sets out to place most of the initial modules in the local health departments to address patient flow, information, and billing. These modules would either replace existing systems or would make significant changes to the system.

Between the inception of VISION in 1992 and today, Health has experienced significant change in the leadership of the Office of Information Management and changed the general operating design of the system at least twice. These factors contribute to the current state of the project's implementation.

Current Status of VISION

Although OIM now estimates that the completion of VISION will cost approximately \$6 million, OIM has yet to prepare a comprehensive project budget. Since the project's inception, management has not required that OIM prepare a comprehensive budget of the project. Contributing to the lack of a comprehensive budget has been the inability of management to successfully secure funding for the project, therefore making estimating completion dates and costing difficult. Management should work with the leadership of OIM to examine available resources and within these parameters develop a comprehensive budget with realistic deliverable dates for VISION.

At its inception, VISION would have over 30 modules, but as of April 1999, VISION had only seven operating modules as shown below. Most modern computer systems have an existing useful life of three to five years before requiring significant change or replacement. Delays in the

initial deployment of VISION and changes in technology require the redesign of three of these modules to meet current user needs and the implementation of the contingency plan for one module.

- Appointment Scheduler Module (requires redesign)
- Immunization and Vaccine Inventory Module
- Billing/Accounts Receivable Module (requires redesign)
- Women's and Infant's Health Module (requires redesign) – This module includes Maternity; Resource Mothers; Baby Care; Family Planning Services; Fathers and Families and Children and Adolescents.
- Patient Related Encounter Information Module - This module includes Registration; Financial Eligibility/Insurance Coverage; Encounter; and Community Events.
- Hospital Trauma Registry
- Environmental Health (operating under contingency plan)

After redesigning the three modules above, Health's Agency Information Management Advisory Committee will reexamine the priority for working on the remaining 23 modules. The Commissioner will review the recommendations and then have OIM prepare a budget to support the plan the Commissioner adopts.

For fiscal 2001, OIM is attempting to balance its funding priorities between non-priority Year 2000 compliance issues, supporting on-going agency information management activities, and resources to continue VISION. These types of priorities will continue to affect the operations of OIM and its ability to complete VISION.

We believe management needs to continue the process of setting priorities for VISION discussed above. While OIM should develop a budget of what resources it would take to meet these priorities, it is equally important that OIM show what it can accomplish and within what timeframe work will occur considering available funding. Management can then use these documents to determine the allocation of resources.

Strengthen WIC Information Security

The delays in implementing the new WIC system have prevented Health from improving security over WIC transactions. WIC clinic employees can set up recipient accounts, enter and update recipient eligibility information, and approve recipients for benefits without supervisory review or independent verification. These employees also reconcile unmatched WIC checks. This lack of segregation of duties increases the risk that employees can initiate incorrect or fraudulent transactions. Management should properly address these issues when implementing its new WIC system.

Complete Information Security Program

Health has not completed an information security program appropriate for its information technology environment. The Council on Information Technology Resource Management Standard 95-1 requires that such a program include:

- A business impact analysis that identifies sensitive information systems;
- A risk assessment that identifies the risks to the sensitive information systems and countermeasures required to reduce risks to an acceptable level;
- A contingency management plan that provides for the continuation of critical business functions in the event of disruptions or disasters;
- Implementation of security safeguards based on the risk assessment; and
- Security awareness and training programs.

Health has an outdated Business Impact Analysis/Risk Assessment and Disaster Recovery Plan. Health should complete an information security program, including all items listed above, that is appropriate for its technology environment to ensure the integrity of all systems. Health expects to complete this task by March 2000.

