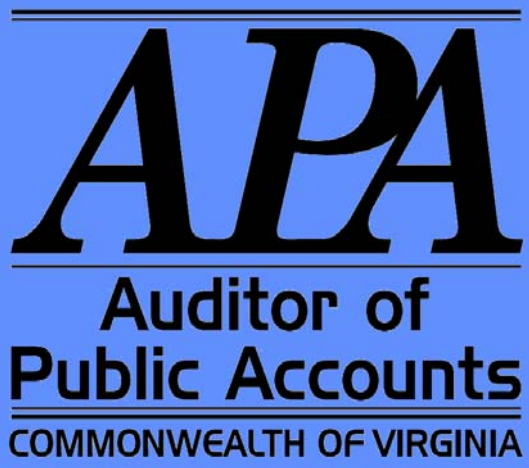
AGENCIES OF THE SECRETARY OF HEALTH AND HUMAN RESOURCES

JUNE 30, 2012



AUDIT SUMMARY

This report discusses the **Secretary of Health and Human Resources'** efforts to prepare for Healthcare Reform and the services and financial activities of the ten departments and agencies reporting to the Secretary.

AUDIT RESULTS

Overall our audit, for the year ended June 30, 2012, 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, including three matters that constitute a material weakness, 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, listed here in alphabetical order:

Aging and Rehabilitative Services
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
Social Services
Virginia Board for People with Disabilities

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RECOMMENDATIONS

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SECRETARY OF HEALTH AND HUMAN RESOURCES
MEDICAL ASSISTANCE SERVICES
SOCIAL SERVICES

Obtain Valid Social Security Numbers - Repeat

The Department of Medical Assistance Services (Medical Assistance Services) has not developed a process for ensuring its system contains only valid Social Security Numbers (SSN) for recipients. Federal regulations 42 CFR 435.910(g) and 435.920 require Medical Assistance Services to verify recipient SSNs with the Social Security Administration (SSA) or request the SSA to furnish the number, which is allowable under 42 CFR 435.910(e)(3).

For over a year, the SSA has been furnishing Medical Assistance Services with the valid SSNs for 390 recipients; however, Medical Assistance Services has not updated their system with the SSNs provided by the SSA. During the same time period, using information provided by Medical Assistance Services, the SSA was not able to validate or furnish valid SSNs for another 167 recipients who continue to receive services.

Management at Medical Assistance Services believes that there is little risk of financial consequence to the Commonwealth because 42 CFR 435.910(f) states that an agency must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by the SSA. However, inconsistencies between various databases will cause questions regarding the program's integrity. Medical Assistance Services' information does not contain valid SSNs because the Commonwealth currently does not accept SSNs furnished by the SSA.

Management at Medical Assistance Services should work with the Secretary of Health and Human Resources and their federal counterparts to determine which sources of information will be considered "trusted sources" to ensure the Commonwealth has the best information about each recipient. Making these decisions about which entity is the best source for each of the data elements needed for determining eligibility will become more important as the Secretary's Office works to increase program integrity and administrative efficiencies by enhancing information sharing between state and federal agencies.

SOCIAL SERVICES

The following three recommendations constitute a material weakness for the Commonwealth, which are entitled: "Prohibit System Users from Modifying Security Settings," "Create and Implement a Change Management Process for Sensitive Applications," and "Create and Implement an Audit Process for Sensitive Applications." While no material errors were noted during our audit, the risk for errors will increase if management does not resolve these weaknesses before it expands the use of the Virginia Case Management System (VaCMS) as part of the

Secretary of Health and Human Resources' eHHR Program. Virginia's Medicaid modernization solution is expected to be a product of the eHHR Program.

Prohibit System Users from Modifying Security Settings - New

The Virginia Department of Social Services (Social Services) allows five end users of the Virginia Case Management System (VaCMS) to modify its security settings. Section 8.2.2 of the Commonwealth's Information Security Standard requires each agency to establish separation of duties in order to protect sensitive Information Technology (IT) systems and data.

Without separating end users from functions reserved for the Information Security Officer (ISO), the ISO is limited in his ability to know that VaCMS 'controls are working as intended and cannot ensure the Commissioner that functions within VaCMS are properly secured. This weakness was caused when these users were assigned their current level of access in order to troubleshoot and test VaCMS before it went into production in October 2011.

When a system moves from the development phase into production, it is important that the entity secure the system to mitigate the risk of fraud or error. Therefore, we recommend Social Services not provide end users with functions reserved for the ISO to strengthen controls surrounding VaCMS. To avoid this issue in the future, we recommend that Social Services incorporate VaCMS into the ISO's Security Access Management System; which is used to monitor system access centrally. Incorporating the VaCMS into the ISO's Security Access Management System will also help mitigate the risk of fraud or error when other public assistance programs migrate to the VaCMS in the future. In addition, Social Services should consider implementing a process to review VaCMS' audit logs until these functions are separated in order to track end user activity. By doing such, the ISO will be able to mitigate the risk of end users having too much access.

Create and Implement a Change Management Process for Sensitive Applications - New

The Social Services has not adopted an application change management process that conforms to industry best practices for its Virginia Case Management System (VaCMS). The Commonwealth's Information Security Standard, SEC 501-06 Section 10.4.2, requires agencies to establish change management controls so that changes to the IT environment do not compromise security controls. Several best practices, such as ITIL and COBIT, provide guidance on establishing a comprehensive change management framework. Implementing a formal change management process reduces the risk that sensitive data is compromised due to programming errors or acts of fraud.

In October 2011, the VaCMS transitioned from the development to the production phase. While VaCMS was in the development phase, Social Services had a formal change management process in place to track system modifications. However, when VaCMS transitioned to production, Social Services failed to carry its change management process forward. The change management responsibility was transferred to the Division of Child Care and Early Childhood Development,

which has not yet adopted an application change management process that conforms to industry best practices.

To remedy this weakness, we recommend Social Services adopt a change management process that conforms to industry best practices. Specifically, Social Services should develop a procedure for the VaCMS' change management process. In addition, Social Services should consider implementing a Change Advisory Board consisting of individuals from the Information Technology, Operations, and Business groups. By doing such, Social Services will keep management informed of system modifications and mitigate the risk of programming errors or acts of fraud.

Create and Implement an Audit Process for Sensitive Applications - New

Social Services does not have an audit management process for highly privileged administration accounts in its Unisys Mapper System and its new Virginia Case Management System that both contain mission critical data and personally identifiable information. The Commonwealth's Information Security Standard, SEC 501-06 Section 9.3, requires agencies to monitor and record IT system activity to adequately protect sensitive data.

Database administrator accounts have elevated privileges that allow these accounts to perform inserts, updates, and deletes on data in the database without adhering to the controls implemented in the end-user application that accesses the database. Administrator accounts can also structurally change database tables and automatically execute programs triggered by specific events.

Without an audit management process, Social Services is unable to log and monitor the activities performed by the database administrator accounts. This inhibits the administrators' ability to trouble-shoot unexpected events and reduces management's ability to assist law enforcement in investigating a potential database breach. Social Services has not been able to implement an audit management process because the feature does not exist within the Unisys Mapper System.

To eliminate this weakness, Social Services' is replacing the Unisys Mapper System with one containing modern controls. However, Social Services has not finalized a process to monitor the activities recorded in the logs of its latest system, VaCMS. Therefore, we recommend that Social Services assign the responsibility and establish an audit management process for all its applications that contain sensitive data, such as mission critical and personally identifiable information. By doing such, Social Services will reduce the risk of unauthorized and undetected database modifications.

Perform Risk Assessment and Develop a Monitoring Plan Before Hiring More Staff - New

The Division of Family Services (Family Services) within Social Services has not assessed programmatic risks prior to making the decision to hire additional staff for its monitoring function. The United States Code 31 USC 7502(f)(2)(b) requires pass-through entities to monitor the sub-recipient's use of federal awards through site visits, limited scope audits, or other means. The

implementing federal circular A-133 § .400 (d)(3) necessitates that monitoring activities be done as necessary, which can only be determined by doing a proper risk assessment.

In response to a review performed by the United States Department of Health and Human Services, Family Services has reviewed Title IV-E Foster Care and Adoption Assistance case files from Local Department of Social Services (Local Departments) and has found errors. To resolve these errors and avoid financial penalties, the Commissioner and his Deputies (Executive Management) have authorized Family Services to hire eight additional positions to perform monitoring activities. However, Family Services has not performed a risk assessment or developed a monitoring plan before making this decision to hire. Without a risk assessment or monitoring plan, Social Services cannot be sure the eight new employees are fully warranted.

We recommend Family Services work with Social Services' monitoring experts in the Division of Community and Volunteer Services to develop a monitoring plan, which should be supported by a risk assessment. This assessment should include, but not be limited to, recipient's prior year monitoring findings, effectiveness of their internal systems, and potential risk to Social Services. If these efforts are unsuccessful, we recommend the Executive Management work with both divisions to determine what resources are necessary to develop the plan. By doing such, Social Services will be able to focus its monitoring efforts and allocate its resources efficiently and effectively to mitigate programmatic risk.

Review Grantee Audited Schedule of Expenditure of Federal Awards - New

Social Services is not reviewing the audited Schedule of Expenditure of Federal Awards (SEFA) during its review of grantee single audits. While Social Services reviews grantee single audits for audit findings, it does not review the SEFAs or compare them to Social Services' internal accounting records to ensure pass-through funds are properly included. Grantees that do not include proper amounts on their SEFA are increasing the likelihood that Social Services cannot rely on the grantee's audit. Office of Management of Budget's Circular A-133 § .400(d)(4) requires Social Services to ensure subrecipients have met the audit requirements of Audits of State, Local Governments, and Non-Profit Organizations, and § .320(b)(2)(xi) also requires the reporting of the amount of expenditures associated with each federal program.

For the fiscal year ended June 30, 2011, the latest information available, we selected one grant from 12 different grantee SEFAs obtained from the Federal Audit Clearinghouse and compared their amounts to Social Services' internal accounting records. In total, for the twelve items tested, we found that grantees' reported expenditures were approximately $2.1 million less than Social Services' internal accounting records. Because Social Services had not compared their records to the grantees' SEFA, management was not aware of these differences. Subsequently, management has reviewed most of the differences we found and determined that they were the result of reporting errors made by the grantees.

Errors within grantee SEFAs may cause federal funds that pass-through Social Services not to receive a proper audit. To mitigate this risk and to be in compliance with federal requirements we recommend Social Services review SEFAs and compare them to Social Services' internal accounting

records. In addition, Social Services should develop a formal process for requiring grantees to provide a justification for significant differences or resubmit a corrected SEFA to Social Services and the federal government if an error is discovered. If an error is discovered with a local government's SEFA, Social Services should copy the Auditor of Public Accounts on their communications with the local government because an error on an audited SEFA may be an indicator of audit quality. SEFAs are the foundation for their grantee single audits and management should develop and implement the necessary processes to ensure their accuracy.

Further Evaluate Automating the OASIS Reconciliation Process - New

The Division of Family Services (Family Services) is not reviewing Online Automated Services Information Systems (OASIS) reconciliations in a timely manner. As required by 45 CFR 1356.71, the case record of the child must contain sufficient documentation to verify a child's eligibility in order to substantiate payments made on the child's behalf. Since OASIS is separate from the Payment System, Local Departments of Social Services (Local Departments) must perform manual reconciliations between OASIS and their payment systems to meet this federal requirement, which Family Services must manually review to meet its oversight responsibilities.

Due to a lack of staffing within Family Services, the Division has only been able to review OASIS reconciliations from one-sixth of the Local Departments during the fiscal year. During these reviews, Family Services has found deficiencies in the reconciliation process. However, some of the errors noted had taken place months before the review was performed by Family Services and still have not been corrected. Without a streamlined reconciliation and review process, Local Departments are adding to their overhead costs and Social Services will most likely not be able to meet its oversight responsibilities without additional staffing.

Management within Family Services was recently informed by its data analytics vendor that there is an automated process to match payment and case records electronically. However, the scope of the contract only included an assessment as to whether the automated process was feasible. Therefore, Social Services will need to evaluate if it should replace the manual reconciliations with an automated process.

To be more effective and efficient, Family Services should consider using automated features to streamline its OASIS reconciliation process. Therefore, we recommend Family Services work with Executive Management to further evaluate automating the OASIS reconciliation process. In deciding, at a minimum, Social Services should perform a cost-benefit analysis to ensure the benefits outweigh the costs. Automating this process should help Family Services be able to identify errors faster than its current manual process and incorporate those risks into its monitoring plan. Additionally, it should make the reconciliation process more effective to take some of the administrative burden off of the Local Departments.

