AGENCIES OF THE SECRETARY OF HEALTH AND HUMAN RESOURCES

JUNE 30, 2008

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

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

AUDIT RISK ALERT

Mental Health, Mental Retardation, and Substance Abuse Services' Central Office is not providing adequate guidance and oversight to its facilities. Specifically, we noted facilities with inadequate controls, significant non-compliance, and accounting errors in the following areas.

Comply with Information Systems Security Program	Document Security Awareness Training
Develop and Test Continuity of Operations and Disaster Recovery Plans	Complete Employment Eligibility Verification Forms
Record Construction in Progress	Control Capital Assets
Grant Access to Timekeeping System	

We bring this to the Secretary and senior management's attention so they will be aware of the underlying issues so they can determine the best way to address these findings. In determining how to address these findings, they should consider evaluating whether changes are needed in DMHMRSAS's management structure and philosophy.

One approach the Secretary and management could consider is to have the Central Office perform as much of the administration functions as possible for the facilities. The Auditor of Public Accounts has advocated that smaller agencies, like facilities, which do not have sufficient resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. These arrangements allow smaller agencies to concentrate on providing program services.

Since the Central Office already provides the facilities with centralized billings and construction management, we believe it holds an ideal position to take a leadership role in developing a comprehensive back office operation for the facilities that would assume total operations for administrative functions.

We believe that this approach will improve the operational efficiency of these facilities. However, we do not believe that DMHMRSAS will recognize any savings in either personnel or other costs, since the facilities are using marginal resources with marginal results. We also recognize that leaders of the facilities will resist this type of change; however, DMHMRSAS will greatly improve its internal controls and gain risk management benefits.

AUDIT RESULTS

Overall our audit for the year ended June 30, 2008, found the following:

- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in each agency's accounting records.

- Internal control matters that require management's attention and corrective action; these are included in the section entitled "Internal Control and Compliance Findings and 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 "Internal Control and Compliance Findings and Recommendations" starting on page 1.

DEPARTMENTS AND AGENCIES

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

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

-TABLE OF CONTENTS-

	Pages
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-18
FINDINGS REQUIRING NEW CORRECTIVE ACTION	1-14
CONTINUE IMPLEMENTATION OF CORRECTIVE PLANS FROM THE PRIOR YEAR	14-16
RESOLVED FINDINGS FROM THE PRIOR YEAR	17
OTHER INFORMATION ABOUT FINDINGS	17-18
VIRGINIA'S MEDICAID PROGRAM	19-25
SERVICES AND SELECTED FINANCIAL INFORMATION	26-59
AGENCIES OF THE SECRETARY HEALTH AND HUMAN RESOURCES	26
DEPARTMENT OF MEDICAL ASSISTANCE SERVICES	27-31
DEPARTMENT OF SOCIAL SERVICES	31-37
DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES	37-47
DEPARTMENT OF HEALTH	47-50
COMPREHENSIVE SERVICES FOR AT-RISK YOUTHS AND FAMILIES	50-51
DEPARTMENT OF REHABILITATIVE SERVICES	52-53
WOODROW WILSON REHABILITATION CENTER	53-54
DEPARTMENT FOR THE AGING	54-56
DEPARTMENT FOR THE BLIND AND VISION IMPAIRED	57
VIRGINIA REHABILITATION CENTER FOR THE BLIND AND VISION IMPAIRED	57-58
VIRGINIA INDUSTRIES FOR THE BLIND	58-59
DEPARTMENT OF HEALTH PROFESSIONS	59-60
DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING	60-61
VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES	61-62
AUDITOR'S LETTER	63-66
AGENCY RESPONSES	67-80
AGENCY OFFICIALS	81-84
APPENDIX A: INDEX OF AGENCY FINANCIAL TABLES	85-86

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

FINDINGS REQUIRING NEW CORRECTIVE ACTION

OVERVIEW OF CURRENT YEAR RECOMMENDATIONS	
RECOMMENDATION	**CATEGORY**
Mental Health, Mental Retardation and Substance Abuse Services	
Improve Management and Controls for Facilities	First Year Finding, Risk Alert, and Efficiency Recommendation
Improve Monitoring Program over Community Services Boards	Repeat Finding
Ensure Compliance With Information Systems Security Program	First Year Finding
Improve Security Awareness Training Documentation	Repeat Finding
Improve IT Continuity of Operations and Disaster Recovery Planning	Repeat Finding
Improve Controls Over Capital Assets	First Year Finding
Properly Record Construction in Progress	First Year Finding
Grant Proper Access to Timekeeping System	First Year Finding
Properly Complete Employment Eligibility Verification Forms	Repeat Finding
Health	
Update and Expand Security Awareness Training	Repeat Finding
Improve and Test Contingency and Disaster Recovery Planning	Repeat Finding
Establish and Document Responsibilities for Securing Partnership's Equipment	First Year Finding
Initiate Corrective Action Plan for Federal Reporting (WIC)	First Year Finding
Improve Information on Virginia Performs	First Year Finding
Ensure Secure Delivery of Controlled Substances	First Year Finding
Standardize Pharmaceutical Ordering	First Year Finding
Social Services	
Reconcile Financial Reports	First Year Finding
Improve Information of Virginia Performs	First Year Finding
Rehabilitative Services	
Properly Record Leases in the Lease Accounting System	First Year Finding
Utilize Efficiencies in the New System	Efficiency Recommendation
Aging	
Strengthen Information Security Program	First Year Finding
Medical Assistance Services	
Improve Contract Monitoring	First Year Finding

Department of Mental Health Mental Retardation and Substance Abuse Services (DMHMRSAS)

Improve Management and Controls for Facilities – First Year Finding, Risk Alert, and Efficiency Recommendation

Several of this year's recommendations for DMHMRSAS are a result of the Central Office not providing adequate guidance and oversight to its facilities. Specifically, we noted facilities having difficulties in the following areas.

- Recording of Construction in Progress
- Controlling Capital Assets
- Granting Access to Timekeeping System
- Completing Employment Eligibility Verification Forms
- Complying with Information Systems Security Program
- Documenting Security Awareness Training
- Developing and Testing Continuity of Operations and Disaster Recovery Plans

We bring this to the Secretary and management's attention so they are aware of the underlying issue so they can determine the best way to address these findings. In determining how to address these findings they should consider evaluating if changes are needed in DMHMRSAS's management structure and philosophy.

One approach the Secretary and management could consider is to have the Central Office perform as much of the administration functions as possible for the facilities. The Auditor of Public Accounts has advocated that smaller agencies, much like facilities, which do not have the resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. These arrangements allow the smaller agencies to concentrate on providing program services and eliminate unnecessary personnel costs and resources dedicated to administrative functions.

Facilities, as they implement budget cuts, may not have the staff expertise or resources to process financial transactions, personnel and payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person may compromise the internal control structure and knowledge base needed to handle key transactions and duties. Therefore, the use of a centralized office with sufficient staff and resources provides needed internal controls and management oversight of public resources.

Further, change in facility leadership may result in having leaders without knowledge of state processes, standards, regulations, and laws. Facility leadership without an understanding of this essential information could enter into agreements or contracts that are not in the best interest of DMHMRSAS or the Commonwealth.

Since the Central Office already provides the facilities with centralized billings and construction management, we believe it holds an ideal position in taking a leadership role in

developing a comprehensive back office operation for the facilities, which would assume total operations for administrative functions.

We believe that this approach will improve the operational efficiency of these facilities. However, we do not believe that DMHMRSAS will recognize any savings in either personnel or costs, since the facilities are using marginal resources with marginal results.

We also recognize that leaders of the facilities will resist this type of change, however, DMHMRSAS will greatly improve its internal controls and gain risk management benefits.

Improve Monitoring Program over Community Services Boards – Repeat Finding

Community Service Boards (Boards) are DMHMRSAS's primary mechanism for delivering community services. DMHMRSAS contracts with the Boards to provide services within the community and the Boards in turn agree to meet performance standards.

A significant portion of the funding from DMHMRSAS to the Boards comes from the federal government through the Prevention and Treatment of Substance Abuse Block Grant, Community Mental Health Services Block Grant, and patient care billings to Medicaid. DMHMRSAS has a fundamental responsibility to ensure the proper administration of federal awards and compliance with the contractual terms of the contract with the Boards. The statewide plans for these block grants incorporate the contractual performance standards between the Boards and DMHMRSAS.

Historically, DMHMRSAS has had a two-pronged approach to the Boards oversight. First, each board must have an annual financial and compliance audit conducted by a Certified Public Accountant. Secondly, the various divisions within DMHMRSAS, depending on available resources and other factors, have conducted on-site reviews.

Last year, we compared DMHRMSAS's documented procedures for monitoring the Boards' performance to recommended practices, and noted three areas where DMHMRSAS could further refine its monitoring program. While DMHMRSAS is improving its process within budgetary constraints, we are providing this update to indicate which areas need further improvement so momentum is not lost.

<u>System-wide Risk-based Approach</u>

Last year, we recommended that management start using a risk-based approach to monitor the Boards and as a tool for allocating resources to the various areas involved in their monitoring program. Since then, DMHMRSAS has made progress in this area. A financial risk based model is currently in draft; however, it lacks any programmatic risk considerations.

Management should start including programmatic risks in its model for evaluating Boards. Once fully developed, DMHMRSAS can use this risk-based approach to monitor the Boards and as a tool for allocating resources to the various areas involved in their monitoring program.

Accountability for Deficiencies

Last year, we recommended that the Office of Community Contracting include any corrective actions that the Boards need to take in their annual contracts between DMHMRSAS and the Boards. Including these expectations in the contract would provide DMHMRSAS more assurance that the Boards understand their responsibility and allow DMHMRSAS to impose possible sanctions in the future if a Board fails to take adequate corrective action. Although management could not provide us of any examples of findings being included in a performance contract, management contends that they would place material audit findings within the performance contract. However, staff, which reviewed the Boards' audit reports, were not aware that management was willing to modify the performance contract for audit findings.

We recommend that the Office of Budgeting and Financial Reporting, which reviews the Boards' audit reports, coordinate with the Office of Community Contracting to use the performance contract as a mechanism to hold the Boards accountable for correcting audit deficiencies whether programmatic or financial in nature. Further, DMHMRSAS should communicate to its staff the approach they should take for addressing findings identified by the independent auditors.

On-site Reviews

Last year, we recommended that DMHMRSAS's management require their staff to complete an analysis of on-site financial reviews to determine the amount of risk the Commonwealth is accepting by only completing reviews at the Boards that have material exceptions noted by their independent auditors. As of the date of our review, staff had not completed this analysis.

This analysis is important so staff can visit Boards where DMHMRSAS funds do not receive as much audit coverage as at a standalone Board. Localities have the Administrative Boards audited as part of the locality audit; as a result external auditors will focus the audit on a number of areas, not just DMHMRSAS funds. Without an analysis of the on-site reviews and audits performed by external auditors DMHMRSAS's management cannot assess the amount of risk the Commonwealth is accepting by performing limited reviews.