Implement Controls for Dial-In Access

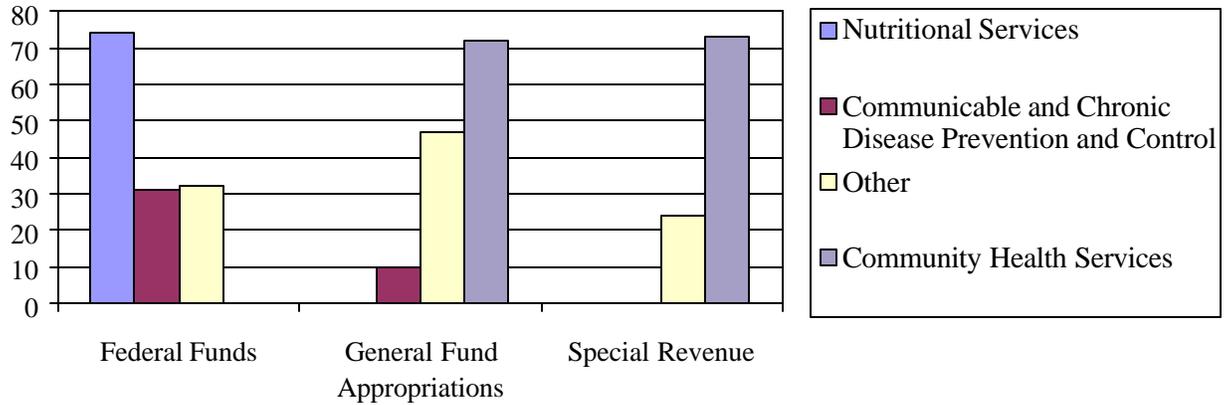
Health currently has no method of authenticating a user dialing in, such as using a dial back feature or some other means of identifying that the person is a valid user. As long as the person who is logging on knows the user-id and password, he is given access to the network.

Health has purchased a product called 'V-ONE'; but is not using the product. Health is contemplating whether or not it can rely on the product because it took so long to get it to work. The product requires that the user have a physical card known as 'Smart Card' that connects with his laptop, as well as a password to indicate that the individual is a valid user. The use of this card would prevent an intruder from being able to access the network even if he discovered the password, because he would need the 'Smart Card' in his possession as well. Health may look toward some other means of security for dial-up access, but at this point, only the password is used for access controls.

Health should implement a security package that will provide secure controls to validate users dialing-in from remote areas.

FISCAL OPERATIONS

Revenue (in millions)



Expenditures (in millions)



As shown in the chart above labeled “Revenue” for fiscal year 1999, Health received funding of \$363 million. The single largest source of federal revenue was for the Nutritional Services program of \$74 million. This program provides supplemental foods and nutrition education to eligible persons through local health agencies. Eligible persons include pregnant, postpartum, and breast-feeding women, and infants and children up to their fifth birthday. The program seeks to provide an adjunct to good health care by preventing the occurrence of health problems or improving health status with food supplements and education. Likewise, this program accounts for 20 percent of expenditures.

The majority of Health’s special revenue funding and total expenses relate to community health services. This program enhances access to health care by administering various clinical services through local health departments throughout Virginia. Each local health department must provide those services mandated by the Code of Virginia. These services include child health, family planning, environmental health, and communicable disease control. To operate the local health departments, Health has Cooperative Agreements with the cities or counties having the service. The agreements specifies 1) the amount of funding each party contributes to the operation; 2) the range of

services provided and the income level served; 3) the ownership of equipment; and 4) the responsibility for the legal defense of state employees.

Some local health departments have experienced a drop in revenue due to federal policy changes in home health services. Health is limited on its reimbursable services and is therefore experiencing a diminishing capacity to generate revenue. In addition, the local health departments have experienced a significant decline in the number of Medicaid patients the local health departments are serving as a result of the Medallion II program. This has caused a drop in revenue of 70 percent. Both of these significant reductions in revenue are making it difficult for some local health departments to provide mandated services. Health is aware of the many factors that are affecting the local health departments and is constantly evaluating how the local health departments should react to the changes in health care, funding, and access to health information.

Strengthen Controls Over Cash Collections

Five of eight local health departments tested did not adequately safeguard collections. We noted a lack of adequate separation of duties between the collection, reconciliation, and deposit of monies. Separation of duties is essential in maintaining adequate internal controls over cash accountability.

Management should ensure that proper separation of duties exist where appropriate and that there are compensating controls when staffing restrictions do not allow for separation.

December 14, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia Department of Health** (Health) for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Health's internal control, and test compliance with applicable laws and regulations. We also reviewed Health's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Health's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts	Payroll
Expenses	Grants Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Health's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Health's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that Health properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Health records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Health's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are described in the section titled, "Agency Highlights." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance are described in the section titled, "Agency Highlights."

Health has not taken adequate corrective action with respect to the previously reported findings "Develop Overall Project Budget," "Strengthen Information Security," and "Strengthen Controls Over Cash Receipts." Accordingly, we included these findings in the section titled "Agency Highlights." Health has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 14, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA DEPARTMENT OF HEALTH
Richmond, Virginia

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