Develop Policies for Adjusting Title IV-E Foster Care Errors - New

Social Services has not developed policies for Local Departments to follow when Title IV-E Foster Care errors are discovered. Social Services is responsible for maintaining and updating the Finance Guidance Manual that Local Departments are required to follow. In response to a review performed by the Federal Government, the Division of Family Services within Social Services has reviewed a significant portion of its Title IV-E Foster Care population. During this review, Family Services has found approximately $1.2 million in payment errors. However, Social Services has not developed any guidance on how to adjust for these errors.

Without definitive guidance, Local Departments are using their own discretion on how to code these errors within Social Services' reimbursement system. Because Local Departments can use different methods for resolving these errors, this may lead to inconsistencies, which will decrease Social Services' ability to detect adjustments that are unallowable under federal guidelines. Additionally, because Local Departments use funding streams from other sources, they may elect to code these expenses to other agencies, such as the Office of Comprehensive Services.

The guidance manual has not been updated because the different divisions and agencies that need to work together to make the necessary updates have not been tasked with making the required decisions needed to update the manual. Therefore, we recommend that Executive Management at Social Services have the affected groups develop guidance for processing Title IV-E Foster Care adjustments and provide this guidance to Local Departments. In addition, Social Services should implement a process for tracking these adjustments to assure they are reasonable and allowable under federal guidelines. By doing such, Social Services' management will be able fulfill its supervisory responsibility to assure that Local Departments are consistently handling these errors and not creating a liability for the Commonwealth through their adjustments.

Update Information Technology Disaster Recovery Plans - New

Social Services did not update its IT disaster recovery plans to reflect its current IT environment. While recovery responsibilities for infrastructure components rest with the IT Partnership with Northrop Grumman, it is still Social Services' responsibility to maintain updated recovery procedures for its mission critical applications. The Commonwealth's Information Security Standard, SEC 501-06 Section 3.3.2, requires agencies to conduct periodic reviews, reassessment, testing, and revision of the IT disaster recovery plans to reflect changes in essential business functions, services, IT system hardware and software, and personnel.

Social Services last updated its recovery plans in 2005 before its IT infrastructure transitioned to the IT Partnership. These outdated plans present a risk to Social Services because they do not contain the proper procedures to restore its mission critical applications. This may result in longer downtimes in which individuals will not be able to access services, such as food stamps and Medicaid, in case of a disaster. Social Services does not have an updated IT disaster recovery plan because management did not explicitly assign this responsibility within its Information Security Program dated September 2012.

We recommend that Social Services update all IT disaster recovery plans to reflect its current environment and application restoration procedures. To ensure future updates occur, management should assign the periodic review and update of the recovery plans to specific positions within Social Services, and document these responsibilities within each employee's work profile and its Information Security Program.

Continue Using Performance Information to Evaluate Policy Changes - New

Approximately 1,000, or .25 percent, of all recipients statewide in Medicaid were not re-certified as eligible within twelve months. As required by Title 42 Section 435.916 of the Code of Federal Regulations, agencies administering the Medicaid Program must re-determine the eligibility of Medicaid beneficiaries, with respect to circumstances that may change, at least every 12 months. Together, the Commonwealth and federal government provided approximately $900,000 worth of benefits to these individuals after the eligibility re-certification was required. If these individuals are not subsequently determined to still be eligible for Medicaid, the federal government may question its half of the funding.

Management at Social Services has identified re-certification of Medicaid as a risk and developed a performance measures report to track compliance with this requirement. Management is in the process of pursuing policy and system changes to allow case workers to perform administrative re-certifications for Medicaid. Social Services should continue to use its performance measures to evaluate the effectiveness of their changes and make adjustments as needed.

Improve Eligibility Edit Checks to Prevent Conflicting Information - New

Management within the Division of Benefit Programs at Social Services failed to design edit checks within the ADAPT Eligibility system to prevent conflicting information from being entered. There is no edit check within ADAPT to compare the child's birth date to how the case worker answers the question of whether a child is between the ages of 5 and 18. Additionally, by incorrectly answering this question, case workers could bypass edit checks related to the child's truancy status.

The truancy status is important because the TANF Manual, Section 201.3, states "[t]o be eligible for assistance, children in the assistance unit under age 18, including minor parents, must comply with the compulsory school attendance requirement." If not, they should have a formal plan in place to get the child back in regular school attendance. If the child is between the ages of 5 and 18, truant from school, and not in compliance with the plan, the child should be excluded from the case receiving TANF Benefits.

During our analysis of all active cases, we found three instances of children being marked as not being between the ages of 5 and 18 whose birth date indicated that they were within this range and were marked as truant and noncompliant with a plan. However, the system did not exclude these children from their cases, which it would have done if the case worker correctly answered the question. After we brought these exceptions to the attention of Social Services' management they

contacted the Local Department of Social Services and determined that these individuals were not actually truant.

To prevent conflicting information from being entered into ADAPT, Social Services should consider eliminating the question about the age on the truancy screen (AEVIPP) and use the date of birth on record within ADAPT. However, given the age of ADAPT and plans to replace it, management may forgo any reprograming of ADAPT and instead opt to review the system for conflicting information to ensure that case workers are not using this weakness to bypass truancy questions. Additionally, management should evaluate all ADAPT logic before it is carried over to a new system to ensure weaknesses are not carried forward.

Work with Federal Government to Eliminate Likely Questioned Costs in the Future - New

Social Services system has conflicting information describing a child's relationship with his or her parents. To comply with the Code of Federal Regulations, Section 431.10 and the state plan for evaluating income limits for Medicaid, Social Services' manual requires caseworkers to assign children to a parent's budget unit, if the parent is financially responsible for the child. If the caseworker incorrectly does not include a child in the parent's budget unit, the system will not remove the child from Medicaid if the parent's income exceeds the limit set by the state plan.

A query of all families returned 249 cases where the family's income exceeded the Federal Poverty Level. Of these 249 cases we randomly tested 25 and found 22 cases where the family properly consisted of multiple budget units to account for the parent not being financially responsible for their child. However, in the other three cases the caseworker incorrectly excluded the child from the budget unit of the financially responsible parent. Projecting the $3,978 paid for services in these three cases to the population of families with incomes exceeding the Federal Poverty Level we estimate likely questioned costs of $39,620, or .0005 percent of Medicaid's expenses.

These errors occurred because the case worker did not set up the family within the correct budget units as the case originated. Social Services is in the process of replacing their eligibility determination system, ADAPT, with a new modernized system to comply with the requirements of the Affordable Care Act. In addition, eligibility requirements pertaining to household income will be changing in the upcoming year. Therefore, Social Services should perform a cost-benefit analysis to determine whether any system enhancements' benefits would exceed any likely questioned costs. Social Services should also obtain information from the federal government to determine how to implement the new income eligibility rules to eliminate additional likely questioned costs in the future.

Use Card Replacement Information to Evaluate Risk and Recommend Policy Decisions - New

Social Services does not use the Card Replacement Report provided by its vendor to evaluate risk within the Supplemental Nutrition Assistance Program (SNAP). Best business practices for managing benefit cards includes monitoring the prevalence of lost, stolen, and damaged cards as a

possible indicator of card trafficking. Currently, Social Services receives a card replacement report for each locality on a monthly basis, but does not utilize this report to evaluate programmatic risk.

These reports are currently provided in a format that prevents management from analyzing reports electronically for patterns and are generally between 800 and 1000 pages long each month and include new card issuance. The formatting of these reports makes statistical analysis difficult. While reviewing the Card Replacement Report for the period beginning July 1, 2011 and ending June 30, 2012, we randomly selected ten users listed as having lost cards in July 2011. We then manually searched the remaining eleven months to see if these users appeared on any other reports. Of the ten users selected, one user reported a card lost in two other months. Another user reported a card lost in three months and a damaged card in an additional month. While this sample is not statistically valid and cannot be projected to the total population, these results present an indication of potential risk for Social Services.

Social Services is currently initiating a pilot program at five Local Departments of Social Services, which will request interviews with beneficiaries who frequently replace cards and attempt to identify reasons for replacement and potential fraud. However, Social Services has no legal recourse to take against beneficiaries who frequently report cards lost, damaged, or stolen. To assist in this effort, we recommend Social Services work with its vendor to obtain the Card Replacement Report in a useable format. We then recommend Social Services begin using the Card Replacement Report along with its current work with Local Departments to evaluate risk and recommend policy changes as necessary. By doing such, Social Services will enhance its oversight efforts and mitigate the risk of fraud within the Supplemental Nutrition Assistance Program.

HEALTH

Complete Required Number of Subrecipient Reviews - New

The Department of Health (Health) did not complete the minimum number of subrecipient monitoring reviews required by the federal Child and Adult Care Feeding Program (CACFP). The U.S. Department of Agriculture (USDA) federal regulation seven CFR 226.6(m) requires Health in each federal fiscal year to review 33.3 percent of all of its subrecipients. Health reviewed 24.13 percent of its subrecipients in the federal fiscal year ending September 2011.

Insufficient reviews by Health increases the risk of program non-compliance and fraud at subrecipients. The Commonwealth, through Health, is liable to the federal government for any funds that program subrecipients do not use according to program regulations. It is Health's responsibility to comply with federal regulations and to mitigate the Commonwealth's risk by reviewing subrecipients.

Health did not complete the required number of reviews of subrecipients because management did not use all of the funds the USDA awarded to Health for conducting these reviews. The USDA is aware of Health's non-compliance because Health returned approximately 97 percent of the $515,000 that it was authorized to use for reviewing subrecipients.

Health's management is already in the process of hiring additional individuals to meet the subrecipient monitoring requirements for federal fiscal year 2012. Health's management should continue its efforts to complete the required number of subrecipient reviews and adjust their plans as necessary to mitigate the Commonwealth's risk.

Perform Required System Access Reviews - New

Management at Health is not periodically conducting system access reviews. Commonwealth's Security Standard SEC 501 (SEC 501) Section 5.2.2.6 requires management to perform periodic reviews of all user accounts and their corresponding privileges. By not performing the system access reviews as required, management did not identify that two of its critical controls over system access are not working as intended, promptly remove system access, and approve system access.

Promptly Remove System Access

Management did not remove Commonwealth Accounting and Reporting System (CARS) access timely for four employees. SEC 501 Section 5.2.2.23-24 requires the prompt removal of system access for terminated or transferred employees. System access should be removed as close to the employee's date of separation as administratively possible. While we found no evidence of these employees accessing the system after their termination date, untimely removal of user access increases the risk of unauthorized transactions and could impact the integrity of the Commonwealth's financial systems.

Approve System Access

Management could not provide evidence that some of the access granted to the WebVision system was approved. Management completed the proper approval forms; however, in sixty-three cases the assigned roles that were granted were not selected by their manager on the approval form. While management believes that each employee's roles within WebVision is reasonable based on their job requirements, each of these instances represents a deviation from Health's policies and procedures for approving authorization to its systems. This creates the risk of individuals obtaining unauthorized access to Health's sensitive information.

If management had performed the required system access reviews, management would have found that it was not promptly removing system access and could have used the system access reviews as evidence that the access granted was subsequently approved. Management should start conducting reviews to comply with SEC 501 Section 5.2.2.6, which requires management to perform periodic reviews of all user accounts and their corresponding privileges to mediate the risk of unauthorized access and transactions.

Secure Database Logs - New

Health allows its Database Administrators (DBA) to modify the logs that track their activities. The Commonwealth's Information Security Standard, SEC501-06 requires and the Center

for Internet Security (CIS) Oracle Best Practices recommends that organizations protect audit trail log files to ensure their integrity.

DBAs with the ability to modify logs can change or delete the information generated by the database management system to hide their activities. DBAs at Health have access to change these logs because management did not configure the system with the settings typically used to protect this information, such as segregating the log files from DBA access on the operating system or by transferring the logs to an external server that is inaccessible to the DBAs.

We understand that Health is working towards correcting this concern by implementing the safeguards and processes to ensure that audit trails are not at risk of modification. We also recommend that Health actively align its internal Oracle policies and processes with an industry best practice, such as the CIS Best Practices, in addition to following the requirements set forth by the Commonwealth's Information Security Standard, SEC501-06.

Identify Non-Essential and Dependent Business Functions - New

Health does not evaluate all business functions and dependencies when preparing its risk management and contingency planning documents. The Commonwealth's Information Security Standard, SEC 501, requires agencies to identify all business functions and dependent functions. Specifically, the business impact analysis should include all non-essential dependent functions that essential functions rely on.