We recommend that management require their staff to complete an analysis of their on-site financial reviews to determine the amount of risk the Commonwealth is accepting by only completing reviews at the Boards that have material exceptions noted by their independent auditors. Additionally, management should modify its Performance Contracts with the Boards to include a provision of reasonable access to external auditor work papers so that they better assess the amount of coverage the independent auditors are providing and, when necessary, evaluate the quality of audits the Boards are receiving.

Ensure Compliance with Information Systems Security Program – First Year Finding

DMHMRSAS does not provide adequate oversight of the information systems security programs at its facilities. This lack of oversight prevents the Information Security Officer (ISO) from knowing if DMHMRSAS is meeting the minimum requirements contained in the Commonwealth's Information Technology Security Standard (COV ITRM Standard SEC501-01).

As defined in the Commonwealth's Information Technology Security Policy (COV ITRM Policy SEC 500-02), the ISO has responsibility for the development, implementation, oversight, and maintenance of their information systems security program. This requires the ISO to know the health of the DMHMRSAS system security program and enforce the policies and procedures. However, DMHMRSAS allows its facilities to manage their own information security programs independently of the ISO.

To ensure adequate protection of all DMHMRSAS systems, we recommend that the Central Office not only require its facilities to follow the information security policies and procedures developed by the DMHMRSAS ISO, but also develop a process for ensuring that the facilities are following these requirements.

Improve Security Awareness Training Documentation – Repeat Finding

For the third consecutive year, DHMRSAS does not have evidence that all of its employees completed security awareness training. This is not only a HIPAA security violation, but prevents the DHMRSAS ISO from knowing if employees are receiving or completing training as required by the Commonwealth's Information Technology Security Standard.

At a minimum, as a result of receiving last year's repeat finding DMHRMSAS should have instructed its ISO to obtain assurance from the facilities that employees were signing acknowledgment forms. However, this was not the case; the ISO only learned of their nonperformance when some of the facilities could not fulfill our requests for these documents.

Acknowledgments from the employees provide management some assurance that the employees understand their responsibilities, and allow management to take appropriate action when an employee fails to protect data and systems. We recommend that management dedicate the necessary resources to ensure that new and existing employees acknowledge receipt of IT security awareness training and that records of completed training be retained for at least a three year period. Additionally, we recommend that the DMHMRSAS ISO ensure that facilities are complying with security awareness training requirements by periodically reviewing documentation.

Improve IT Continuity of Operations and Disaster Recovery Plans – Repeat Finding

Agencies that provide critical services to citizens, such as DMHMRSAS, need to have plans for continuing operations on an interim basis should their IT systems fail. Additionally, they need to

have tested the plans for restoring their IT systems. The Commonwealth's Information Technology Security Standard requires agencies to have plans for continuing operations and restoring systems.

While we found varying levels of compliance with the Commonwealth's information security standards, none of the facilities we reviewed met the critical elements of the standards as they relate to continuity of operations and disaster recovery. These elements are essential in assuring that the Department's facilities can quickly restore or maintain critical functions.

Inadequate planning increases the risk that DMHMRSAS will fail to successfully provide services if mission critical IT systems fail. We recommend that management dedicate the necessary resources to ensure that all of its facilities develop plans for continuing operations and recovering IT systems. Once developed, these plans should be tested and updated at least annually, as required by the Commonwealth's standards. Additionally, we recommend that the ISO ensure that all facilities are complying with standards for continuity of operations and disaster recovery plans.

Improve Controls Over Capital Assets – First Year Finding

Four of the five facilities tested (Eastern State Hospital, Southside Virginia Training Center, Central Virginia Training Center, and Virginia Center for Behavioral Rehabilitation) are not performing physical inventories every two years as required by the Commonwealth's policies and procedures. Eastern State Hospital is not properly updating assets in the Commonwealth's Fixed Asset Accounting and Control System (FAACS) even though they have six individuals with access to the system. The Central Office has not developed a methodology for re-evaluating and, where necessary, adjusting the useful lives of depreciable capital assets (buildings, equipment, and infrastructure).

Agencies must, at least once every two years, physically inventory 100 percent of their assets. Eastern State Hospital only inventoried 70 percent of its assets in May of 2007 by improperly using movement sheets; furthermore, Eastern State Hospital could not provide any documentation of prior inventories. Even with six individuals having FAACS access, Eastern State Hospital is not updating FAACS timely while the Fixed Asset Accountant is out on extended leave. The Commonwealth's policies require that agencies update the system within 30 days of receipt or disposal of an asset.

Southside Virginia Training Center and Virginia Center for Behavioral Rehabilitation last completed a physical inventory in fiscal year 2005. Central Virginia Training Center inventoried less than 100 percent of its items by improperly using movement sheets in May of 2007 and June of 2008. Performing full inventories every two years demonstrates proper stewardship over the Commonwealth's assets. Lack of physical inventories increases the risk of fraud, theft, or loss of the assets.

In 2006, the Auditor of Public Accounts reported that DMHMRSAS did not have an adequate useful life policy. As a result, DMHMRSAS developed a useful life policy effective July 1, 2008; however, a key component of its policy contradicts the Commonwealth's policy for updating useful lives of assets. DMHMRSAS's policy states that assets placed into service prior to its effective date of July 1, 2008 will "continue to be depreciated in accordance with their original

estimated useful lives." On the other hand, the Commonwealth policy requires periodic reevaluation of all asset useful lives with changes in the lives as necessary to ensure that useful lives are as close to the asset's actual use as possible.

The Central Office should ensure that all facilities complete full physical inventories every two years as required by the Commonwealth's policies and procedures. Furthermore, facilities should not use movement sheets to perform their inventories. The Department of Accounts should terminate FAACS access for those individuals at Eastern State Hospital that do not perform FAACS entry or act as a backup. In addition, Eastern State Hospital should update changes to assets in FAACS timely as required by the Commonwealth's policies and procedures. DMHMRSAS should update and implement their policies and procedures regarding assigning useful lives for depreciable capital assets to include the re-evaluation of currently assigned useful lives.

Properly Record Construction in Progress – First Year Finding

The Central Office does not provide oversight and direction to the facilities on how to record construction in progress, and they do not have centralized policies and procedures for all facilities. DMHMRSAS is not recording construction in progress in the Commonwealth's Fixed Asset Accounting and Control System (FAACS) quarterly as required by the Commonwealth's policies and procedures.

As a result, we found all of these balances understated beginning balance for construction in progress for fiscal year 2008, $23.1 million, additions $26.3 million, deletions $40.3 million, and ending balance $9.0 million. The Central Office submitted inaccurate construction in progress information to the Department of Accounts for reporting in the Commonwealth's Comprehensive Annual Financial Report numerous times.

Architectural and Engineering Services in the Central Office administers construction projects at all of the facilities, which includes procurement and management of the construction contract and paying, tracking, and monitoring of all construction expenses. The facilities are not involved in this process and do not receive any of the construction documents.

The Office of Budget and Financial Reporting in the Central Office compiles a progress report for all on-going projects. Throughout the fiscal year, since no one in the Central Office has access to record this information in FAACS, Budget and Financial Reporting sends each facility this progress report for their on-going projects. However, Budget and Financial Reporting does not tell the facility to record the construction in progress information in FAACS. As a result, the facilities do not update construction in progress reported in FAACS quarterly as required by the Commonwealth's policies and procedures.

In addition, due to the lack of communication from the Central Office and the Department of Accounts, upon completion of construction projects the facilities are improperly recording the constructed assets in the wrong asset categories. Facilities are recording all capital project expenses in buildings and not considering the amounts that should be broken out into equipment or infrastructure. This results in inaccurate useful lives and incorrect depreciation for these assets, which affects DMHMRSAS's billings to Medicaid.

Budget and Financial Reporting should immediately begin recording construction in progress centrally in FAACS for each facility instead of expecting each facility to record their own amounts. DMHMRSAS should develop and implement centralized policies and procedures to ensure accurate recording of construction in progress as it occurs and proper communication of information to the facilities when projects are complete and ready for capitalization.

Grant Proper Access to Timekeeping System – First Year Finding

The DMHMRSAS facilities which operate the timekeeping system Kronos do not have adequate controls for granting access.

In our sample of 82 individuals that have access to Kronos we found the following.

- Three individuals have access without proper approval.
- Five individuals have access with no approval.
- Ten individuals have access privileges greater than originally approved.

Based upon the number of errors, we consider this finding to be a significant internal control deficiency in DMHMRSAS's payroll process. Improper access to the timekeeping system increases the risk of individuals receiving payments for time not worked.

We recommend that management evaluate everyone's Kronos access to ensure that all users have the minimal level necessary to fulfill their responsibilities. Going forward, management at the facilities should develop steps for continuously monitoring and reviewing Kronos access, including training staff on the process for establishing Kronos access. Finally, to ensure that facilities are controlling access to Kronos, the Central Office should have the Internal Audit Division include Kronos access as part of its regularly scheduled reviews.

Properly Complete Employment Eligibility Verification Forms – Repeat Finding

DMHMRSAS personnel are not properly completing Eligibility Verification Forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. We found personnel not complying with the guidance, which requires the employee complete, sign, and date the form on the first day of employment. Additionally, personnel were not completing, signing and dating forms within three business days of employment.

In the prior year, there were similar I-9 discrepancies that continue to exist this year and are again due to a lack of proper guidance and inadequate policy and procedures regarding the I-9 process at DMHMRSAS. We recommend that management at the Central Office develop steps to continuously review the I-9 process, train human resources staff on the requirements of completing I-9 forms, and develop procedures to continuously review all or a sample of I-9 forms for compliance with federal regulations.

Management should ensure that employees filling out the forms understand the process for completing the forms accurately so that they complete all sections according to Federal regulations. The federal government has stepped up its enforcement efforts related to hiring, which makes having a good I-9 process in place more important than ever before.

Health

Update and Expand Security Awareness Training – Repeat Finding

Health, as of the date of our review, had not set up an agency wide formal information security awareness training program; thus missing its self-imposed due date of March 31, 2008, by seven months. Providing users with regular Security Awareness Training minimizes the risks of not maintaining the confidentiality, integrity, and availability of Health's information. Health's management is expecting to provide their staff with refresher training on Security Awareness before the end of calendar year 2008. This current refresher training, along with ongoing updates, are needed to ensure that users are aware of new policies, procedures, or risks to Health's IT systems and information.

Health should implement a process for providing system users with regular refresher Security Awareness Training. Health should annually review the content of its Security Awareness Training to ensure it addresses any new risks and complies with Commonwealth Security Standards.

Improve and Test Contingency and Disaster Recovery Planning – Repeat Finding

For the second consecutive year, Health does not have adequate contingency and disaster recovery plans for all of its sensitive and mission critical applications. While we found varying levels of compliance with the Commonwealth's security standards, none of the contingency plans which we reviewed met the critical elements of the standards for continuity of operations and disaster recovery.

Inadequate analysis, planning, and testing of Health's contingency and disaster plans places the confidentiality, integrity, and availability of the Commonwealth's sensitive and mission critical applications and data at risk. The Commonwealth's security standards require that agencies develop contingency plans for sensitive and mission critical applications. To ensure contingency plans are viable, agencies are required to test their plans annually.

Health should apply the Commonwealth's security standards consistently to all sensitive and mission critical applications. Health should start this process by dedicating the necessary resources to review and remediate the risks to their sensitive and mission critical applications.

Establish and Document Responsibilities for Securing Partnership's Equipment – First Year Finding

Health needs to formally document their process for requesting, approving, granting, reviewing and removing physical access to the Partnership's equipment. At Health's expense, the Partnership maintains equipment owned and maintained by Northrop Grumman in Health's

basement. While Health generally practices good physical security controls over the space occupied by Northrop Grumman, Health needs to document these controls to ensure responsibilities are clearly articulated and meet the Commonwealth's standards for data center security.

Future control of the data center within Health may not be an issue, as Health needs to consider the additional costs and security risks associated with operating a data center outside the Commonwealth Enterprise Solutions Center (CESC), which has robust back-up and recovery practices, then work with the Partnership to establish the most appropriate and secure environment for Health's systems.

Initiate Corrective Action Plan for Federal Reporting – First Year Finding

Health's Division of Women, Infants, and Children (WIC) and Community Nutrition Services (Division) lacks proper procedures and practices for reconciling Special Supplemental Nutrition Program for WIC reports to its accounting records, which represents an internal control weakness. While we found no material instances of non-compliance; poor internal controls increase the risk of future non-compliance, which could result in financial penalties to the Commonwealth.

Health's Internal Audit Division (Internal Audit) conducted a review of the WIC program and found some internal control issues. Additionally, Internal Audit found that the Division had not implemented the corrective actions included in its response to a 2005 U.S. Department of Agriculture audit finding. The Division also had not established completion dates for completing its corrective actions.

We recommend that the Division initiate the corrective action plans submitted to Internal Audit. Additionally, the Division and Internal Audit should periodically evaluate the results of the corrective action plans to ensure they continue improving internal controls over federal reporting.

Improve Information on Virginia Performs – First Year Finding

We reviewed Health's ten key performance measures reported on Virginia Performs as of September 5, 2008, for accuracy, completeness, and understandability.

We found the following:

- Five of the ten measures' names did not clearly state the purpose of measure and what Health was measuring.

- The measure methodology did not adequately explain how Health calculated the measure.

We recommend Health modify their performance measure information on Virginia Performs to address these issues. Virginia Performs information is accessible to the public, and it is important that information reported be accurate and easy to understand.

Ensure Secure Delivery of Controlled Substances – First Year Finding

The Chesterfield Health Department pharmacy serves as a hub distributor to other local Health Departments in the region. When shipping controlled substances to satellite offices, the pharmacy does not include a list of medication in the packages. Including a list of medication in the package helps provide assurance that the local health departments received all of the medications. Any variances between the list and the contents of the package could suggest theft or error. Under current procedures a local health department cannot determine the completeness of a shipment. We recommend that the pharmacy include in their delivery packages a list of the medication, dosage, and quantity shipped in order to reduce the risk of error or theft.

Standardize Pharmaceutical Ordering – First Year Finding

The Central Pharmacy does not have an efficient procedure for documenting pharmacist purchase requests. Unclear purchase requests can lead to purchasing the incorrect medication or purchasing incorrect quantity and dosage of medication. Staff is wasting time correcting errors and returning unneeded drugs to the vendor.

We recommend that the pharmacy standardize their procurement process to minimize future errors. The process should provide for a consistent and clear means to request specific medications needed for purchase.

Social Services

Reconcile Financial Reports – First Year Finding

Social Services under-reported Food Stamp expenses by $44 million for inclusion in the Commonwealth Annual Financial Report. Social Services' Fiscal Division (Fiscal) provided the Department of Accounts with the inaccurate information as part of its year-end submissions. This error is the result of Fiscal failing to reconcile the submission to its accounting records.

Generally Accepted Auditing Standards require the auditor to consider whether a control deficiency exists when the design or operation of a control does not allow management or their employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. In this situation the existing controls failed to detect a material error. The auditors identified this error and, therefore, the Commonwealth Annual Financial Report did not contain an error. However management cannot assure the auditors that Fiscal would have identified this misstatement.

We recommend that Fiscal reconcile all financial reports to their accounting records to ensure that they are free of material misstatement.

Improve Information on Virginia Performs – First Year Finding

Social Services needs to improve their performance measures information reported on the Virginia Performs website. We reviewed Social Services' four key performance measures reported on Virginia Performs as of September 5, 2008, for accuracy, completeness, and understandability.

We found the measure name for three of four measures did not clearly state the purpose of the measure. We also found two of four measures incorrectly classified as output measures, rather than outcome measures. In addition, the measure methodology for three of four measures did not adequately explain how Social Services calculated the measure. We recommend Social Services modify their performance measure information on Virginia Performs to address these issues. Virginia Performs information is accessible to the public, and it is important that information reported be accurate and easy to understand.

Rehabilitative Services

Properly Record Leases in the Lease Accounting System – First Year Finding

Rehabilitative Services inconsistently recorded its lease information in the Commonwealth's Lease Accounting System (LAS) since becoming responsible for entering its lease information into LAS in 2006. As a result, in some instances the Procurement Division at Rehabilitative Services has recorded its leases inaccurately in LAS causing misstated lease commitments.

Although Accounts did not update the Commonwealth's statewide policies and procedures for the newest version of LAS until July 2008, the Lease and Contracts Administrator, which is the main LAS user, at Rehabilitative Services has attended adequate LAS training twice and received resource materials from Accounts. The Procurement Director, which is the LAS back up, attended LAS training in October 2005. However, the Procurement Division's LAS users have not followed Accounts instructions. Earlier updated statewide policies and procedures would have provided Rehabilitative Services and other agencies guidance in developing, documenting, and implementing proper internal policies and procedures to enter lease information properly in LAS. However, the Procurement Division is still responsible for understanding and following the standards and principles of lease accounting.

The Procurement Division has the following issues with their methods of recording lease information in LAS:

- The Lease and Contracts Administrator did not enter all payment streams for the Roanoke office and the Charlottesville One Stop leases in LAS.

- The Lease and Contracts Administrator did not have adequate support for the total economic life, remaining economic life, executory costs, and fair market values for the four leases reviewed.

- The Lease and Contracts Administrator entered the lease renewal for the Norfolk office lease into LAS three times without realizing the error.

- The Lease and Contracts Administrator did not enter one of two Manassas leases into LAS.

Rehabilitative Services should have the Procurement Division revise, document, and implement updated agency specific policies and procedures to cover all aspects of entering and modifying leases into LAS based on Accounts updated policies and procedures. Rehabilitative Services should ensure that personnel responsible for recording lease information have the knowledge and information necessary to perform their duties properly.

Utilize Efficiencies in the New System - Efficiency Recommendation

Counselors at Rehabilitative Services are including unnecessary documentation in clients' case files. In addition to printing, signing, dating, and retaining a piece of paper to indicate that they have determined their client eligible for the program, counselors are also certifying eligibility electronically within the new case management system.

Rehabilitative Services should ensure its counselors are taking advantage of functionalities within their new case management system. Rehabilitative Services could start by reviewing its processes to determine how they can change their processes to eliminate manual and physical document processes that are no longer necessary. Certifying eligibility electronically in the system and not retaining a paper copy is just one example of how Rehabilitation Services can change what it does to help it move further towards its goal of having a paperless case management environment.

Aging

Strengthen Information Security Program – First Year Finding

Aging does not have critical components of an information security program such as a Business Impact Plan, and a Risk Assessment to evaluate key IT infrastructures. The absence of these documents questions the validity of Aging's Contingency and Disaster Recovery Plan, which uses the results of the Business Impact Plan and Risk Assessment to develop the plan.

An inadequate information security program places the agency and its information systems and data at risk. We recommend that management identify and dedicate the resources necessary to strengthen their information security program.

As a small agency, Aging has limited staff and expertise available to develop an adequate information security program. The Department of Accounts (Accounts) recently established two staff positions to assist small agencies with the development of their information security programs. Management should consider collaborating with Accounts to determine the availability of their new staff resources to assist Aging with developing an information security program that is compliant with the Commonwealth's Security Standard.

Medical Assistance Services

Improve Contract Monitoring – First Year Finding

Medical Assistance Services paid for services using a higher rate than the one that was in effect when the contractor provided the services. Under a transportation service contract, the contractor could annually adjust the amount of the per service unit cost. In certain circumstances Medical Assistance Services incorrectly calculated payments to its vendor for non-emergency transportation services. An analysis of payments to the contractor found that the calculations included prior services at the new annual rate rather than the old rate.

The contract manager for non-emergency transportation services was not aware that the calculations within Medical Assistances Services' report applied the annual rate increases to the prior services. Although the contractor is disputing this practice, Medical Assistance Services has adjusted its calculations going forward, and has requested $39,000 from the contractor.

We recommend that Medical Assistance Services continue to determine which billing method is appropriate and evaluate the guidance it provides to contract managers for approving payments, which could involve recalculating the invoice, determining if the invoice conforms to the contract, or other procedures as needed.

CONTINUE IMPLEMENTATION OF CORRECTIVE PLANS FROM THE PRIOR YEAR

Social Services
Establish Control Mechanisms for Foster Care & Adoption Payments
Align Plan for Monitoring Local Social Service Offices with Best Practices
Maintain Local Employee Tracking System
Continue Improving Cash Management
Medical Assistance Services
Continue Addressing Findings in Internal Audit Report

Complete and proper solutions to some prior findings may take time. Due to the size of the agency involved and the complexity of some of the issues highlighted in the prior year, we cannot reasonably expect some agencies to fully implement and evaluate their corrective action plan before the conclusion of this year's audit. In such instances, we followed up with the respective management of the agency; reviewed their revised policies, procedures, and other items related to the corrective actions taken; and evaluated their progress. From this review, we determined that management is making adequate progress through their corrective action plans.

Due to the long-term commitment required to implement, monitor, and evaluate management's corrective actions for these findings, we have provided updates on the progress that management is making below. We will continue to provide updates on these findings in future reports until management has had enough time to fully implement their corrective actions and have them evaluated for sustainability.

From our review of the prior findings, we determined that management is making adequate progress through their corrective action plans or modifying their plans to react to changing situations properly.

Social Services

Establish Control Mechanisms for Foster Care and Adoption Payments – Second Year Follow-Up

Social Services is taking steps to ensure that local social service offices are verifying that only individuals determined to be eligible and in the current case management system are receiving foster care and adoption assistance payments. Last year, we reported that Social Services was developing a new, web-based system to establish automated control mechanisms for these payments. Social Services has since halted the implementation of this system and is reviewing alternative methods to achieve automated controls.