By excluding non-essential dependent functions, Health increases the risk of omitting essential functions. Dependent functions upon which essential functions rely are also considered essential and could impact the agency's mission if not properly identified.

We are aware that Health is actively working towards correcting this concern. We recommend that Health dedicate the necessary resources to expand the departmental business impact analyses to include non-essential dependent functions.

REHABILITATIVE SERVICES

Obtain Federal Authorization before Deviating from Cash Management Requirements - New

In response to the threat of a federal shutdown, the Department for Aging and Rehabilitative Services (Rehabilitative Services) drew down approximately $1.5 million dollars in excess federal funds in late July 2011, which remained in Rehabilitative Services accounts until September 2011.

Under Rehabilitative Services' Cash Management Improvement Act (CMIA) agreement with the federal government, the Commonwealth agrees to draw down federal funds based on prescribed funding techniques to limit the amount of time between the draw down and the use of those funds.

While Rehabilitative Services materially complied with the CMIA, because of a potential federal shutdown, Rehabilitative Services made a management decision to draw down approximately

two weeks of additional funds to ensure that clients in the Vocational Rehabilitation program would continue to be served in the event that funds were not available from the federal government.

If Rehabilitative Services needs to deviate from its agreement with the federal government, it should communicate the decision to the federal government and obtain its authorization.

Improve IT Security Program – Follow Up

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. 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.

Rehabilitative Services continues not to have a complete IT security program, which causes it to lack certain safeguards surrounding mission critical and confidential data. The Commonwealth's Information Security Standard SEC501-06 requires agencies to have a complete IT security program.

While Rehabilitative Services has resolved some of the issues we reported last year, eight components are still incomplete. Management intends to have these remaining components completed and implemented by June 2013.

- User accounts to sensitive systems are not locked if security training requirements are not met. 648 of 1,334 employees, or 49 percent, have not completed IT Security Awareness and Training and continue to have access to sensitive information in violation of Rehabilitative Services policies and procedures.
- Risk Assessments are not performed for all sensitive IT systems.
- Risk Assessments do not identify all regulatory requirements for data types for sensitive systems.
- System information in the Disaster Recovery Plan is not consistent with the Risk Management documents or Continuity of Operations Plan (COOP).
- Disaster Recovery Plan recovery requirements for IT systems do not support the essential business functions (based on Risk Management Plans), including system configurations, lists of hardware and software, and vendor contacts.
- A policy and process does not exist that determines who is subject to background checks before being given access to sensitive data.
- User reviews are not performed annually for sensitive systems and periodically for non-sensitive systems.
- The IT security program does not address transaction encryption or authentication.

Without a complete IT security program, management at Rehabilitative Services is not in compliance with security standards and placing the Commonwealth's information at risk. Rehabilitative Services continues not to have a complete IT security program because management's plan is to resolve all items by June 2013. We recommend that Rehabilitative Services update its information security program to address the issues above.

BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES

Notify Oversight Agencies of Operational Changes that Affect Budget Assumptions - New

Management at the Department of Behavioral Health and Developmental Services (Department) did not notify the Department of Planning and Budget (Budget) when they received payments late from the federal government and decided to delay the collection of $16.3 million in Medicaid claims. Management decided to change the timing of these collections because the Department received its cost settlements and rate adjustments two months later than it normally does from the federal government. Receiving these funds late limited management's ability to use these funds before year-end, thereby increasing the Department's year-end cash balances. If the Department had also processed its Medicaid claims at year-end, management estimates that these claims and the other funds received from the federal government would have caused the state Comptroller to transfer $3 million from the Department's special revenue fund to the state's General Fund. Chapter 3 Item 313 B. requires the State Comptroller to transfer non-general fund balance at year-end in excess of $35 million.

Recently the Department worked with Budget to increase the fund balance threshold in Chapter 2 from $20 million to $35 million. The agencies agreed to this increase to ensure the Department had adequate resources to pay for a new electronic health records system. However, management did not notify Budget of the effect that the late payments from the federal government would have on their year-end cash balance and their plans to ensure the State Comptroller would not make the required transfer.

While management at the Department believes that there is little risk of this same scenario occurring in the future, management has agreed to notify Budget of operational changes that will affect budget assumptions.

MEDICAL ASSISTANCE SERVICES

Address Findings in Internal Audit Report -New

We concur with the findings in Medical Assistance Services Internal Audit report on the operating environment and security business processes issued in May 2012. The report recommends management strengthen the security of private health information transmitted via email, formally document evidence of annual user system account reviews, and update security policies and procedures, risk assessment, business impact analysis, security plan, and contingency plan documents. Due to the sensitivity of the information for which Medical Assistance Services is responsible, management should continue in its efforts to address their findings.

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:

Behavioral Health and Developmental Services

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

Aging and Rehabilitative Services

Improve Timeliness of Eligibility Determination

Social Services

Support Title VI-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

HEALTHCARE REFORM PREPARATIONS

PATIENT PRIVACY AND AFFORDABLE CARE ACT PREPARATION EFFORTS

BACKGROUND

One of the primary objectives of our annual audit of the Agencies of the Secretary of Health and Human Resources is to test federal compliance for the Statewide Single Audit. The Patient Privacy and Affordable Care Act (Act) was signed into federal law on March 23, 2010. While some of its provisions are not yet effective, many will require the Commonwealth's compliance in the future. To ensure that management is properly planning for future compliance with provisions of the Act, we inquired of management of their preparation efforts and evaluated their response to best practices for project management.

KEY PROVISIONS OF THE PATIENT PRIVACY AND AFFORDABLE CARE ACT

The Act has a number of provisions that will require the Commonwealth to change its operations, which will make compliance challenging. From our analysis of the Act and other documents provided by management we identified ten provisions that will have the largest impact for the Agencies of the Secretary of Health and Human Resources. These ten provisions are grouped into the four key areas as such:

- **Simplification and streamlining of the application process and placing it on the web**
  - Streamlining enrollment through exchanges, Medicaid, CHIP, Single Application, and Electronic Interfaces
  - State to establish website for seamless enrollment in Medicaid, CHIP, or exchanges
  - Permits hospitals to make presumptive eligibility determination for Medicaid

- **Obtaining tax and social security information to confirm modified adjusted gross income (MAGI)**
  - Changes "modified gross income" to "modified adjusted gross income"
  - Medicaid income eligibility determined using family modified adjusted gross income
  - Allows disclosure of tax information and social security numbers for eligibility determination

- **Health insurance exchanges in each state, offering a marketplace for individuals and companies to evaluate policies**
  - State required to subsidize employer-sponsored health insurance (ESHI) for individuals with Medicaid if they have access to ESHI and it is cost-effective

- **Expansion of Medicaid to include individuals with incomes up to 133 percent of the federal poverty level and increased federal matching for states that choose to expand Medicaid coverage**
    - Expansion of Medicaid to cover newly eligible individuals up to 133 percent of federal poverty level
    - Increases federal support for the Medicaid expansion population
    - Increases CHIP federal participation by 23 percentage points through 2019

PREPARATION EFFORTS BY KEY PROVISION AREAS

Simplification and Streamlining of the Application Process and Placing it on the Web

Department of Medical Assistance Services (Medical Assistance Services) receives most guidance regarding streamlining of the online application process from the Centers for Medicaid and Medicare Services (CMS) and the Center for Medicaid, CHIP, and Survey & Certification (CMCS). The Division of Policy and Research at Medical Assistance Services reviews the Federal Register and the Act for new provisions and regulations as they are published. Virginia also has an assigned CMS staff liaison for questions regarding this provision.

To aid in compliance with this key provision and others the Secretary of Health and Human Resources established the Electronic Health and Human Resources (eHHR) Program Management Office. eHHR is designed to modernize eligibility and enrollment services for public assistance, to enable paperwork reduction through automation, to fight fraud and abuse, and to create a business framework where new functions can be easily added to a modernized eligibility and service system.

In 2010, as a result of passage of the Act, federal funds became available for modernization of health care eligibility systems. The additional funding, combined with a recognized need for modernization of state systems, resulted in the formation of the eHHR Program Management Office. This office is managing and promoting eHHR projects in coordination with federal and state direction to improve healthcare and human services.

The eHHR Office is collaborating with the Department of Social Services (Social Services) to replace the eligibility and enrollment system with the CommonHealth system. CommonHealth will serve as the hub for eligibility for public assistance services, and will be run in conjunction by Social Services and the eHHR Program Management Office.

Obtaining tax and social security information to confirm modified adjusted gross income (MAGI)

This provision links directly to the project involving installation of a new eligibility and enrollment system, involving Social Services and eHHR. The new eligibility replacement system should be able to access the Federal Verification hub to access tax, SSA and Homeland Security data for eligibility determination purposes for the Medicaid/CHIP programs only. Interfaces to SSA and

the IRS will not be used to support verification needs for other state programs as data use restrictions on the Federal hub preclude using it on other federal programs.

The eHHR program has already identified federal, state, and agency data sharing barriers as an area of risk. The eHHR program staff has documented and communicated this risk to the Secretary and the program oversight committee. For more information on this program and the areas of risk that have been identified in association with this program, please see our Office's **Electronic Health and Human Resources (eHHR) Virginia's Medicaid Modernization Solution June 2012 Report**, which can be found at http://www.apa.virginia.gov/reports/eHHR_62012.pdf.

Health insurance exchanges in each state, offering a marketplace for individuals and companies to evaluate policies

At the time of this report, Governor McDonnell has stated that the federal government has not provided enough guidance to allow him to make a recommendation regarding the adoption of a state health insurance exchange. At this time, Virginia will follow the federal model. More research and information gathering will take place to determine if a state exchange will be established in the future and if a state option will be more efficient than the federal model.

Expansion of Medicaid to include individuals with incomes up to 133 percent of the federal poverty level and increased federal matching for states that choose to expand Medicaid coverage

The U.S. Supreme Court ruled that the federal government may not force states to adopt this provision. At the time of this report, the General Assembly of Virginia had not made a decision as to the implementation of this provision for the Commonwealth. Medical Assistance Services will continue to monitor legislation in the coming session to determine if any action needs to be taken to address this provision. This decision does not affect the federal reimbursement for the upgrade to the eligibility system procured by Social Services and eHHR Project Management Office If the General Assembly chooses to expand Medicaid, Virginia must be ready to enroll at least 248,000 newly eligible citizens.

PREPARATION EFFORTS AS COMPARED TO BEST PRACTICES

In general the Agencies of the Secretary of Health and Human Resources are following, as best practices for initiating and planning projects, the Project Management Body of Knowledge (PMBOK) project management methodology. However, risks still remain that will have to be addressed by management. Some of these risks we already communicated to management in our **Electronic Health and Human Resources (eHHR) Virginia's Medicaid Modernization Solution June 2012 Report**, which can be found at http://www.apa.virginia.gov/reports/eHHR_62012.pdf.

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

As seen in the following table the top four agencies spent $10.8 billion (95 percent) of the total expenses. These same four agencies represent almost 25 percent of the Commonwealth's total spending in fiscal 2012.

Analysis of Expenses by Agency - Fiscal 2012
(Amounts in Thousands)

Agency	Expenses	Percent
Department of Medical Assistance Services	$ 7,437,408	65.65%
Department of Social Services	1,787,458	15.78%
Department of Behavioral Health and Developmental Services	1,003,187	8.85%
Department of Health	593,728	5.24%
Department for Aging and Rehabilitative Services *	228,139	2.01%
Comprehensive Services for At-Risk Youths and Families	187,095	1.65%
Department for the Blind and Vision Impaired **	54,568	0.48%
Department of Health Professions	25,781	0.23%
Department for the Deaf and Hard-of-Hearing	10,425	0.09%
Virginia Board for People with Disabilities	1,629	0.01%
Total Fiscal Year 2012 Expenses - Secretary of Health and Human Resources	$ 11,329,418	100.00%

* Includes Woodrow Wilson Rehabilitation Center expenses of $29.5 million and the Department for Aging expenses of $54.3 million.

** Includes Virginia Rehabilitation Center for the Blind and Vision Impaired expenses of $2.7 million

Source: Commonwealth Accounting and Report System 1419D1 report as of June 30, 2012

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.

Financial Information

The table below summarizes Medical Assistance Services' budgeted expenses by program as compared with actual expenses for fiscal 2012.

Analysis of Budgeted and Actual Expense by Program - Fiscal 2012
(Amounts in Thousands)

Program	Original Budget	Adjusted Budget	Actual Expenses	2013 Proposed Budget
Medicaid	$ 7,139,707	$ 7,064,963	$ 7,031,065	$ 7,535,659
Medicaid - ARRA	-	5,000	2,307	-
Financial Assistance for Health Research	20,000	20,000	-	20,000
FAMIS	144,862	142,463	138,146	147,857
Administration and support services	143,502	176,424	143,222	146,366
FAMIS (PLUS)	130,987	113,382	110,238	119,567
Appellate processes	12,336	13,006	11,777	13,686
Medical Assistance Services (Non-Medicaid)	822	1,317	653	822
Total	$ 7,592,216	$ 7,536,555	$ 7,437,408	$ 7,983,957

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter 3, 2012 Special Session I.

Medical Expenses

Medical Assistance Services' expenses were 1.7 percent lower than the prior year's amount of $7.5 million. The decrease is the result of fewer weekly remittance payments to the fiscal agent and fewer MCO payments in fiscal 2012. Additionally, management shifted $131 million in both general and federal funds from fiscal 2012 to 2011 to take advantage of enhanced federal stimulus funding.

Medical Assistance Services' 2013 budget is $546 million (seven percent) higher than fiscal 2012 actual expenses. In addition to the 2013 budget restoring the $262 million that was shifted from 2012 to 2011, the proposed budget increases general and federal funding by $178 million and $123 million, respectively, to fund expected increases in Medicaid enrollment and medical costs.

Funding Sources

As seen in the table below, federal and stimulus funds provided approximately 49 percent of the funding for Medicaid. The agency spent the last of its American Recovery and Reinvestment Act (ARRA) funding in fiscal 2012.

Analysis of Actual Expenses by Funding Source - Fiscal 2012
(Amounts in Thousands)

Program	General	Federal	ARRA	Virginia Health Care Fund	Other Special Revenue
Medicaid	$ 3,243,307	$ 3,462,258	$ 2,307	$ 325,500	$ -
FAMIS	31,623	90,453	-	2,005	14,066
Administration and support services	51,837	89,915	-	-	1,470
FAMIS (PLUS)	38,092	72,145	-	-	-
Appellate processes	11,777	-	-	-	-
Medical Assistance Services (Non-Medicaid)	473	-	-	-	180
Total	$ 3,377,109	$ 3,714,771	$ 2,307	$ 327,505	$ 15,716

Source: Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012

Administrative Expenses

Medical Assistance Services expended $143 million on administrative and support services, a 14 percent increase from last year. Contractual services expenses accounts for the majority of this increase. The key contractual relationship for Medical Assistance Services is with its fiscal agent, XEROX, whose main responsibility is processing claims payments and enrolling providers. Expenses paid to XEROX (formerly Affiliated Computer Services), increased by 18 percent from fiscal 2012 due to new HIPAA regulations which required a complete upgrade to the claims processing system.

Administrative Expenses by Type - Fiscal Years 2011 - 2012
(Amounts in Thousands)

	Expenses	
	2012	2011
Contractual Services	$ 93,525	$ 74,916
Personal Services	30,582	29,472
Dental and Medical Services	16,005	12,601
Continuous Charges	2,670	2,589
Equipment	227	142
Supplies and Materials	182	189
Transfer Payments	31	183
Total	$143,222	$120,092

Source: Commonwealth Accounting and Reporting System

DEPARTMENT OF SOCIAL SERVICES

Managing Services

Social Services administers over 35 programs managed through six primary service areas:

- Benefit Programs;
- Family Services;
- Child and Early Childhood Development Services;
- Community and Volunteer Services,
- Child Support Enforcement; and
- Licensing.

Social Services depends on 120 locally operated social services offices to provide Benefit Programs, Family Services, Child and Early Childhood Development 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. For both of these functions the local government workers are supported by systems developed and managed by Social Services.

In this capacity, the local workers and Social Services' systems are the "gatekeepers" for public assistance programs, which include: 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 $9 billion in total annual benefits. To improve program integrity, the Central Office as part of the Secretary's eHHR project is in the process of replacing its eligibility and case management system.

Social Services contracts with community and volunteer organizations to provide other services through 28 local community action agencies and three statewide community action agencies, as well as other private and faith-based organizations. Additionally, Social Services offers Child Support Enforcement and Licensing services through its own facilities located throughout the state including 22 Child Support Offices and eight licensing offices.

Financial Information

Analysis of Budgeted and Actual Expenses by Funding Source - Fiscal 2012
(Amounts in Thousands)

Funding Source	Original Budget	Adjusted Budget	Actual Expenses	Proposed Budget for 2013
General	$ 375,577	$ 383,220	$ 382,512	$ 389,980
Special	706,537	707,713	679,548	706,331
Federal	811,257	821,097	717,267	794,409
ARRA	-	8,548	8,131	-
Total	$1,893,371	$ 1,920,578	$1,787,458	$1,890,720

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter 3, 2012 Special Session I.

As seen in the above table, Social Services' expenses were $133 million (seven percent) less than its adjusted budget. The majority of this variance, $104 million, is within federal funding sources. 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. This trend of over budgeting of federal funds can be seen in the Multi-Year Analysis of Federal Budget to Actual Expense Variances schedule below. Over the last five years, except for in fiscal 2009 when federal expenses increased by $103 million, Social Services has consistently over budgeted federal sources by more than $100 million. Over estimating federal revenues makes it difficult to determine the amount of resources actually needed to support Social Services' programs.

Multi-Year Analysis of Federal* Budget to Actual Variances
(Amounts in Thousands)

Fiscal Year	Federal Budget	Federal Expenses	Dollar Variance	Percentage Variance
2008	$ 752,112	$ 632,661	$ (119,451)	-16%
2009	$ 809,133	$ 735,831	$ (73,301)	-9%
2010	$ 893,599	$ 761,345	$ (132,254)	-15%
2011	$ 851,307	$ 728,721	$ (122,586)	-14%
2012	$ 829,645	$ 725,397	$ (104,247)	-13%

* Budget and expense amounts include ARRA funds.

Source: Commonwealth Accounting and Reporting System

Budgeting federal funds is important because 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 65 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 - Fiscal 2012
(Amounts in Thousands)

Program	General	Special	Federal	ARRA	Total
Child Support Enforcement Services	$ 7,254	$ 676,101	$ 53,255	$ -	$ 736,610
Financial Assistance for Local Social Services Staff	114,310	1,663	243,516	-	359,489
Financial Assistance for Self-Sufficiency Programs and Services	89,166	-	176,433	7,966	273,565
Child Welfare Services	93,774	302	69,646	14	163,736
Financial Assistance for Supplemental Assistance Services	611	-	82,010	-	82,621
Administrative and Support Services	31,404	-	39,315	-	70,719
Adult Programs and Services	22,748	-	12,380	42	35,170
Program Management Services	14,909	-	16,275	109	31,293
Financial Assistance to Community Human Services Organizations	4,020	-	16,659	-	20,679
Regulation of Public Facilities and Services	4,316	1,481	7,779	-	13,576
Total	$ 382,512	$ 679,547	$ 717,268	$ 8,131	$ 1,787,458
Percentage	21.4%	38.0%	40.1%	0.5%	100.0%

Source: Final Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012.

DEPARTMENT OF BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES

Managing Services, the Department

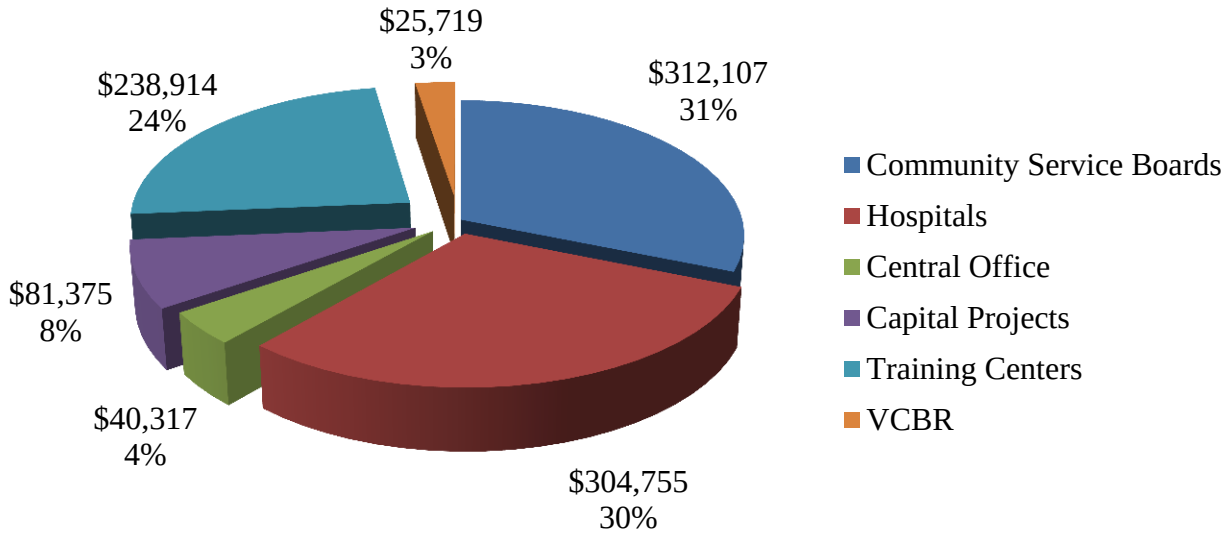
The Department funds and provides behavioral health and developmental services. The Department provides these services directly in 16 state-operated facilities and indirectly through the Department's funding of community service boards.

The Department consists of its 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 over $1 billion, an increase of $26 million over the prior year. Capital projects increased by $21 million to $81 million. Expenses increased for the Virginia Center for Behavioral Rehabilitation and CSBs by $1 million and $6 million, respectively.

Analysis of 2012 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 2012.

Analysis of Budgeted and Actual Expenses by Funding Source- Fiscal Year 2012
(Amounts in Thousands)

	Original Budget	Adjusted Budget	Actual Expenses	Proposed Budget for 2013
General	$ 577,977	$ 555,617	$ 546,901	$ 587,282
Special	321,238	351,529	305,101	344,477
Federal	72,942	72,968	66,978	72,942
ARRA	-	2,885	2,778	-
Capital *	-	175,249	81,429	-
Total	$ 972,157	$ 1,158,248	$ 1,003,187	$ 1,004,701

* The Department is the only HHR agency with Capital expenditures.

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter 3, 2012 Special Session I.

As seen in the table above, the Department's actual operating expenses for fiscal 2012 are $61 million less than the Department's fiscal 2012 adjusted operating budget. Half of this variance is a result of the Department only spending $1 million of the $30 million that was transferred from the General Fund into the Behavioral Health Services and Developmental Services Trust Fund in fiscal 2012. The Behavioral Health Services and Developmental Services Trust Fund is discussed later in report. Also, due to reduced census numbers at the training centers, $10 million in expected special revenue was not generated to support the appropriation. Capital expenses include maintenance and construction at the hospitals and training centers. During fiscal 2012, approximately 80 percent of the capital expenses were for construction at Western State Hospital and Southeastern Virginia Training Center for a new facility and community housing, respectively.

The Department's proposed operating budget for fiscal 2013 is approximately $83 million more than its fiscal 2012 actual expenses. Another $30 million in general funds will be added to the fiscal 2013 budget for the Behavioral Health Services and Development Services Trust Fund to be used with the remaining $29 million from the similar fiscal 2012 deposit to this trust. The budget for fiscal 2013 includes $16 million to implement electronic health records in at the facilities. Another $2.8 million in the proposed budget increases the general fund appropriation to address census growth at the Virginia Center for Behavioral Rehabilitation.