In the interim, Social Services is instructing localities to compare children and caregivers receiving payments to those in the system and to retain documentation for any discrepancies. Social Services is also training the Office of Family Services' monitoring unit on this requirement so that reviews of the reconciliation and their supporting documentation becomes part of their visits.

Align Plan for Monitoring Local Social Service Offices with Best Practices - First Year Follow-up

Social Services is taking actions to strengthen their sub-recipient monitoring practices by improving communication of responsibilities, communication with localities, and accountability for deficiencies and by adopting a system-wide risk-based monitoring approach; however, improvements are still needed.

Social Services created a position that's primary purpose is to provide oversight of the sub-recipient monitoring of local social service offices through the development of a collaborative and comprehensive monitoring approach. Once filled, this position will allow Social Services to improve both the communication of sub-recipient monitoring responsibilities and communications with local social services offices. In addition, program and financial staff are working to identify and resolve differences in federal guidance for multiple programs.

Finally, individual divisions within Social Services have developed their own risk assessments for monitoring localities. However, Social Services has not yet combined these individual risk assessments into a comprehensive and system-wide approach.

Maintain Local Employee Tracking System (LETS) – Second Year Follow-up

Social Services is improving its certification process for the Local Employee Tracking System (LETS). Social Services dedicated two employees to LETS to improve the timeliness of all localities' LETS confirmations, changes, and updates. Additionally, Social Services is working to interface LETS with local agencies' information systems and will pilot this interface at four

localities by the end of calendar year 2008: Fairfax, Virginia Beach, Norfolk, and Richmond City. To ensure these changes have had a positive effect, we intend to test the accuracy of the information in LETS as part of our next audit of Social Services.

Continue Improving Cash Management – First Year Follow-up

As a result of prior year's finding entitled "Establish Procedures for Controlling the Cash in the Child Support Enforcement Fund" in which we recommended Social Services assess why fiscal staff did not bring cash issues to the attention of management, Social Services conducted a review of its cash balances. Fiscal staff discovered cash balances dating back several years, prior to the current management team. The balances in question are a result of Social Services not being aware of the requirements associated with these balances. Social Services has researched these balances and has determined that:

- $12.6 million will be returned to the federal government as the time period available to spend these funds has expired;
- $37.9 million will be used for future expenditures;
- $16.8 million, due to a prior settlement agreement with the federal government, will be transferred to the General fund; and
- $21.6 million needs further review.

Without proper controls over managing cash balances in its federal fund Social Services risks having future balances elapse, thus causing the return of unused funds. We recommend that Social Services continue this review process to resolve the remaining balances in question and develop procedures going forward to better manage its federal cash.

<u>Medical Assistance Services</u>

Continue Addressing Findings in Internal Audit Report – Third Year Follow-Up

Medical Assistance Services' management is adequately addressing findings in its 2008 Internal Audit report on its operating environment and information security business processes. The Internal Audit report recommends improvements to security documentation and strengthening certain security processes. Given the sensitivity of the information that Medical Assistance Services is responsible for, management should continue in its efforts to address their findings.

RESOLVED FINDINGS FROM THE PRIOR YEAR

The agencies have taken adequate corrective action with respect to the audit findings reported in the prior year, which are listed below.

Medical Assistance Services
Improve Controls over Leases
Social Services
Improve System Access Controls
Improve Notification of Timely Reduction of Benefits When Clients are Not Cooperating with the Division of Child Support Enforcement
Define Responsibilities for Monitoring Locality Operations
Follow Established Policies over the SPCC Program
Improve Usage of IEVS and Case File Documentation
Establish Adequate Controls over the Payroll and Human Resource Functions
Security Risk Assurance for Infrastructure
Mental Health, Mental Retardation, and Substance Abuse Services
Implement an Efficient Timekeeping System
Security Risk Assurance for Infrastructure
Health
Properly Complete Employment Eligibility Forms
Security Risk Assurance for Infrastructure
Rehabilitative Services
Update and Expand Security Awareness Training
Improve Data Protection
Limit CIPPS Access for Woodrow Wilson Rehabilitation Services Employees
Remove an Employee's Ability to Create and Approve Payroll Payments
Security Risk Assurance for Infrastructure

OTHER INFORMATION ABOUT FINDINGS

Statewide Reports

Many of the issues within this section of this report are not unique to the Secretary's agencies, as a result our Office, for the significant cycles below, has or plans to issue statewide reports that cover the topics from the perspective of the entire Commonwealth. To view our reports or obtain electronic copies; these reports are available on our website: www.apa.virginia.gov.

Accounts receivable	Performance measures
Pharmacy controls	Network security

Managers, as they work to develop their corrective action plans, may want to review these reports to determine if there are opportunities for collaborating with other agencies to address these issues.

Classifications

The agency findings and recommendations within this section of this report fall into one or more of the following categories.

- First Year Finding – items brought to the attention of management during the course of this year's audit, and management has or is developing their plans for taking corrective actions.

- Repeat Finding – Management has either not started or needs to complete implementing corrective actions to address a prior year audit finding, and in the auditor's opinion progress is not adequate to reduce risk to an acceptable level;

- Risk Alert – issues beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations to address the risk.

- Efficiency Recommendation – areas where management should consider altering the agency's operations to make better use of state resources.

VIRGINIA'S MEDICAID PROGRAM

In fiscal 2008, Virginia's Medicaid program totaled $5.34 billion, or nearly 14 percent of total state expenses, which were $ 38.4 billion, as shown in the table below.

	2004	2005	2006	2007	2008
Medicaid	3,895,466,765	4,394,414,236	4,772,677,271	5,042,199,846	5,342,630,889
Total State Expenses	30,917,981,000	33,574,675,000	35,855,455,000	39,169,893,000	38,418,200,097
% Medicaid	13%	13%	13%	13%	14%

Source: APA website, Commonwealth Data Point, Fiscal Year 2008 Statewide Expenditures

As a percentage of total state expenses, Medicaid expenses have remained relatively constant over the past five years. This is largely a result of several cost containment strategies adopted by the state to control increases in Medicaid spending. Virginia's Medicaid expenses have increased by 37 percent in the last five years; this is in-line with the national trends. According to Centers for Medicare and Medicaid Services (CMS), national health care expenses increased by 31.3 percent over the most recent five-year period for which data is available (2002-2006).

CMS is the federal agency that oversees and monitors the state-run programs. CMS establishes minimum requirements for service delivery, quality, funding, and eligibility standards.

Each state must conform to these minimum guidelines in order to receive matching funds and grants from the federal government. The federal matching formula varies by state, based on average per capita income. States with the highest average per capita income receive a federal match of 50 percent, while states with lower average per capita income receive a larger match. Virginia is one of 13 states with the lowest federal matching rate of 50 percent.

AGENCIES PROVIDING MEDICAID SERVICES

This section will detail the impact that Medicaid dollars have throughout Virginia government and its programs. The following table lists the relationships that Medical Assistance Services has with other state agencies and the services they provide.

Department of Medical Assistance Services' Relationship with Other State Agencies

Agency	Relationship
Department of Rehabilitative Services	• Eligibility Determinations for the Disabled
	• Medicaid Infrastructure Grant
Department of Social Services	• Eligibility Determinations for Medicaid (to include outstation employees) and SLH
	• Early and Periodic Screening, Diagnosis, and Treatment Outreach
	• Identification of Recipients with Third Party Liability
	• Client Medical Management Program
	• Nursing Home Pre-admission Screenings
	• Reimbursement of Medicaid Refugee Costs from a Federal Grant Provided to DSS
	• Identification of Suspected Fraud and Non-Entitled Benefits
	• Licensure for Adult Care Residence
Department of Health	• Licensure and Certification of Nursing Facilities
	• Early and Periodic Screening, Diagnosis, and Treatment Support (Training)
	• Nursing Home Pre-admission Screenings
	• Resource Mothers Program - Support Persons for Indigent Young Pregnant Women
	• Health Clinic Medical Services, Including Home Health Services
	• Case Management Services for Pregnant Women and Children
	• Teen Pregnancy Prevention Programs
	• Certificate of Public Need Approvals – Nursing Homes and Hospitals
	• Screening of Children for Lead Poisoning
	• Data Sharing
Attorney General's Office	• Medicaid Legal Representative
	• Medicaid Fraud Unit
Department for the Aging	• Case Management for the Elderly
	• Quality Care Assurance-Nursing Facilities
	• Relocation of Residents of Nursing Homes

	• Outreach for Dual Eligibles
Department of Education	• School-Based Health Centers
	• Rehabilitative Services
	• Skilled Nursing Services
	• Psychological Services
	• Data Sharing
Department of Taxation	• DMAS uses the Tax Debt set off on accounts that cannot be collected
JLARC	• Data Sharing
Department of Mental Health, Mental Retardation And Substance Abuse Services	• Inpatient and Community Mental Health and Mental Retardation Services
	• Nursing Home Pre-admission Screenings and Resident Reviews
	• Certification of Providers of Mental Health and Mental Retardation Case Management Services • Early Intervention Services for Infants and Toddlers
VCU Medical Center/UVA Health System	• Inpatient and Outpatient Care
	• Nursing Home Pre-admission Screenings
	• Infrastructure Grant Projects
	• Revenue Maximization Support
	• Medicaid Buy-In Study
	• Consumer Directed Services
Supreme Court of Virginia	• Payments to Hospitals and related providers of medical and health services for individuals subject to Involuntary Mental Commitment proceedings
Department of Health Professions	• Nurse Aide Certification
	• Licensure of providers
	• Investigation of Complaints (Quality of Care)
State Police	• Medicaid Drug Fraud
Virginia Employment Commission	• Access to Virginia Employment Case Management Files
Department of Accounts	• Financial Reporting
	• Compliance Audits
	• Official record of DMAS financial transactions
	• EDI – Travel Vouchers
Treasury Department	• Treasury Issues, DMAS checks, and wire transfers for vendors and Providers
Department of Planning and Budget	• Oversee the agency's administrative and medical budget
Department for the Blind and Vision Impaired	• Eligibility Determinations

Office of Comprehensive Services	• Comprehensive Services Act
Library of Virginia	• Document Storage
Virginia Information Technology Agency	• Executive Summary for the VITA Transition
Virginia Commonwealth University	• Support for Revenue Maximization Project
	• Personal Care Aid and Certified Nurse Assistant Training Program
	• Partnership for People with Disabilities
	• Area Health Education Centers Program

Medical Assistance Services is the state agency charged with the administration and management of the state's Medicaid program. All Medicaid funds flow through Medical Assistance Services. Medical Assistance Services uses Medicaid funds to reimburse service providers.