Facilities – Hospitals and Training Centers

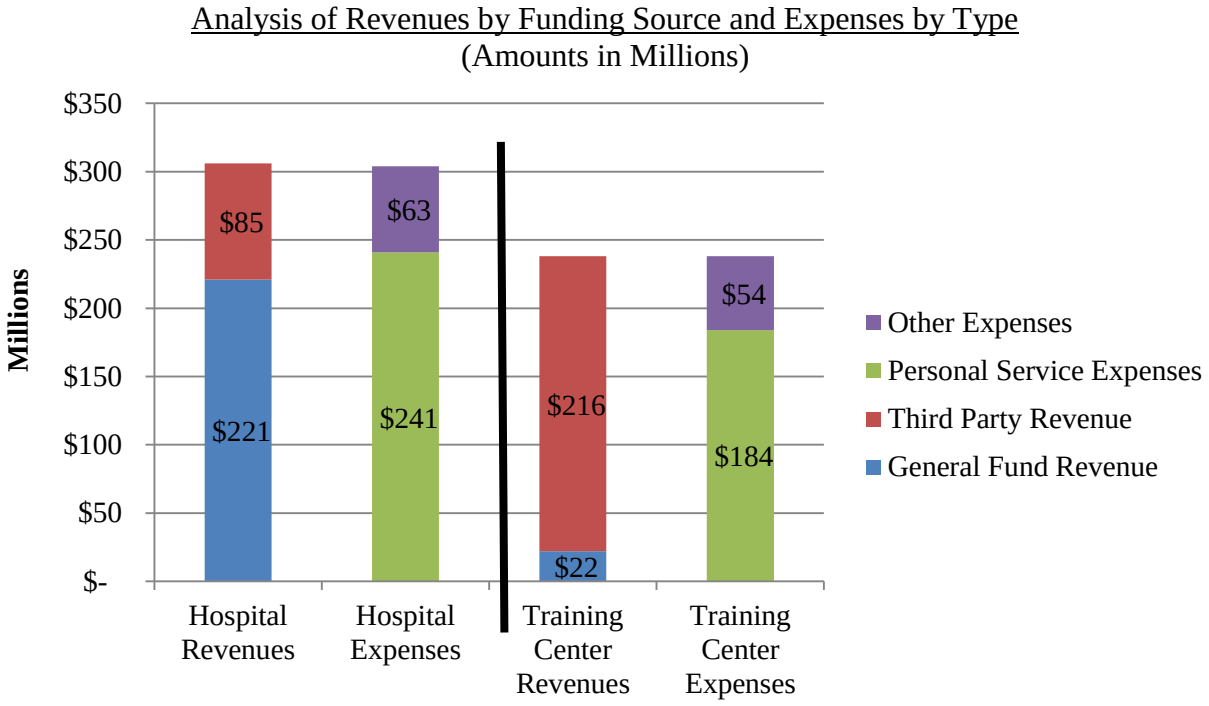
Managing Services

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 7,500 individuals and provide consumer care to about 2,350 individuals. As highlighted in the following Financial Information section, payroll expenses account for 78 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.



Source: Commonwealth Accounting and Reporting System

The General Fund provides $243 million, or 45 percent, of the facilities' total resources, with Hospitals receiving $221 million, or 91 percent, of these funds. The largest source of revenue for Training Centers is collections from third-party payers, primarily Medicaid. In fiscal 2012, these third-party payers represented about $301 million, or 55 percent, of the facilities' total available

resources, with Training Centers receiving $216 million, or 91 percent, of their revenue from third-party payers.

As the Department works to comply with the recommendations of the U.S. 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.

As noted earlier, personal services are the facilities' single largest expense. In fiscal 2012, the Hospitals and Training Centers spent about $425 million, or 78 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.

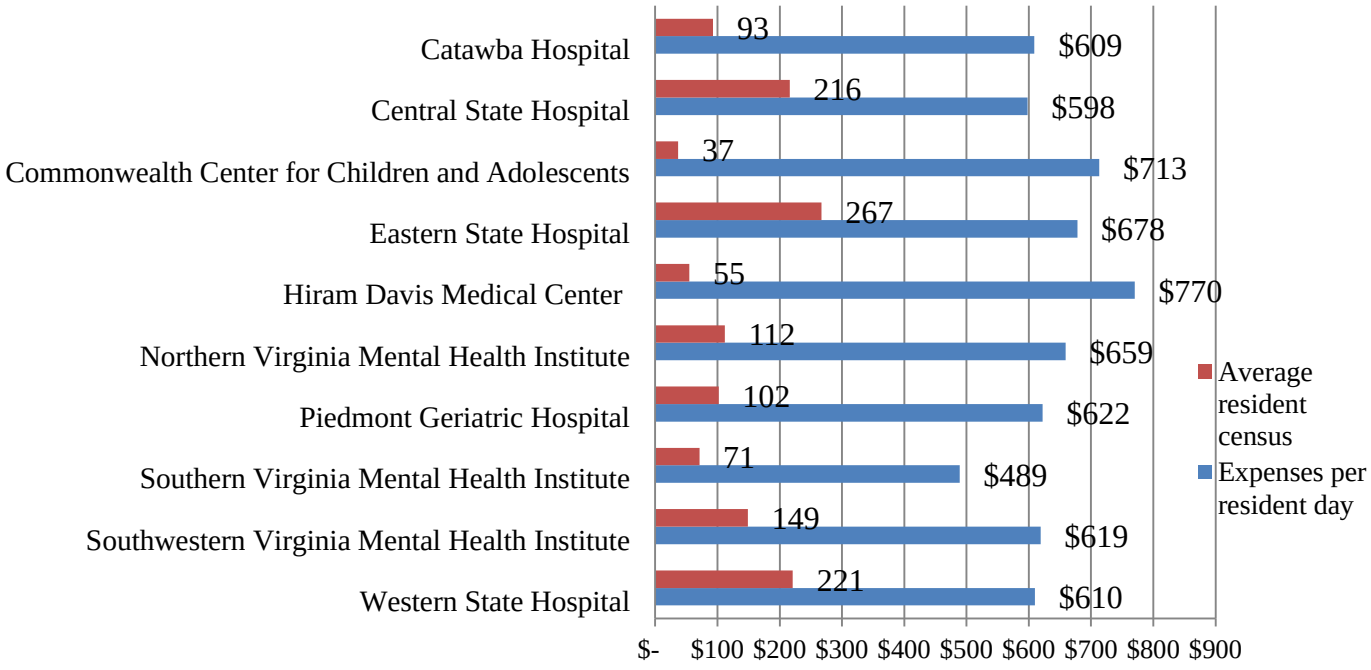
BEHAVIORAL HEALTH HOSPITALS

The Hospitals' expenses per resident day range from $489 to $770 with an average cost per resident day of $631. The Hospitals' average daily census ranges from 37 to 267. Overall from 2011, there was a decrease of 54 patients in the hospitals, but an increase in cost per patient day of $17. The net result was a slight decrease in hospital expenses between fiscal 2011 and 2012.

The Commonwealth Center for Children and Adolescents reflects the lowest average daily census at 37, an increase of two over the prior year, with the second highest cost per patient day of $713, a decrease of $24 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 highest daily cost per resident day of $770, an increase of $92. Hiram Davis daily rates are at this high level 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, are within Hiram Davis' amounts.

Analysis of Hospitals Census and Cost per Day



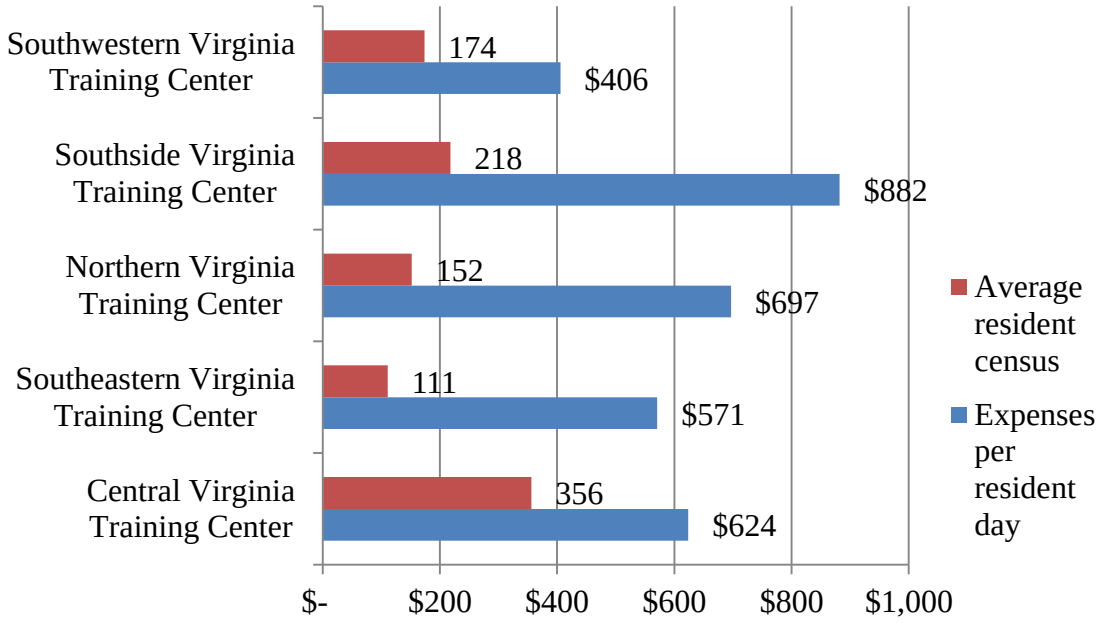
Source: Commonwealth Accounting and Reporting System, Department of Behavioral Health & Developmental Services

DEVELOPMENTAL TRAINING CENTERS

Training Centers' expenses per resident day range from $406 to $882, with an average cost per resident day of $647, or $54 higher than in fiscal 2011. The increase cost per resident day is the result of the total average resident census for the training centers decreasing by 8.5 percent, or about 90 residents. As the chart below shows, Southside Virginia Training Center has the highest cost per resident day at $882; 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 was unchanged in fiscal 2012. 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. On January 26, 2012, the Commonwealth of Virginia and the U.S. Department of Justice (Justice) reached a settlement agreement. The agreement resolves Justice's investigation of the training centers and community programs and the Commonwealth's compliance with the Americans with Disabilities Act and the Olmstead Act. The General Assembly plans to cease residential operations at four of Virginia's training centers. The plan establishes a timeline for the closure of Southside Virginia Training Center in fiscal 2014, Northern Virginia Training Center in fiscal 2015, Southwestern Virginia Training Center in fiscal 2018, and Central Virginia Training Center in fiscal 2020. Southeastern Virginia Training Center will remain open at 75 beds. Due to the nature of fixed costs at these facilities, costs per resident day at each will continue to rise until the facility closes.

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

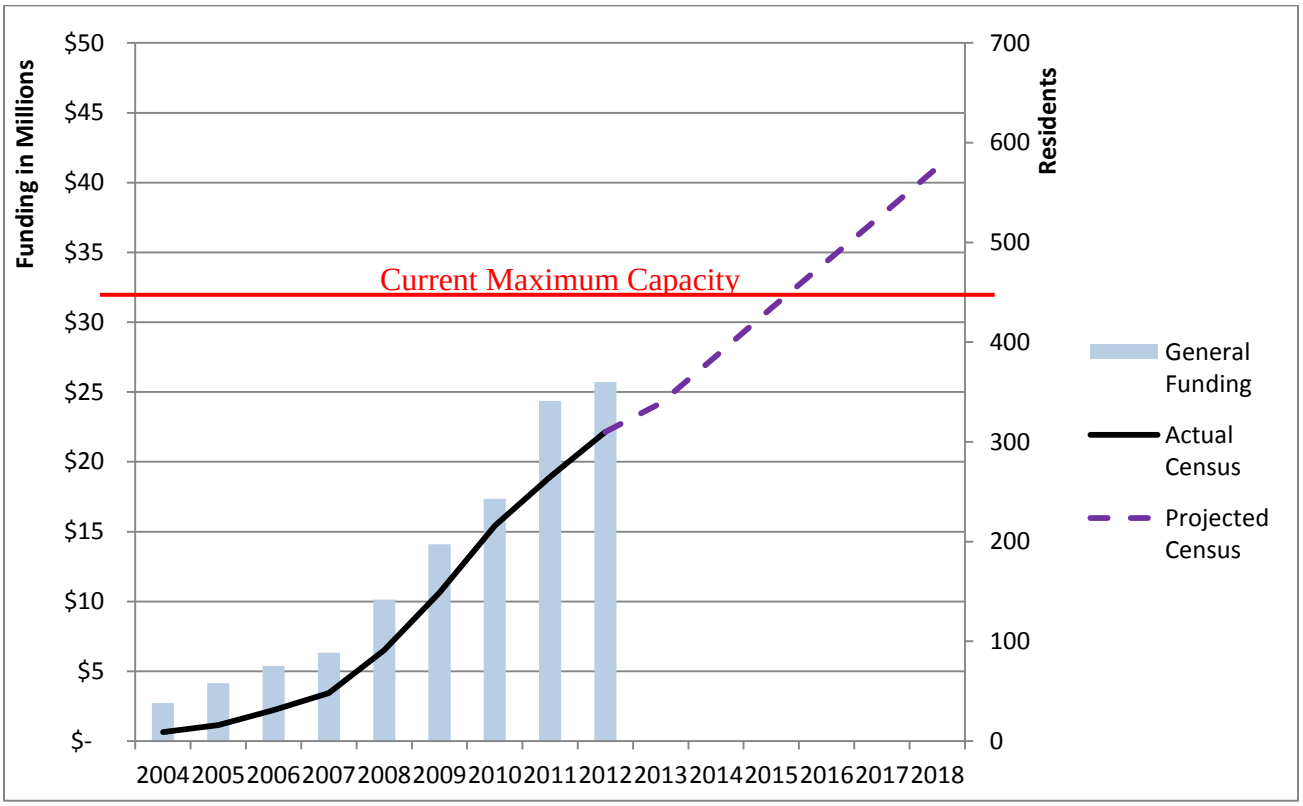
Managing Services

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 264 at the end of fiscal 2011 to 294 at the end of fiscal 2012. During fiscal 2012 the Nottoway facility made modifications to begin double bunking patients to increase capacity from 300 to 450 residents.