As stated previously, the Commonwealth's Medicaid expenses totaled $5.34 billion in fiscal 2008. Of this amount, Medical Assistance Services paid over $1.2 billion in Medicaid funding to other state agencies and localities (Commonwealth entities) for the services they provide to individuals in the Medicaid program. The $1.2 billion represents approximately 23 percent of Virginia's total Medicaid expenses and accordingly, the federal government reimbursed the state for about $600 million (50 percent) of that amount. Several of the internal entities in the tables below rely heavily on this Medicaid funding stream to provide services.

The following table lists the Commonwealth entities that Medical Assistance Services pays Medicaid funding to for the services they provide to Medicaid clients.

Internal Medicaid Payments for Services

Entity	Services	Entity Provided Match	Funding from the Department of Medical Assistance Services	Total Medicaid Funding	Total Available Funding for Services	Medicaid Funding as a Percent of Total Funding
DMHMRSAS	Inpatient Care, Facilities, and Other	$42,148,437	$265,201,182	$307,349,618	$897,131,525	34%
Community Service Boards	Community Care	-	311,559,213	311,559,213	916,504,070	34%
Office of Comprehensive Services	Residential Psychiatric Treatments and Utilization Management Reviews	52,812,639	52,812,639	105,625,278	344,780,705	31%
UVA Health System	Patient Care	-	139,683,901	139,683,901	934,837,508	15%
VCU Medical Center	Patient Care	-	231,231,047	231,231,047	1,378,221,252	17%
Virginia Commonwealth University	Research	-	311,360	311,360	21,400,000	1%
Department of Social Services	Outreach and Eligibility Determination and Other	$56,391,172	$56,391,172	112,782,343	739,070,909	13%
Local School Divisions	Student Care	11,563,278	16,724,406	28,287,685	561,648,442	5%
Department of Health	Various Services Including Outpatient Care	637,086	15,057,036	15,694,122	233,234,685	7%
Department of Rehabilitative Services	Eligibility Determination	954,421	954,421	1,908,842	94,273,406	2%
Woodrow Wilson Rehabilitation Hospital/Center	Rehabilitation	-	359,632	359,632	20,718,764	2%
Department of Aging	Medicaid Ombudsman Program	465,666	506,079	971,745	31,095,596	3%
Department of Health Professions	Nurse Aide Training and Certification Program	-	68,665	68,665	26,536,794	>1%
Total		$164,972,699	$1,090,860,753	$1,255,833,451	$6,199,453,656	20%

In February 2006, the federal Deficit Reduction Act of 2005 became law. This federal legislation affected many aspects of domestic entitlement programs, including Medicare and Medicaid. The federal Deficit Reduction Act and other developments at the federal level aim to reduce the federal portion of costs for the entitlement programs. If the federal government continues tightening its spending on these programs, the burden to fund these programs will shift back to individual states.

The movement to decrease costs at the federal level is forcing states to consider the impact of Medicaid spending at the individual state level. If the federal government were to cut Medicaid funding, the Commonwealth would either need to increase its contribution to the Medicaid program to maintain current levels of services, or reduce services. The following entities rely heavily on Medicaid funding.

IMPACT OF MEDICAID FUNDING ON INDIVIDUAL AGENCY BUDGETS

DMHMRSAS received $265.2 million in Medicaid funding from Medical Assistance Services in fiscal 2008. DMHMRSAS matched funds to receive $42.1 million of those funds. The combined total of $307.3 million in Medicaid funding represents 34 percent of DMHMRSAS' total funding for services. DMHMRSAS uses Medicaid funds to provide in-patient mental health and mental retardation services at their facilities statewide.

Community Service Boards (Boards), which provide community care for mentally ill individuals and persons with disabilities, received $917 million in funding in fiscal 2008. Medical Assistance Services provided $311.5 million (34 percent) of the Boards' funding from the Medicaid program. Without Medicaid, the Boards would lose more than a third of their total funding stream.

Comprehensive Services transferred approximately $52.8 million of its General Fund monies to Medical Assistance Services in fiscal year 2008. Medical Assistance Services, through the Medicaid program, uses the funds to match an equal amount from the federal government. Medical Assistance Services used these funds to pay private services providers for residential psychiatric treatments for foster care children that qualify for the Medicaid program. This funding arrangement allows Comprehensive Services to double 18 percent of its budgeted funding to obtain approximately $344.7 million in total available funding for services, of which $105.6 million is paid by Medical Assistance Services.

Social Services (state and local) provided a match of $56.4 million in fiscal 2008 to receive a one-for-one match in Medicaid funds from Medical Assistance Services. In total, Social Services received total Medicaid funding of $112.6 million to provide outreach and determine Medicaid eligibility for potential clients. Eligibility determination is an administrative cost for Social Services, and Medicaid dollars represents 13 percent of the funding for state and local Social Services' total available funding for services ($739 million).

For the services they provide to individuals in the Medicaid program and indigent patients, the University of Virginia (UVA) Health System and the Virginia Commonwealth University (VCU) Medical Center received $139.7 million and $231.2 million in Medicaid funding respectively in fiscal year 2008. Medicaid funds represent 15 percent of the UVA Health System's, and 17 percent of the VCU Medical Center's, total revenues in fiscal 2008.

SERVICES AND SELECTED FINANCIAL INFORMATION

AGENCIES OF THE SECRETARY HEALTH AND HUMAN RESOURCES

Services

Agencies in the Health and Human Resources secretariat are responsible for service delivery and responses to human resource issues in Virginia. According to the 2008 Executive Budget document, the Secretariat's priorities are to promote self-sufficiency and independence, assure access to affordable quality health care, strengthen families, improve care and treatment for individuals who are mentally or physically impaired, increase awareness and accessibility of long-term care, and improve the quality of life for older Virginians. Additionally, the Secretariat's agencies ensure safety for citizens through inspection programs for food safety, environmental health, hospitals and nursing homes, as well as the oversight of certain health care professionals such as doctors, nurses, and counselors.

Financial Information

HHR Table 1 schedule details each agency in the Secretariat and its total 2008 expenses.

Expenses for Each Agency

Agency	Expenses	Percent
Department of Medical Assistance Services	$5,656,798,925	60.0%
Department of Social Services	1,691,930,280	18.0%
Department of Mental Health, Mental Retardation and Substance Abuse Services	1,000,493,025	10.6%
Department of Health	521,840,066	5.5%
Comprehensive Services for At-Risk Youths and Families	248,174,830	2.6%
Department of Rehabilitative Services*	173,352,447	1.8%
Department for the Aging	50,388,832	0.5%
Department for the Blind and Vision Impaired**	45,821,233	0.5%
Department of Health Professions	25,773,410	0.3%
Department for the Deaf and Hard-of-Hearing	11,285,859	0.1%
Virginia Board for People with Disabilities	1,922,610	< 0.1%
Total Fiscal Year 2008 Expenses - Secretary of Health and Human Resources	$9,427,781,517	100.0%

* Includes Woodrow Wilson Rehabilitation Center expenses of $31,635,550

**Includes Virginia Rehabilitation Center for the Blind and Vision Impaired expenses of $6,174,566

Source: 2008 CARS Expenditure Summaries

The secretariat's agencies had approximately $9.43 billion in expenses in fiscal year 2008. Of this amount, the Medicaid program accounted for about $5.34 billion or 57 percent of total

expenses. The agencies listed above administer the programs that carry out the mission of the secretariat. These agencies accounted for about 26 percent of the Commonwealth's total state spending.

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES (MEDICAL ASSISTANCE SERVICES)

Services

Medical Assistance Services administers the federal and state-supported health care programs for eligible persons with limited income and resources. These programs include Medicaid, Family Access to Medical Insurance Security (FAMIS), Medical Assistance for Low-Income Children (FAMIS Plus), the Indigent Health Care Trust Fund, Income Assistance for Regular Assisted Living, Involuntary Mental Commitments, the Virginia Health Care Trust Fund, and other medical assistance services such as HIV assistance and state and local hospitalization.

Medical Assistance Services provided services to over 1,000,000 persons during fiscal year 2008. General population growth in Virginia and especially the growth of the aging population are key factors affecting its client base. Projections forecast that the number of Virginians age 65 and older will increase dramatically over the next ten years – over five times faster than the state's total population growth. An aging population within the state will place increased demands for services on Medicaid, especially in the areas of long-term care and waiver services. Access to medical care for uninsured children has been a priority of Medical Assistance Services.

Financial Information

Table 1 summarizes Medical Assistance Services' budgeted expenses by program as compared with actual results for the year ended June 30, 2008.

Analysis of Budgeted and Actual Expenses by Program - Fiscal Year 2008

Program	Original Budget	Adjusted Budget	Actual Expenses
Medicaid	$5,451,198,787	$5,426,074,171	$5,342,630,889
Administration and support services	98,272,380	105,011,590	104,639,768
FAMIS	99,871,436	103,755,832	101,773,792
FAMIS (PLUS)	74,146,205	76,599,103	75,790,601
Medical Assistance Services (Non-Medicaid)	14,252,481	14,751,626	13,596,364
Appellate processes	11,549,689	10,284,010	10,279,538
Indigent Health Care Trust Fund	9,285,831	9,286,251	7,156,432
Continuing Income Assistance Services	1,400,000	1,400,000	931,541
Total Resources	$5,759,976,809	$5,747,162,583	$5,656,798,925

Source: Original budget - Appropriation Act Chapter 847, Adjusted Budget and Actual Expenses - CAFR 1419D1 report as of 6/30/08.

While Medical Assistance Services' actual expenses were two percent less than its original budget, the original total budget was eight percent higher than the prior year. The increase in the budgeted growth between years is the inclusion of additional wavier slots for 468 Mental Retardation, 100 Developmentally Disabled and a projected increase in population enrollment. Average monthly enrollment in fiscal year 2008 increased by 1.5 percent from 659,959 compared to 649,903 in fiscal year 2007, representing an average monthly higher enrollment of 10,000 when compared to the prior year.

Table 2 summarizes Medical Assistance Services' actual program expenses by funding source for the year ended June 30, 2008.

Analysis of Actual Expenses by Program Funding Source

Program	Federal	General	Virginia Health Care Fund	Other Special Revenue
Medicaid	$2,586,630,815	$2,459,311,727	$296,688,347	-
Administration and support services	66,292,947	39,418,403	-	792,822
FAMIS	64,428,543	26,516,874	14,065,627	-
FAMIS (PLUS)	49,273,728	21,415,218	-	-
Medical assistance services (Non-Medicaid)	-	11,466,608	207,996	1,921,760
Appellate processes	-	10,279,538	-	-
Indigent Health Care Trust Fund	-	4,286,235	-	2,870,197
Continuing income assistance services	-	931,541	-	-
Total	$2,766,626,033	$2,573,626,144	$310,961,970	$5,584,779

Source: CARS and FATS

Combined, the General Fund and the Virginia Health Care Fund provide 51 percent of the funding for Medical Assistance Services' activities. This is one percent higher than the 50 percent matching rate because of payments that Medical Assistance Services makes to the federal government using only state funds for Medicare premiums.