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 2012. In fiscal 2012, the census grew to 294 individuals supported by a General Fund appropriation of $25.7 million. With the rate of population growth, management is expecting this facility to reach capacity as early as fall 2015.

Analysis of Behavioral Rehabilitation's Census and General Funding



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

Community Service Boards

Managing Services

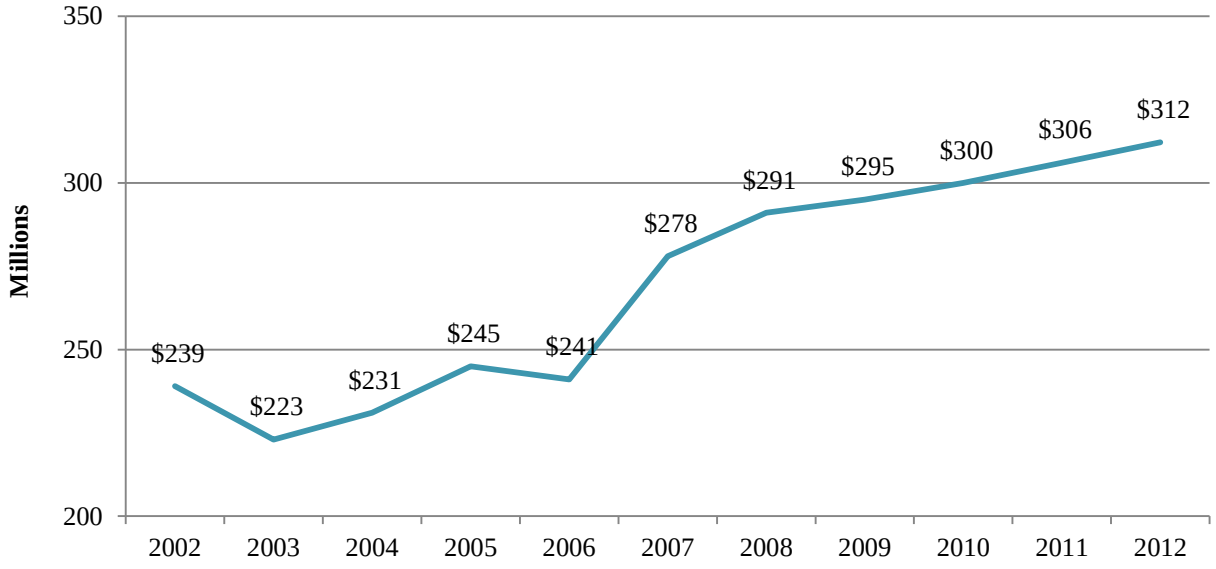
The Department contracts with, provides consultation to, funds, monitors, licenses, and regulates CSBs because they are the single point of entry into the Commonwealth's behavioral health and developmental services system. The CSBs provide pre-admission screening and discharge planning services for consumers 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 2012, the Department transferred about $312 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. In fiscal 2012, the Department deposited $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. About $29 million of these

funds remained at the end of fiscal 2012. The Settlement Agreement was not signed until January 2012 and implementation efforts did not fully gear up until after that date.

Funding to the Community Services Boards
Fiscal Years 2002 through 2012



Source: Commonwealth Accounting and Reporting System

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. The other two districts, Arlington and Fairfax, 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 $594 million throughout 13 programs in fiscal 2012. 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 $46 million (seven percent) below its adjusted budget. Decreases in the Community Health Services program includes $4 million in reduced discretionary spending and position vacancies, and also the reduction of the restaurant inspection fees (from $280 to $40) which were not accounted for in the fiscal 2012 budget. The Emergency Preparedness program had a decrease due to an existing appropriation for the H1N1 vaccine that was not needed to the same extent in fiscal 2012. Also, the Emergency Medical Services program appropriation was increased due to the new vehicle registration fee but the increase did not produce expected expenses.

Analysis of Budget to Actual Expenses by Program - Fiscal 2012
(Amounts in Thousands)

Program	Original Budget	Adjusted Budget	Actual Expenses	Proposed Budget for 2013
Community Health Services	$ 237,711	$ 240,867	$ 224,049	$ 231,853
State Health Services	114,222	173,428	165,962	166,858
Communicable and Chronic Disease Prevention and Control	49,771	56,119	54,351	53,674
Emergency Medical Services	38,953	41,073	35,079	36,121
Emergency Preparedness	34,758	28,008	24,560	32,320
Drinking Water Improvement	29,171	26,703	23,222	24,847
Financial Assistance To Community Human Services Organizations	13,668	13,453	13,376	15,475
Administrative and Support Services	17,569	19,179	16,428	21,007
Health Research/Planning/Coordination	12,746	14,016	12,564	13,871
Medical Examiner and Anatomical Services	10,284	10,891	10,485	10,429
Environmental Health Hazards Control	8,842	9,614	8,006	8,235
Vital Records And Health Statistics	6,780	6,780	5,530	6,085
Higher Education Student Financial Assistance	125	331	116	312
Total	$ 574,600	$ 640,462	$ 593,728	$ 621,087

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter

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 2011 and 2012 due to 2012 being the first full year Health has been responsible for administering two feeding programs previously administered by the U.S. Department of Agriculture.

Of the $175 million in special revenue, four revenue streams accounted for $152 million (88 percent): Department of Motor Vehicles (DMV) transfers; locality reimbursement for health services; non-medical permits, licenses, and fees; and patient collections and fees for health services provided.

Analysis of Material Special Revenue Sources
(Dollars in Thousands)

Revenue Type	Amount
Department of Motor Vehicles Transfers	$ 62,359
Locality Reimbursement for Health Services	56,804
Patient Collections and Fees for Health Services	18,398
Non-medical Permits, Licenses, Fees, etc.	14,650
Vital Statistics Fees	9,997
Other Revenue	9,479
Private Donations, Gifts, and Grants	3,865
Total	$175,552

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 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 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
- $21 million to the General Fund as part of budget reduction strategy
- $10 million to award grants to qualifying trauma centers
- $3 million to the Virginia State Police to support their Medical Flight Program

Expenses

Fiscal 2012 was the first full year of Health administering the Child and Adult Care Feeding Program and the Summer Food Service Program for Children. Health inherited the administrative duties from the U.S. Department of Agriculture in fiscal 2011. A full year of operations in these two programs caused an increase in federal expenses of $30 million dollars. Aside from these two programs, and the loss of ARRA funds for the Capitalization Grants for Drinking Water State Revolving Funds, Health's remaining federal expenses were relatively stable over the prior year.

Federal Program Expenses
(Amounts in Thousands)

Federal Program	2011 Expenses	2012 Expenses
Special Supplemental Nutrition Program for Women, Infants, and Children	$ 96,800	$101,563
Immunization Grants	63,255	64,332
Child and Adult Care Food Programs	26,799	47,468
HIV Care Formula Grants	30,027	28,500
Public Health Emergency Preparedness	23,495	19,204
Maternal and Child Health Services Block Grant to the States	12,527	14,485
Summer Food Service Program for Children	860	13,145
Capitalization Grants for Drinking Water State Revolving Funds	22,477	11,947
Other Federal Programs	46,160	62,566
Total Federal Expenses	$ 322,400	$363,210

Source: 2011 and 2012 Schedule of Expenditures of Federal Awards from Health

DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

The Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services) was created by legislation to take the programmatic units of the former Department of Rehabilitative Services and the Virginia Department for the Aging to create a new entity with a wider menu of service options. This merge became effective July 1, 2012. Although Aging and Rehabilitative Services were still separate agencies during the period under audit, we will present the information as a single agency within this report.

Aging and Rehabilitative Services will also begin managing the Department of Social Services' Adult Services Program on July 1, 2013.

Managing Services

Rehabilitative Services

Aging and Rehabilitative Services helps Virginians with physical, mental, and emotional disabilities become employable, self-supporting, and independent. Aging and 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. Aging and Rehabilitative Services provides the following services: Vocational Rehabilitation, Social Security Disability Determination Program, Community Rehabilitation Program, and Management and Administrative Support Services.

Division for the Aging

Aging and Rehabilitative Services 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.

Financial Information

The table below summarizes Aging and Rehabilitative Services' original, adjusted budget, and actual expenses for fiscal 2012 and the proposed budget for 2013.

Analysis of Budgeted to Actual Expenses by Program - Fiscal 2012
(Amounts in Thousands)

Program	Original Budget	Adjusted Budget	Actual Expenses	Proposed 2013 Budget
Rehabilitation Assistance Services	$ 91,294	$ 96,515	$ 85,815	$ 97,493
Nutritional Services	20,003	19,840	19,839	21,103
Individual Care Services	30,989	31,782	31,625	31,678
Continuing Income Assistance Services	40,597	47,737	45,261	50,697
Administrative and Support Services	15,502	17,093	16,107	17,360
Total	$ 198,385	$ 212,967	$ 198,647	$ 218,331

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter 3, 2012 Special Session I .

Actual expenses were approximately $14 million below the final budget. The main cause for this is the expiration of ARRA funding for the Vocational Rehabilitation program and the implementation of a waiting list on all disability categories, which was opened in March 2012 to allow service to only the most significantly disabled clients.

The following table illustrates expenses by type for Aging and Rehabilitative Services in fiscal 2012.

Analysis of Expenses by Type - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Transfer Payments	$ 106,255	53.5%
Personal Services	61,030	30.7%
Contractual Services	23,155	11.7%
Continuous Charges	5,780	2.9%
Supplies and Materials	1,352	0.7%
Equipment	949	0.5%
Plant and Improvements	122	<0.1%
Property and Improvements	3	<0.1%
Total	$ 198,646	100.0%

Source: Commonwealth Accounting and Reporting System

Aging and 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, and for grants to Area Agencies and other contractors and service providers.

Woodrow Wilson Rehabilitative Center

Managing Services

The Woodrow Wilson Rehabilitative Center (Center) is a sub-agency of Aging and 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

Aging and Rehabilitative Services transferred approximately $15.4 million to the Center during fiscal 2012 to help administer the Center's Vocational and Medical Service Programs. Transfers from Rehabilitative Services account for approximately 91 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.

The table below summarizes the Center's expenses by type for fiscal 2012.

Analysis of Expenses by Type - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Personal Services	$ 17,211	58.4%
Contractual Services	8,802	29.8%
Supplies and Materials	1,874	6.4%
Continuous Charges	1,120	3.8%
Equipment	452	1.5%
Transfer Payments	30	0.1%
Property and Improvements	3	< 0.1%
Total	$ 29,492	100.0%

Source: Commonwealth Accounting and Reporting System

Personal services and contractual services account for approximately 88 percent of the Center's expenses.

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 eleven programmatic staff.

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 impact 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) serve 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) assess 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

In March 2012, the Office took a new approach to monitoring local use of CSA funds. The Office hired two internal program auditors to perform comprehensive reviews of local governance, internal controls, and risk management in regards to meeting compliance requirements of the Comprehensive Services Act. As of the beginning of fiscal year 2013, the Office implemented the risk based audit plan and began performing site visits on a three year cycle. To assist localities and encourage compliance, localities have access to the self-assessment workbook the internal program auditors use to self-assess their risk, prior to a site visit.

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. However, data collection and analysis capabilities are inadequate because financial systems, case management systems, and payment systems do not communicate. The 2012 Appropriations Act provided $275,000 to purchase and maintain an information system to provide quality and timely child demographic, service, expenditure and outcome data. The General Assembly also appropriated $500,000 in 2013 to conduct a performance audit review of CSA to identify strengths and gaps in state and local compliance procedures regarding eligibility, program, and fiscal requirements. Instead of using the funds provided for a one time audit, the Office worked with the Secretary of Health and Human Resources to use the funds in combination with the $275,000 to purchase and maintain the information system discussed above. The system will produce analytical data that will enable the Office and localities to identify services and service providers that will produce the best outcomes

for high-risk youth. It will also provide the Commonwealth with a higher level of accountability for localities' implementation and use of CSA funds.

Financial Information

The Office receives funding from the Commonwealth's General Fund and federal grants. In fiscal year 2012, actual expenses decreased seven percent from the prior year. The number of children receiving services decreased from 16,567 in fiscal 2011 to 15,305 in fiscal 2012. The following table summarizes 2012 budget and actual activities, with analysis following.

Analysis of Budgeted and Actual Expenses by Funding Source – Fiscal 2012
(Amounts in Thousands)

Funding Source	Original Budget	Adjusted Budget	Actual Expenses
General	$270,061	$206,293	$177,675
Federal	52,608	9,420	9,420
Total	$322,669	$215,713	$187,095

Source: Commonwealth Accounting and Reporting System

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

- $28.5 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.

- $24.8 million legislative reduction in the General Fund set aside to pay the State's share of supplemental requests when localities have exceeded their State allocation for mandated services.

- $6.9 million, as in prior years, General Fund transfer to Central Appropriations to cover the Comprehensive Services portion of the localities reductions in aid.

- $3.5 million, General Fund transfer to Medical Assistance Services to pay vendors for Comprehensive Services Medicaid related expenditures for Child and Youth Services.

The change in original to final budget for federal grants is the same as in prior years. The Office transferred about $43.1 million of its federal budget to Medical Assistance Services for Medicaid provider claims.

DEPARTMENT FOR THE BLIND AND VISION IMPAIRED

Managing Services

The Department for the Blind and Vision Impaired (Blind and Vision Impaired) provides services and devices to persons who are blind, deaf-blind, and visually impaired. Blind and Vision Impaired provides services which include, but are not limited to, vocational rehabilitation services, occupational training and placement services, instruction in adaptive daily living skills, orientation and mobility services, counseling, Braille reading and writing, and training in the use of various types of assistive technology.

Blind and Vision Impaired provides services and devices through its various programs which include Vocational Rehabilitation, Rehabilitation Teaching and Independent Living, Educational Services, Virginia Industries for the Blind, the Library and Resource Center, the Randolph Sheppard Vending Facility Program, Low Vision Services, Rehabilitation Engineering, Orientation and Mobility, and Virginia Rehabilitation Center for the Blind and Vision Impaired. 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.

Financial Information

As seen in the table below, Blind and Vision Impaired spends approximately 43 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 - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Supplies and Materials	$22,392	43.1%
Personal Services	13,250	25.5%
Plant and Improvements	4,652	9.0%
Transfer Payments	4,350	8.4%
Contractual services	3,611	7.0%
Continuous Charges	2,352	4.5%
Equipment	1,295	2.5%
Total	$51,902	100.0%

Source: Commonwealth Accounting and Reporting System

Virginia Industries for the Blind

Managing Services

Virginia Industries for the Blind (Industries) is a division of the Department for the Blind and Vision Impaired and works closely with other agency components, especially the Division for Services and the Virginia Rehabilitation Center for the Blind and Vision Impaired. Industries provide training and direct employment opportunities for individuals who are blind through its 19 locations across the Commonwealth. Services provided by Industries include situational vocational evaluations, skill enhancement, work hardening, cross training, and a summer work program.

Industries is a self-supporting division that manufactures and sells products and services to military bases and government offices. Currently, Industries has manufacturing locations in Charlottesville and Richmond and 17 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.

Virginia Rehabilitation Center for the Blind and Vision Impaired

Managing Services

The Center for the Blind and Vision Impaired (Center) is a sub-agency of the Department for the Blind and Vision Impaired that provides residential rehabilitation services to Virginians who are blind or visually impaired. The Center provides a program of evaluation, adjustment, and prevocational training, which enables students to learn skills which enhance their independence, safety, and efficiency in performing tasks in training/employment settings, at home, and/or in social settings.

The Center for the Blind and Vision Impaired provides specialized training and evaluation in the use of computer technology, Braille, and personal and home management. The Center has cooperative programs with other community agencies to meet the needs of the students in evaluation and training. A 34-bed dormitory is available to students from across the Commonwealth who receive services at the Center for Blind and Vision Impaired.

Financial Information

As seen in the table below, personal services, plant and improvement, and contractual services expenses made up approximately 90 percent of all the Center's expenses in fiscal 2012.

Analysis of Expenses by Type - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Personal Services	$ 1,486	55.7%
Plant and Improvements	476	17.9%
Contractual Services	434	16.3%
Transfer Payments	96	3.6%
Continuous Charges	86	3.2%
Supplies and Materials	62	2.3%
Equipment	26	1.0%
Total	$ 2,666	100.0%

Source: Commonwealth Accounting and Reporting System

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
Counseling
Dentistry
Funeral Directors and Embalmers
Long-term Care Administrators
Medicine
Nursing
Optometry
Pharmacy
Physical Therapy
Psychology
Social Work
Veterinary Medicine

The Board of Health Professions (Board) is a coordination board which consists of one member from each of the 13 health regulatory boards above and five citizen members. The Board recommends policy, 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 revenue from licensing application and renewal fees to support the daily operations of the agency. The following table summarizes Health Professions' budgeted expenses compared with actual results for fiscal 2012.

Analysis of Budgeted and Actual Expenses by Funding Source - Fiscal 2012
(Amounts in Thousands)

Program	Original Budget	Adjusted Budget	Actual Expenses	Proposed FY13 Budget
Regulation of Professions and Occupations	$ 27,316	$ 27,395	$ 25,727	$ 27,219
Higher Education Student Financial Assistance	65	65	54	65
Total	$ 27,381	$ 27,460	$ 25,781	$ 27,284

Source: Original budget-Appropriation Act Chapter 890, of the 2011 Acts of Assembly, Adjusted Budget and Actual Expenses – Commonwealth Accounting and Reporting System 1419D1 report as of June 30, 2012, Proposed Budget - Appropriation Act Chapter 3, 2012 Special Session I .

DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING

Managing Services

The Department for the Deaf and Hard-of-Hearing (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 federally-mandated telecommunications relay services in the state.

Financial Information

Deaf and Hard of Hearing receives the majority of its funding from the Commonwealth's Communications Tax fund administered by the Department of Taxation. The table below summarizes Deaf and Hard of Hearing's use of these funds for fiscal 2012. Contractual services make up approximately 90 percent of Deaf of Hard of Hearing's fiscal 2012 expenses. Hamilton and AT&T Relay Services receive approximately 94 percent of contractual services payments including those for the operations of the Virginia Relay Center in Norton. The Relay Center

provides telecommunication relay services for the deaf, hard of hearing, deaf-blind and speech-disabled populations across the Commonwealth.

Analysis of Expenses by Type - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Contractual Services	$ 9,441	90.6%
Personal Services	697	6.7%
Equipment	158	1.5%
Continuous Charges	124	1.2%
Supplies and Materials	5	<0.1%
Total	$ 10,425	100.0%

Source: Commonwealth Accounting and Reporting System

VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES

Managing Services

The Virginia Board for People with Disabilities (Board) serves as the Developmental Disabilities Planning Council for Virginia and is federally tasked with engaging in "advocacy, capacity building, and systemic change activities to contribute to a coordinated, consumer and family centered, comprehensive system of community services." The Board was 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 2012 were $1.6 million.

Financial Information

The Board receives the majority of its funding through federal grants and a smaller portion from the General Fund. In addition, the Board also receives an annual grant from the Department of Education for the Youth Leadership Forum program.

Expenses of the Board consist mainly of personal services and transfer payments to run the Board's programs including, but not limited to, the Partners in Policy Making Program, Youth Leadership Forum, and Competitive Investment Initiatives.

The table below summarizes the Board's expenses for fiscal 2012.

Analysis of Expenses by Type - Fiscal 2012
(Amounts in Thousands)

	Expenses	Percent
Personal Services	$ 760	46.7%
Contractual Services	361	22.2%
Transfer Payments	328	20.1%
Continuous Charges	131	8.0%
Equipment	34	2.1%
Supplies and Materials	15	0.9%
Total	$ 1,629	100.0%

Source: Commonwealth Accoutning and Reporting System

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 8, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2012, unless otherwise noted. 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, 2012, 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 in 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 controls, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior 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

- Federal revenues, expenses, and compliance for Medicaid and FAMIS
- Accounts receivable
- Accounts payable
- Adjusting journal enteries
- Contract management
- System access controls
- Utilization units
- Preparation Efforts for the Patient Privacy and Affordable Care Act

Department of Social Services

- Federal revenues, expenses, and compliance for:
  - Supplemental Nutristion Assistance Program (SNAP)
  - Tempory Assitance for Needy Families (TANF)
  - Low Income Home Energy Assistance Program (LIHEAP)
  - Foster Care Title IV-E Adoptions Assitance
- Budgeting and cost allocation
- Network security and system access
- Payroll expenses
- eVA Procurement System
- Systems access controls
- Adjusting journal entries
- Contract administration

Department of Behavioral Health and Developmental Services

- Federal revenues, expenses, and compliance for:
  - Block Grants for Prevention and Treatment of Substance Abuse
  - Early Intervention Services (IDEA) Cluster
- Payroll expenses
- Institutional revenues
- Accounts receivable
- Adjusting journal entries
- Contracts with Community Service Boards
- Network security
- Financial Management System
- Patient Management System

Department of Health

- Federal revenues, expenses, and compliance for:
  - Child and Adult Care Food Program
  - State Grants to Promote Health Information Technology
- Support for local rescue squads
- Collection of fees for services
- Payroll expenses
- Cooperative agreements between Health and local government, which includes:
  - Aid to local governments
  - Allocation of costs
  - Reimbursement from local governments
- Network security
- Financial and Accounting System

Comprehensive Services for At-Risk Youth and Families

Administrative controls at the Department of Education, reported under a separate report	Revenues and expenses

Department for Aging and Rehabilitative Services (formally the Department of Rehabilitative Services and Department for the Aging)

Federal revenue, expenses, and compliance for Vocational Rehabilitation	Information system security controls

Department of Health Professions – for the three year period ended June 30, 2012

Regulant fees collections	Cost allocation
Payroll expenses	

Our audit did not include the Secretary of Health and Human Resources' eHHR Program, which we are continuously reviewing. We last covered the eHHR Program in the **Electronic Health and Human Resources (eHHR) Virginia's Medicaid Modernization** Solution June 2012 Report. Additionally, our audit did not include the three agencies that receive administrative services from the Department for Aging and Rehabilitative Services, which are: the Department for the Blind and Vision Impaired, the Department for the Deaf and Hard-of-Hearing, and the Virginia Board for People with Disabilities.

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, re-performance of automated processes, 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 and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "*Recommendations.*" However, as described in the section entitled "Recommendations," we identified three deficiencies in internal controls that we consider to constitute a material weakness.

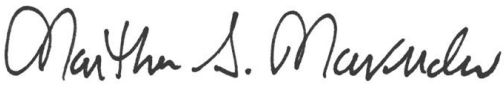
A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial information will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies entitled "Prohibit System Users from Modifying Security Settings," "Create and Implement a Change Management Process for Sensitive Applications," and "Create and Implement an Audit Process for Sensitive Applications", which are described in the section titled "Recommendations," to constitute a material weakness for the Commonwealth. As such they will be reported as a material weakness in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, included in the Commonwealth of Virginia Single Audit Report for the year ended 2012.

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 to the findings identified in our audit are included in the section titled "Agency Reponses." 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

COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

CYNTHIA B. JONES
DIRECTOR

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RICHMOND, VA 23219
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800/343-0634 (TDD)
www.dmas.virginia.gov

January 31, 2013

Ms. Martha S. Mavredes
The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

We have reviewed your Draft Report on Audit for the Fiscal Year Ended June 30, 2012. We concur with your findings and will continue corrective action as indicated below.

Obtain Valid Social Security Numbers - Repeat

The Department of Medical Assistance Services (Medical Assistance Services) has not developed a process for ensuring its system contains only valid Social Security Numbers (SSN) for recipients. Federal regulations 42 CFR 435.910(g) and 435.920 require Medical Assistance Services to verify recipient SSNs with the Social Security Administration (SSA) or request SSA to furnish the number, which is allowable under 42 CFR 435.910(e)(3).

For over a year, SSA has been furnishing Medical Assistance Services with the valid SSNs for 390 recipients; however, Medical Assistance Services has not updated their system with the SSNs provided by SSA. During the same time period, using information provided by Medical Assistance Services, SSA was not able to validate or furnish valid SSNs for another 167 recipients who continue to receive services.