The Virginia Health Care Fund is a special non-reverting fund established to support health care programs using money from tobacco taxes and 40 percent of the Commonwealth allocation of a national settlement known as the Master Settlement Agreement between the states and tobacco companies. The Fund also consists of all recoveries received during a fiscal year resulting from expenses incurred in the Medicaid program during a prior fiscal year or years to the extent that such amounts represent recoveries of state funds that would otherwise be deposited to the General Fund. Between fiscal years 2007 and 2008 the Fund experienced less than a one percent increase in revenues, $285.2 million to $285.4 million. While total revenues increased a one-time deviation in the timing of Master Settlement Agreement payments to the state masked a three percent decrease in tobacco taxes. Tobacco taxes continue to provide the Fund with a majority of its funding, 83 percent in fiscal 2008.

Medicaid Medical Expenses

Medical Assistance Services spent $5.34 billion on Medicaid services. Table 3 shows total medical expenses for the Medicaid program by provider type. Medicaid resumed its enrollment growth in fiscal year 2008; by fiscal year, enrollment growths are as follows: 9.1 percent in 2004; 7.6 percent in 2005; 4.9 percent in 2006; a decrease of 0.4 percent in 2007; and again an increase of 5.9 percent in 2008.

Medicaid Expenses by Service Category - Fiscal Years 2005-2008

Service Category	2005	2006	2007	2008
Managed Care	$ 963,613,776	$1,091,040,018	$1,190,959,577	$1,226,308,082
Community-Based Waiver Services	446,686,043	517,767,803	600,169,213	725,812,816
Nursing Facility	657,532,982	697,984,269	718,375,124	725,778,161
Inpatient Hospital	531,970,281	553,129,491	547,650,686	582,746,239
Mental Health	267,196,363	352,128,633	395,562,682	482,792,977
Pharmacy	611,762,513	458,755,750	228,301,049	225,800,238
Public ICF/MR Facilities	190,114,299	197,872,439	201,079,045	209,167,315
Medicare Premiums	133,111,555	176,132,821	194,307,374	204,298,114
All Other Services	164,206,641	175,044,363	179,022,939	192,568,569
Physician Services	155,452,122	153,891,820	143,310,705	158,676,673
Medicare Part D Clawback Pymts	-	47,704,174	151,605,379	156,982,201
Outpatient	126,275,548	115,024,648	105,546,509	108,401,630
Dental	13,750,693	55,624,772	80,698,293	89,826,908
Regular DSA – General Hospital and Rehab	-	44,046,764	47,648,530	79,203,301
Transportation Services	55,167,599	63,166,758	67,054,128	71,013,498
Public MH Facilities	44,384,328	50,553,407	48,862,334	54,333,949
Private ICF/MR Facilities	34,036,235	40,532,655	43,526,395	46,059,682
Enhanced DSA - UVA and MCV	111,561,611	92,198,332	141,026,423	38,235,261
Home Health	4,555,784	5,018,912	4,787,051	5,841,652
Other Long-Term Care	3,640,322	3,312,742	5,142,146	4,394,756
Supplemental Drug Rebates	(10,796,161)	(13,732,363)	(2,088,208)	(1,807,235)
Drug Rebates	(109,808,297)	(104,520,939)	(50,347,527)	(43,803,898)
Total	$4,394,414,237	$4,772,677,269	$5,042,199,847	$5,342,630,889

Source: Department of Medical Assistance Services

Administrative Expenses

In addition to medical services, Medical Assistance Services spent $104.6 million on administrative costs. Table 4 summarizes the administrative expenses by major categories for fiscal year 2008.

Administrative Expenses – Fiscal Year 2008

	Expenses	Percent
Contractual services	$ 56,471,350	54.0%
Personal services	29,118,536	27.8%
Dental & medical services	15,308,878	14.6%
Continuous charges	2,333,187	2.2%
Equipment	698,175	0.7%
Supplies and materials	490,877	0.5%
Transfer payments	218,765	0.2%
	$104,639,768	100.0%

Source: CARS

Administrative expenses decreased by $6.9 million in fiscal year 2008. The decrease in administrative costs results from the completion of the National Provider Identifier (NPI) project in fiscal year 2007. The federal government mandated conversion to the standard NPI identifier for all providers. This mandate required a major overhaul of the Medicaid Management Information System (MMIS). This project began in fiscal year 2006 though the majority of system development work took place in fiscal year 2007. All Virginia Medicaid providers are now required to submit NPIs on their claims.

Table 5 shows the vendors receiving the largest portion of payments under administrative contractual services and dental and medical services during fiscal year 2008.

Administrative Contractual Services and Dental and Medical Services – Fiscal Year 2008

Contracted Vendors	Amount	Percent
First Health Services Corp	$21,454,764	29.9%
Agreements with Other Governmental Agencies	11,181,913	15.5%
Combined Other Contracted Vendors	8,245,966	11.5%
Clifton Gunderson and Co.	6,975,862	9.7%
Kepro Inc	5,535,050	7.7%
Affiliated Computer Services, Inc.	4,214,526	5.9%
Public Partnership, LLC	3,581,880	5.0%
Health Management Corp.	2,127,237	3.0%
Other	8,463,031	11.8%
Grand Total	$71,780,229	100.0%

Source: CARS

FAMIS and FAMIS Plus

FAMIS' medical expenses totaled $101.8 million, an increase of 21.1 percent over the prior year. Medical expenses for FAMIS Plus amounted to about $75.8 million, an increase of 11.75 percent. According to management, FAMIS and FAMIS Plus now cover eighty-four percent of eligible children.

DEPARTMENT OF SOCIAL SERVICES (SOCIAL SERVICES)

Services

Social Services' administers over 40 programs that provide benefits and services to low-income families, children, and vulnerable adults. Both the state and local governments share in the administration of these social service programs. Social Services is comprised of a central office, five regional offices, eight licensing offices, and 21 support enforcement offices. There are also 120 locally operated social service offices across the state, which report to the local governments, but receive direction and support from Social Services.

The Central Office has primary responsibility for the proper administration of all federal and state-supported social service programs. The Central Office establishes policies and procedures that ensure adherence to federal and state requirements, which local offices implement. Both the Central Office and regional offices enforce these policies and procedures by monitoring the local offices. The Central and regional offices often provide technical assistance to local offices and the regional offices serve as a liaison between the Central and local offices. In addition, the Central Office distributes benefits to eligible households and vendors under the Temporary Assistance for Needy Families (TANF), Food Stamp, and Energy Assistance programs.

Child Support Enforcement is a state-administrated and operated program. Child support offices process custodial parent information, help locate non-custodial parents, establish paternity, enforce both administrative and court orders, and collect and distribute child support monies. Licensing offices regulate licensed child and adult care programs including the following programs: certified preschools, child day centers, family day homes, child placing agencies, and children's residential facilities. They also regulate adult day care centers and assisted living facilities. In fiscal 2008, the Central, regional, child support, and licensing offices disbursed approximately $1,016 million (60 percent) of Social Services' total funding. This amount includes benefit assistance amounts paid directly to individuals.

Local social service offices deal directly with consumers. They perform a variety of functions including eligibility determination, case management, and "service" program administration such as Foster Care, Child/Adult Daycare, Adoption, and Child/Adult Protective Services. Local offices also provide information to consumers transitioning from dependency to independence. In fiscal 2008, Social Services paid over $675 million (40 percent) of its total funding to local social service offices.

Financial Information

Tables 6 and 7 summarize Social Services' budgeted revenues and expenses compared with actual results for the fiscal year ended June 30, 2008.

Analysis of Budgeted and Actual Funding by Funding Source

	Original Budget	Final Budget	Actual Funding
Federal	$ 662,896,577	$ 752,111,811	$ 604,676,767
Special	745,647,194	675,649,274	673,793,258
General	399,358,480	410,946,536	410,946,536
Total	$1,807,902,251	$1,838,707,621	$1,689,416,561

Source: Original budget - Appropriation Act Chapter 847, Adjusted Budget CAFR 1419D1 report as of 6/30/08, Actual Funding - CARS 402

There is a $147 million difference (eight percent) between Social Services' final budget and actual expenses in fiscal 2008. In recent years, this budget to actual difference is normal for Social Services. In fiscal years 2006 and 2007, Social Services' actual expenses were 7.5 and 7.2 percent, respectively, less than its final budget. The reason for the variances is mainly due to the difficulty in forecasting federal revenues because of varying case loads and changes in federal reimbursement policies.

The base budget for the 2006 - 2008 biennium uses Fiscal Year 2006 budget and expense information. The Department of Planning and Budget normally does not reduce non-general fund revenue appropriations during the fiscal year, unless a significant change occurs. However, Commonwealth budgeting processes allow reduction of non general fund appropriations during base budget development for an upcoming biennium. Social Services reduced its expected federal funding by $35 million for the 2008 - 2010 biennium to reflect changes in federal reimbursement policies.

Analysis of Budgeted and Actual Expenses by Program

Program Name	Program Expenses: Original Budget	Program Expenses: Adjusted Budget	Program Expenses: Actual	Funding Source: General Fund	Funding Source: Special Revenues	Funding Source: Federal Grants
Financial Assistance for Self-Sufficiency Programs and Service	$ 366,162,216	$ 304,556,575	$ 248,299,580	$104,246,058	$ -	$144,053,522
Financial Assistance for Local Social Services Staff	316,843,934	396,699,597	357,414,772	118,699,136	1,250,358	237,465,278
Financial Assistance for Supplement Assistance Services	48,033,421	45,206,641	42,872,202	3,510,620	-	39,361,582
Financial Assistance to Community Human Services	33,797,536	35,303,071	23,646,411	7,369,075	-	16,277,336
Child Support Enforcement Services	712,474,000	727,884,284	702,163,083	5,237,064	644,435,200	52,490,819
Program Management Services	29,724,255	35,905,099	31,801,741	17,037,979	-	14,763,762
Administrative and Support Services	77,933,849	73,299,405	70,097,626	32,912,906	1,138,706	36,046,014
Adult Programs and Services	47,304,949	44,716,949	41,551,130	26,245,084	-	15,306,046
Child Welfare Services	162,169,437	160,816,689	160,149,155	90,844,712	709,520	68,594,923
Regulation of Public Facilities	13,458,654	14,319,311	13,934,580	4,574,859	1,058,131	8,301,590
Total	$1,807,902,251	$1,838,707,621	$1,691,930,280	$410,677,493	$648,591,915	$632,660,872

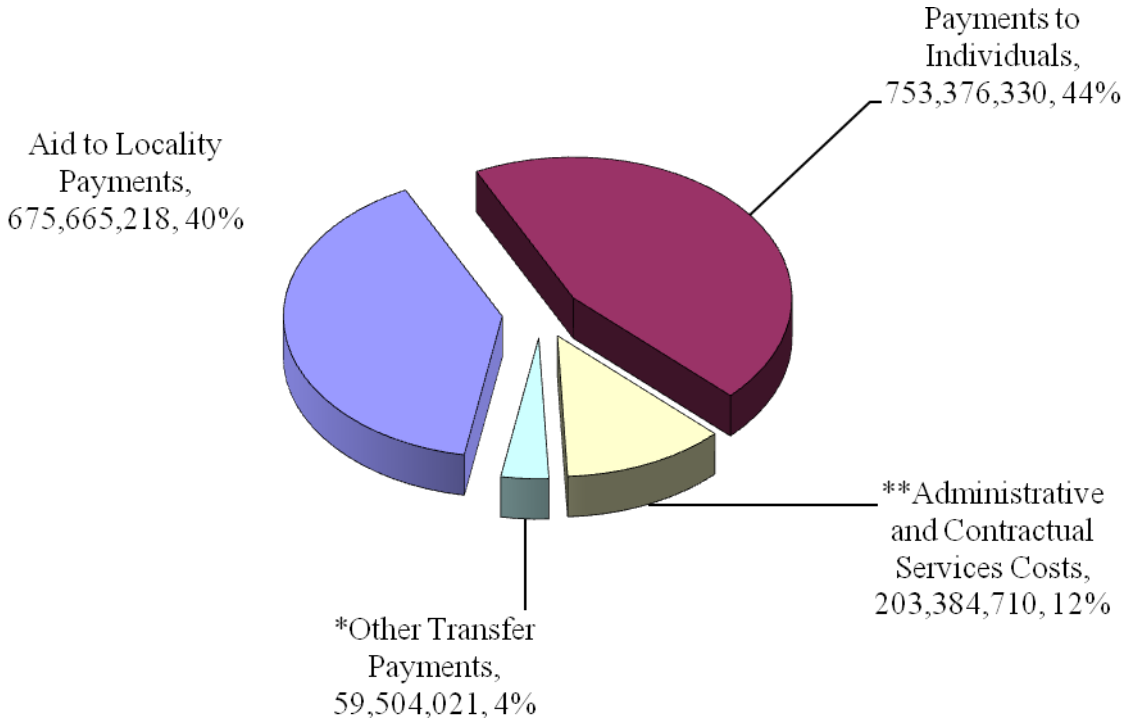
Source: CARS and FATS

The Food Stamp Program, a sub-program under the Financial Assistance for Sufficiency Programs and Services, does not include the Food Stamp benefits that recipients receive as direct benefits. The individual benefits are 100 percent federally funded and go directly from the federal government to the Commonwealth's electronic benefits transfer contractor, Affiliated Computer Systems (ACS). During fiscal year 2008, ACS disbursed approximately $591 million in Food Stamp benefits, which are not part of Social Services' fiscal activities.

Social Services' has the following sources of funding: 24 percent General Funds, 40 percent special revenue, which includes child support enforcement funds, and 36 percent federal grants. General Fund expenses include state matching dollars spent in order to receive federal funds.

Figure 1 below summarizes Social Services' expenses by type for the fiscal year ended June 30, 2008.

Figure 1



Source: CARS

*Includes payments to nongovernmental and intergovernmental organizations and community service Agencies

**Includes payments for personal services, supplies, rent, equipment, property and improvements

Approximately 88 percent of Social Services' expenses are transfer payments to local governments, individuals, and other organizations. Payments to individuals, financial assistance for individuals and family and child support enforcement, comprise about 51 percent of Social Services' total transfer payments. In fiscal 2008, Social Services paid $676 million (approximately 40 percent of total expenses) to local social service agencies and $753 million (approximately 45 percent of total expenses) to individuals as direct benefits. Administrative and contractual service costs are 12 percent of total expenses. Social Services spent $110 million on personal service expenses and $93.4 million on contractual services.

Table 8 summarizes the aid to locality payments by subprogram for the fiscal year ended June 30, 2008.

Aid to Locality Expenses by Subprogram

	Expenses	Percent
Benefit programs administration	$182,064,298	27.0%
Direct social services	173,092,427	25.6%
Foster care	80,708,283	11.9%
Day care (non-TANF)	64,789,212	9.6%
Financial assistance for child and youth services	63,495,556	9.4%
Individual and family economic independence services through day care support (TANF)	53,164,677	7.9%
Supplemental income assistance to the aged, blind, and disabled	23,754,612	3.5%
Individual and family economic independence services through employment assistance services	17,144,444	2.5%
Other	17,451,709	2.6%
Total	$675,665,218	100.0%

Source: CARS

Of the $676 million paid to the localities, 53 percent of the funds are for local social service agency benefits programs administration and direct social services. These programs include administrative and other allowable costs, pass-through funds, and locality contractual services. Foster care expenses include maintenance payments to foster care families, foster parent and staff training, and additional foster care administrative costs. Adoption incentive payments, special needs adoption expenses, and adoption-related contracts are included in Financial Assistance for Child and Youth Services subprogram. Other aid to locality expenses include: regional and area-wide assistance administration, general relief payments, resettlement assistance, emergency assistance, Comprehensive Services Act administration, financial assistance for employment services, non-public assistance child support payments, and other purchased services.

Table 9 summarizes the payments to individuals by subprogram for the fiscal year ended June 30, 2008.

Payments to Individuals by Subprogram

	Expenses	Percent
Nonpublic assistance child support payments	$612,773,843	81.3%
Temporary Assistance for Needy Families (TANF)	104,904,664	13.9%
Emergency assistance	35,077,733	4.7%
Other	620,090	0.1%
Total	$753,376,330	100.0%

Source: CARS

Of the $753 million paid directly to individuals, approximately 81 percent is non-public assistance child support payments. These payments are to custodial parents from the child support special revenue fund. Once Social Services has collected the child support payment from the non-custodial parent, Social Services redistributes the money to the custodial parent.

TANF payments represent nearly 14 percent of Social Services' payments to individuals. These are cash payments made directly to eligible families to help meet basic monthly needs.

Emergency assistance payments account for fewer than five percent of Social Services' payments made to individuals. Historically, these payments have supported the Low Income Home Energy Assistance Program (Energy Assistance Program). Under the Energy Assistance Program, Social Services pays energy vendors and individuals directly. Other payments to individuals include unemployed parent supplements and public assistance child support collections.

Other Items of Interest

Special Review of Systems Development

As a result of the Commonwealth Chief Information Officer suspending the ChildWINS project, in July 2007 VITA's Project Management Division (PMD) assessed the health and status of the ChildWINS project and recommended that Social Services bring the ChildWINS project under the Information Technology Investment Board's governance and oversight before proceeding with the project. Social Services employed an independent verification and validation review (IV&V) in the spring of 2008, which reached the same conclusions as PMD and Auditor Public Accounts, including the need for Social Services to reassess the decision to develop the ChildWINS project as a custom application. In April of 2008, Social Services cancelled the ChildWINS project.

In addition in October 2008, we reviewed the Social Services project management policies and procedures. The prior year audit found that although the Social Service project management process is rigorous and ensures evaluation by all necessary levels within the agency, specific areas required improvements. We found that Social Services has linked their policies and procedures to

the Commonwealth Project Management Standards and revised the policies and procedures to address the auditor's recommendations issued the previous year.

City of Norfolk - Follow-up

As a result of our *Special Report on the City of Norfolk's Department of Human Services* dated November 2007, Social Services worked with the City of Norfolk's Department of Human Services to resolve the issues raised in the report and by the Federal Government. The Federal Government has agreed with the resolution of those issues and required the City of Norfolk repay the federal government $653,009. In resolving the report issues, the City of Norfolk's Department of Human Services implemented a number of process changes, and made certain other administrative changes.

DEPARTMENT OF MENTAL HEALTH MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES (DMHMRSAS)

Services

DMHMRSAS provides a wide array of services to individuals in 16 state-operated facilities and in communities throughout the Commonwealth of Virginia. DMHMRSAS has a central office that provides oversight for the 16 facilities. The facilities provide most of their own administrative functions and provide all direct services to the Department's consumers. In addition, DMHMRSAS indirectly provides services through its funding and monitoring of 40 local Community Service Boards (Boards).

Central Office

The central office has direct responsibility for the programmatic, financial, and administrative operations of the state facilities. It also has responsibility for monitoring and overseeing the programmatic and financial activities of the Boards. In fiscal year 2008, the expenses of the central office were about $114.4 million (about 27.5 percent of DMHMRSAS's total expenses). This is an increase of 42.9 percent over the prior year, which is due primarily to an increase in capital outlay projects that are a result of the System Transformation Initiative discussed later in this report.

The central office provides overall management and direction to the facilities. This includes developing an overall budget, financial management policies, and Medicare and Medicaid cost reports and reimbursement rates. They also provide internal audits, perform architectural and engineering services, administer capital outlay projects, and manage the information systems and budgets. Further, the central office provides technical assistance on human resource issues and billing services to the facilities, and licenses all providers of mental health, mental retardation, and substance abuse services throughout the state. The Office of Inspector General, housed within the central office, independently investigates and monitors human rights issues at the facilities and Boards.

Hospitals and Training Centers

Services

Sixteen facilities provide inpatient consumer care to over 2,900 individuals. Ten mental health facilities, referred to as "hospitals," provide acute care and chronic psychiatric services to children, adults, and the elderly. There are also five mental retardation 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.

Financial Information

Tables 10 and 11 summarize each hospital's and training centers, respectively, revenues, expenses, and populations for fiscal year 2008.