Management at Medical Assistance Services believes that there is little risk of financial consequence to the Commonwealth because 42 CFR 435.910(f) states that an agency must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by SSA. However, inconsistencies between various data bases will cause questions regarding the program's integrity. Medical Assistance Services' information does not contain valid SSNs because the Commonwealth currently does not accept SSNs furnished by SSA.

Management at Medical Assistance Services should work with the Secretary of Health and Human Resources and their federal counterparts to determine which sources of information will be considered "trusted sources" to ensure the Commonwealth has the best information about each recipient. Making these decisions about which entity is the best source for each of the data elements needed for determining eligibility will become more important as the Secretary's Office works to increase program integrity and administrative efficiencies by enhancing information sharing between state and federal agencies.

Corrective Action Plan:

On December 7, 2012, DMAS staff met with DSS State staff and mapped out a mechanism to correct the errors identified on the monthly report. DMAS staff in the Program Operations Division's Eligibility and Enrollment Unit (EEU) will correct the errors that can be addressed within the MMIS, and a list of SSN discrepancies will be created for each affected locality. The localities will be sent the reports in early February 2013 with a requested completion date of February 28, 2013. The monthly report issued in March 2013 will be reviewed by DMAS to ensure all discrepancies have been addressed.

Initial results of DMAS' analysis of the 557 SSNs identified by the APA as either valid SSNs provided by SSA (390) or SSA unable to validate SSN (167) are as follows:

- 76 cases have been closed;
- 125 active enrollee cases have been corrected;
- 240 cases where DMAS has identified the proper SSN and EEU will provide the information to DSS for updates; and
- 116 cases with unknown SSNs that must be referred by EEU to DSS for a case review.

DMAS will continue to monitor the monthly report identifying the SSNs that don't match with SSA data. We anticipate there will still continue to be a number of individuals who fail the SSA match each month, so the problem with eligibility workers failing to either verify SSNs prior to enrollment or not working the monthly reports may continue until the implementation of planned Eligibility and Enrollment system controls.

Controls Implemented

DMAS has implemented policy clarifications and requirements to verify SSNs prior to enrollment in Medicaid. A data match with SSA is completed each month and an error report is provided to the Department of Social Services listing each individual who could not be matched by SSA as well as why the match could not be done. It is incumbent

upon local agency workers to review the report each month and make corrections to the eligibility file and DMAS has no assurances that the corrections are being made. DMAS and DSS State staff will continue to review the reports, and work together to ensure localities correct errors as they are identified.

Controls Under Development

With the implementation of the eHHR Program (including the new Eligibility and Enrollment system for the Medicaid population as of October 2013), Virginia's technical environments will modernize how DSS, DMAS and other agencies collect, use, and share vital data. Currently eligibility workers must manually key information and errors are only identified after the data has already been entered by batch verification runs. With the new technology eligibility determination will be more accurate and streamlined when applicants' information is verified in near real-time, when a single set of rules are applied, and when any missing or incorrect information on the application is flagged prior to application submission. Information like the social security number will be verified against source data at the Social Security Administration and flagged if there isn't a match in real time. The person keying the information will not be able to proceed until a correct match is found. Automated renewals will also flag any erroneous data such as a previously miss-keyed social security number. Improvements to the accuracy rate will be evident for new applicants, but the full effect will be most apparent by 2016 when the eligibility modernization effort is fully deployed.

Responsible Person: Karen Kimsey, Director, Policy and Research Division

Estimated Implementation Date: While this will be an issue that will continue to be monitored by DMAS, it is anticipated the current errors identified through the SSA data match will be corrected by eligibility workers by April 1, 2013.

It is also anticipated this issue will be eliminated with the implementation of the new Eligibility and Enrollment system for the Medicaid population as of October 2013 when the SSA match will occur at the time of application for Medicaid benefits. The identity of the applicant will be verified before application is made for Medicaid benefits; this is different from the current process, which verifies after application has been made.

Following the implementation of the new Eligibility and Enrollment system DMAS will continue to identify any remaining SSN errors in the existing Medicaid population, and work with DSS localities to correct them by December 2013.

Address Findings in Internal Audit Report -New

We concur with the findings in Medical Assistance Services Internal Audit report on the operating environment and security business processes issued in May 2012. The report recommends management strengthen the security of private health information transmitted via email, formally document evidence of annual user system account

reviews, and update security policies and procedures, risk assessment, business impact analysis, security plan, and contingency plan documents. Due to the sensitivity of the information for which Medical Assistance Services is responsible, management should continue in its efforts to address their findings.

Corrective Action Plan:

The DMAS Division of Information Management and the Office of Compliance and Security have been working together to address the findings of the DMAS Security Compliance Audit issued on September 27, 2012. To date, three findings have been resolved (risk assessment, business impact analysis, and document evidence of annual user system account reviews). Listed is a summary of the corrective action plan for each finding.

1. Update security policies and procedures

   The Office of Compliance and Security will review and update all HIPAA Security Policies and DMAS Information Security (IS) policy and IS procedures.

2. Perform IT risk assessment

   The Office of Compliance and Security completed updating the risk assessment for sensitive IT systems on December 11, 2012.

3. Review business impact analysis

   The Office of Compliance and Security completed reviewing and updating the VITA Commonwealth of Virginia Business Impact Analysis on October 31, 2012.

4. Update security plan

   The Office of Compliance and Security will coordinate with the Information Management Division (IM), the Human Resources Division (HR), and the Office of Communications, Legislation, and Administration (OCLA) to review and update the Enterprise Security Plan.

5. Update contingency plan documents

   The Information Management Division (IM) will review and update components, procedures, and details of the DMAS Contingency Plan.

6. Strengthen the security of private health information transmitted via email

The Information Management Division (IM) will review, consider, and adopt a different encryption/decryption mechanism on its internal operating systems as well as on portable "laptop" computers used outside of its facilities.

7. Document evidence of annual user system account reviews

   The Office of Compliance and Security developed a written procedure to document the annual user account review process. The procedure was finalized and approved on December 12, 2012.

Responsible Persons: Sylvia Hart, Director, Information Management Division and Theresa Fleming, DMAS Information Security Officer, Office of Compliance and Security.

Estimated Implementation Date:

Update security policies and procedures	-	9/30/2013
Perform IT risk assessment	12/11/2012	-
Review business impact analysis	10/31/2012	-
Update security plan	-	6/30/2013
Update contingency plan documents	-	9/30/2013
Strengthen the security of private health information transmitted via email	-	7/1/2013
Document evidence of annual user system account reviews	12/12/2012	-

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 SOCIAL SERVICES

February 4, 2013

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

We have reviewed your Report on Audit for the year ended June 30, 2012. We concur with your findings.

If you have questions, please contact Jack B. Frazier, Director of Community and Volunteer Services, at jack.b.frazier@dss.virginia.gov or at (804) 726-7384.

Sincerely,

Margaret Ross Schultze
Acting Commissioner

MRS:jrs

Cc: VDSS Executive Team

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COMMONWEALTH of VIRGINIA

JAMES W. STEWART, III
COMMISSIONER

DEPARTMENT OF
BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES
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Richmond, Virginia 23218-1797

Telephone (804) 786-3921
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MEMORANDUM

To: Martha Mavredes
Auditor of Public Accounts

From: James W. Stewart, III

Re: **Response to HHR Audit Report**

Date: January 29, 2013

Thanks for the opportunity to respond to the audit issue raised in the Fiscal Year 2012 audit report of the Health and Human Resources Agencies.

Although there is no formal requirement to notify the Department of Planning and Budget (DPB) or the Department of Accounts (DOA) of the possibility that Special Revenue Fund cash balances may exceed the $35 million threshold, DBHDS has and will continue to work closely with both DPB and DOA on all matters critical to the financial operations of our organization.

JWSIII/bm

COMMONWEALTH of VIRGINIA
Department of Health
P O BOX 2448
RICHMOND, VA 23218

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

January 29, 2013

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

Dear Ms. Mavredes:

We have reviewed your report on our audit for the year ended June 30, 2012. We concur with your findings. A copy of our corrective action plan has been supplied under separate cover memo.

If you have any questions regarding our corrective action plan, please contact Richard Corrigan, our Internal Audit Director at (804) 864-7450, **Richard.Corrigan@vdh.virginia.gov**.

Sincerely,

Maureen E. Dempsey, M.D., F.A.A.P.,
Acting State Health Commissioner

VDH VIRGINIA DEPARTMENT OF HEALTH
Protecting You and Your Environment
www.vdh.state.va.us

COMMONWEALTH OF VIRGINIA
DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

JAMES A. ROTHROCK
Commissioner

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Henrico, VA 23229

Office (804) 662-7000
Toll free (800) 552-5019
TTY Toll free (800) 464-9950
Fax (804) 662-9532

February 6, 2013

Martha Mavredes
The Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

We have reviewed your Audit Report for the Fiscal Year Ended June 30, 2012. We concur with your findings and will continue corrective action as indicated below.

Obtain Federal Authorization before Deviating from Cash Management Requirements

Aging and Rehabilitative Services has resolved this finding. In the future we will directly communicate with the federal government and request authorization. The request for additional funds was to avoid drastic delays in services to our clients in case of the debt ceiling not being addressed by the federal government by the August 2, 2011 deadline. The agency received communication on July 29, 2011 from the U.S. Department of Education stating their inability to provide guidance to grantees on the impact of the debt ceiling. The request did not materially affect the CMIA.

Responsible Party: John Thaniel, Chief Financial Officer

Estimated Completion Date: January 31, 2013

Improve IT Security Program

While Aging and Rehabilitative Services has resolved some of the issues reported last year, eight components are still incomplete:

- User accounts to sensitive systems will be locked if security training requirements are not met. HR policies and checklists have been updated, new employees are notified and tracked and existing staff notified of training requirements. System and data owners now have their roles defined in their employee work profiles and will have completed separate training requirements for those roles.

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- Risk Assessments for all identified sensitive IT systems will be completed and existing assessments are being updated as needed to include regulatory requirements for data types, as identified in BIA and CETR.

- The agency has implemented a continuing review and progress has been made to update the Disaster Recovery Plan (DRP/ISPPM) and Risk Management/COOP to improve alignment. The review process now includes coordination among the individuals responsible for managing each plan and includes moving the process to the new cloud based SharePoint collaboration service provided by VITA/NG.

- The agency has an updated Disaster Recovery Plan (as part of ISPPM) and has updated the COOP to include the recovery requirements for IT systems, including support for the essential business functions. The agency has documented the down time that is acceptable for systems and what is to be done (and how long to take) to bring critical systems back on-line. In each case, no manual processes were critical during the down time specified as the maximum time required for system recovery. The agency has current documentation of system configurations, lists of hardware and software, and vendor contacts.

- An HR policy for background checks is currently in place for certain categories of employees and new IT employees have been added to the category of employee subject to this policy.

- User reviews are now being performed for sensitive systems and periodically for non-sensitive systems and will continue to be recorded in quarterly caps.

- The agency has completed reviews of encryption and authentication requirements and is working with VITA/NG to access the COV cloud based SharePoint service to facilitate secure non-email file sharing. The IT security program does specify the prohibition against non-encrypted file sharing.

Responsible Party: John Payne, Information Security Officer

Estimated Completion Date: June 30, 2013

If you have any questions, please do not hesitate to contact our Chief Financial Officer, John Thaniel at john.thaniel@dars.virginia.gov or (804) 662-7520.

With best regards, I am

Sincerely,

James A. Rothrock

JAR/jt

dars@dars.virginia.gov · www.dars.virginia.gov

AGENCY OFFICIALS

as of June 30, 2012, unless noted

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

Cynthia B. Jones
Agency Director

DEPARTMENT OF SOCIAL SERVICES

Martin D. Brown
Commissioner

DEPARTMENT OF BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES

James W. Stewart
Commissioner

DEPARTMENT OF HEALTH

Karen Remley, M.D., M.B.A., F.A.A.P.
Commissioner

DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES
(as of July 1, 2012)

James Rothrock
Commissioner

WOODROW WILSON REHABILITATION CENTER

Richard L. Sizemore
Director

OFFICE OF COMPREHENSIVE SERVICES FOR AT-RISK YOUTH AND FAMILIES

Susan Cumbia Clare
Executive Director

DEPARTMENT FOR THE BLIND AND VISION IMPAIRED

Raymond E. Hopkins
Commissioner

DEPARTMENT OF HEALTH PROFESSIONS

Dianne L. Reynolds-Cane, M.D.
Agency Director

DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING

Ronald L. Lanier
Director

VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES

Heidi Lawyer
Executive Director