COMPARISON OF FACILITY OPERATIONS
Fiscal Year 2008
Hospital Facilities

	Central State Hospital	Eastern State Hospital	Southwestern Virginia Mental Health Institute	Western State Hospital
Average resident census	246	401	161	231
Total resident days	89,780	146,351	58,904	84,370
Revenue:				
Adjusted general fund appropriations	$ 53,407,855	$ 71,437,197	$ 36,560,864	$ 52,332,134
Collections (third party reimbursements)	410,884	21,572,199	10,504,794	4,638,023
Collections for general fund of the Commonwealth	16,682	8,814	-	1,438
Other revenues	1,127	48,164	175	2,715
Total revenue	53,836,548	93,066,374	47,065,833	56,974,310
Expenses:				
Personal services	43,841,987	58,129,743	29,079,274	43,115,905
Supplies and materials	789,173	7,195,917	4,092,212	4,402,870
Contractual services	6,598,914	3,618,827	2,172,906	2,670,747
Continuous charges	1,331,894	2,172,893	963,231	1,847,273
Equipment	265,269	230,838	203,335	274,125
Transfer payments	60,509	84,741	35,553	15,342
Plant and improvements	98,875	-	-	-
Property and improvements	29,990	-	15	2,871
Total expenses	53,016,611	71,432,959	36,546,525	52,329,134
Excess (deficiency) of revenues over expenses	$ 819,937	$ 21,633,415	$ 10,519,308	$ 4,645,176
Expenses per resident	$ 215,539	$ 178,154	$ 226,461	$ 226,385
Expenses per resident day	$ 591	$ 488	$ 620	$ 620
Revenues per resident	$ 218,872	$ 232,108	$ 291,645	$ 246,481
Revenues per resident day	$ 600	$ 636	$ 799	$ 675

Source(s):
A. CAFR1419D1 for appropriations
B. CARS Revenue Summary download by Fiscal Year, Agency, Funds, Source 06 (Collections (third party), Sources 07 and 09 (Other Revenues), General Fund (Collections for General Fund of the Commonwealth)
C. CARS Expenditure Summary download by Fiscal Year, Agency, Major Object Code
D. PBC Resident Census data by Agency

Commonwealth Center for Children And Adolescents	Catawba Hospital	Northern Virginia Mental Health Institute	Piedmont Geriatric Hospital	Southern Virginia Mental Health Institute	Hiram Davis Medical Center	Total for Mental Health Facilities
33	103	120	119	67	50	1,532
12,111	37,540	43,721	43,480	24,569	18,312	559,138
						-
						-
$ 9,893,786	$ 21,353,263	$ 27,912,961	$ 21,914,501	$ 13,589,873	$ 30,049,497	$ 338,451,931
1,760,052	11,287,668	3,650,911	19,970,081	1,667,803	11,754,988	87,217,403
348	53,403	217	-	1,556	2,541	84,999
-	23,839	2,366	320	1,787	466	80,960
11,654,186	32,718,173	31,566,455	41,884,902	15,261,019	41,807,492	425,835,293
						-
						-
8,294,648	16,173,591	21,482,953	17,877,554	10,026,970	10,262,690	258,285,316
497,907	2,300,588	2,861,772	2,179,327	1,172,795	17,914,022	43,406,584
386,073	1,810,085	2,751,038	823,280	1,697,710	1,119,223	23,648,804
587,276	786,983	548,470	645,835	448,623	202,176	9,534,654
51,312	238,653	116,859	363,792	46,480	545,226	2,335,888
5,332	23,296	35,341	15,503	6,243	5,711	287,571
	17,310		2,575	23,671	-	142,430
13,645	2,757	-	6,635	-	450	56,363
9,836,194	21,353,263	27,796,433	21,914,501	13,422,493	30,049,497	337,697,609
$ 1,817,992	$ 11,364,910	$ 3,770,022	$ 19,970,401	$ 1,838,526	$ 11,757,995	$ 88,137,683
$ 296,442	$ 207,617	$ 232,055	$ 183,965	$ 199,406	$ 598,955	$ 220,446
$ 812	$ 569	$ 636	$ 504	$ 546	$ 1,641	$ 604
$ 351,233	$ 318,118	$ 263,529	$ 351,610	$ 226,720	$ 833,319	$ 277,981
$ 962	$ 872	$ 722	$ 963	$ 621	$ 2,283	$ 762

COMPARISON OF FACILITY OPERATIONS
Fiscal Year 2008
Training Centers

	Central Virginia Training Center	Southeastern Virginia Training Center
Average resident census	475	179
Total resident days	173,246	65,462
Revenue:		
Adjusted general fund appropriation	$ 85,886,374	$ 26,004,360
Collections (third party reimbursements)	82,168,519	24,562,607
Collections for general fund of the Commonwealth	1,346	-
Other revenues	7,953	2,988
Total revenue	168,064,192	50,569,955
Expenses:		
Personal services	71,351,619	21,572,695
Supplies and materials	8,204,510	2,445,389
Contractual services	3,031,138	1,229,070
Continuous charges	3,183,110	489,162
Equipment	92,701	206,585
Transfer payments	-	28,347
Property and improvements	-	3,200
Plant and improvements	-	-
Total expenses	85,863,078	25,974,449
Excess (deficiency) of revenue over expenses	$ 82,201,115	$ 24,595,507
Expenses per resident	$ 180,899	$ 144,827
Expenses per resident day	$ 496	$ 773
Revenues per resident	$ 354,083	$ 281,966
Revenues per resident day	$ 970	$ 773

Source(s):
A. CAFR1419D1 for appropriations
B. CARS Revenue Summary download by Fiscal Year, Agency, Funds, Source 06 (Collections (third party), Sources 07 and 09 (Other Revenues), General Fund (Collections for General Fund of the Commonwealth)
C. CARS Expenditure Summary download by Fiscal Year, Agency, Major Object Code
D. PBC Resident Census data by Agency

Northern Virginia Training Center	Southside Virginia Training Center	Southwestern Virginia Training Center	Total for Retardation Training Centers
171	302	203	1,331
62,539	110,265	74,200	485,712
$ 36,277,723	$ 74,109,929	$ 24,701,990	$ 246,980,376
35,125,905	55,996,785	25,892,393	223,746,209
-	-	-	1,346
883	534,443	22,034	568,301
71,404,510	130,641,157	50,616,417	471,296,232
30,020,328	57,623,170	20,611,168	201,178,980
2,109,223	6,673,057	1,412,543	20,844,722
3,240,221	6,041,313	770,281	14,312,022
716,386	3,239,195	1,374,067	9,001,919
274,047	384,563	462,440	1,420,336
(90,982)	66,069	71,491	74,925
-	20,365	-	23,565
-	-	-	-
36,269,222	74,047,731	24,701,990	246,856,470
$ 35,135,288	$ 56,593,426	$ 25,914,427	$ 224,439,762
$ 211,680	$ 245,113	$ 121,512	$ 185,506
$ 580	$ 672	$ 333	$ 508
$ 416,742	$ 432,449	$ 248,989	$ 354,167
$ 1,142	$ 1,185	$ 682	$ 970

The schedules show that per diem expenses range from $333 to $1,641 per patient day with an average per diem of $508 for training facilities and $604 for hospitals. Hiram Davis Medical Center accounts for the highest per diem per patient day of cost due to the severe nature of its patients' physical and psychiatric conditions.

Overall, personal services are the facilities' largest expense, which is consistent with prior years. In fiscal year 2008, the training facilities and hospitals spent over $459 million, or 78.6 percent, of their total expenses on personal services.

The facilities' largest source of revenue is collections from third-party payers, primarily Medicaid. In fiscal year 2008, these third-party payers accounted for about 35 percent of the facilities' total available resources, or roughly $311 million.

The Appropriation Act shows collected Medicaid and Medicare fees as special revenue, with amounts appropriated by facility. However, the Central Office can request transfers of special revenues among the individual facilities to cover other facilities whose expenses exceed revenues. Since each facility receives both General and Special Revenue funding, and the mental health facilities do not usually generate sufficient revenues to cover expenses, the central office closely monitors the income and expenses of each facility.

When it is apparent that the mental retardation facilities will generate sufficient revenues to cover their expenses, the central office transfers the excess collections to cover the shortfall in other mental health facilities. This practice allows DMHMRSAS to operate all of its facilities within its overall appropriation.

This budgetary method may have long-term critical consequences, as the federal government enacts changes to their Medicaid reimbursement policies. Additionally, this practice also tends to show a more even distribution of General Fund appropriations among all facilities, when in reality, the transfer of special fund revenue indicates that some mental retardation units could operate more independently, and other mental health facilities would need additional General Fund appropriations.

Table 12 below provides a detailed analysis of transfer payments in fiscal year 2008 for each facility, with summary figures for comparison purposes for fiscal years 2005, 2006, and 2007.

Analysis of Transfer Payments

Facility	Original Budget	Adjusted Budget	Revenues Collected	Transfers In/Out	Expenses
Eastern State Hospital	$23,647,930	$ 35,113,804	$21,610,922	$15,000,000	$35,113,770
Piedmont Geriatric Hospital	17,037,117	18,170,958	19,970,081	1,200,000	18,170,958
Hiram W. Davis Medical Center	11,543,330	13,243,330	11,755,454	2,500,000	13,243,330
Catawba State Hospital	9,667,466	10,167,466	11,309,476	-	10,167,466
Southwestern Va. Mental Health Institute	8,407,031	10,202,031	10,589,758	-	10,202,030
Western State Hospital	3,385,271	5,385,271	4,638,023	-	5,385,271
Northern Virginia Mental Health Institute	1,258,863	2,713,863	3,650,911	(1,760,475)	2,602,552
Comm. Ctr. for Children & Adolescents	1,651,712	2,151,712	1,760,052	500,000	2,151,712
Southern Virginia Mental Health Institute	1,487,189	3,112,189	1,667,803	600,000	2,945,665
Central State Hospital	560,690	1,060,690	412,011	250,000	1,060,690
FY 2008 Total	$78,646,599	$101,321,314	$87,364,491	$18,289,525	$101,043,444
FY 2007 Total	$79,646,599	$92,546,990	$82,352,397	$15,700,000	$91,090,231
FY 2006 Total	$77,990,481	$89,613,782	$81,533,369	$ 5,548,236	$88,338,319
FY 2005 Total	$77,990,481	$81,224,844	$75,279,549	$12,056,972	$81,343,914
Southwestern Virginia Training Center	$ 17,787,411	$ 20,132,903	$ 25,914,406	$ (8,268,000)	$ 20,132,903
Central Virginia Training Center	56,503,585	72,665,154	82,172,455	(4,000,000)	72,661,631
Southside Virginia Training Center	54,580,891	62,276,660	56,523,527	2,422,854	62,276,463
Northern Virginia Training Center	26,498,504	29,963,534	35,125,905	(4,000,000)	29,963,534
Southeastern Virginia Training Center	17,167,138	20,619,282	24,562,607	(4,000,000)	20,616,875
FY 2008 Total	$172,537,529	$205,657,533	$224,298,900	$(17,845,146)	$205,651,406
FY 2007 Total	$201,523,697	$187,215,342	$215,906,878	$(18,727,146)	$186,847,199
FY 2006 Total	$175,983,994	$191,752,059	$209,928,235	$ (8,309,123)	$191,714,681
FY 2005 Total	$175,983,994	$179,462,936	$195,228,788	$(14,413,430)	$179,438,723

Source: CARS

Virginia Center for Behavioral Rehabilitation

Services

The Virginia Center for Behavioral Rehabilitation (Center) 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 Center opened in October 2003 in response to an immediate need to accommodate individuals who would be civilly committed as sexually violent predators following their criminal sentences. The state needed a facility to provide individualized rehabilitation services in a secure environment. The immediacy of the need resulted in DMHMRSAS retrofitting an existing building on their Petersburg complex to accommodate an operating capacity of 36 individuals. The average daily census was 28 in fiscal 2006 and 35 in fiscal 2007.

The Center's occupancy requirements increased dramatically based upon an imposed change in the screening criteria for facility placement. DMHMRSAS oversaw the construction of a $62

million, 300-bed facility in Nottoway County. DMHMRSAS constructed the facility in two phases; the completion of the first phase in February 2008 opened 100 beds and the second phase of construction, completed in September 2008, opened another 200 beds. As of June 30, 2008, there were 112 residents housed in the facility, increasing the average daily census to 60, a 58 percent increase over the 2007 census from the Petersburg complex.

Financial Information

Table 13 below shows the per diem costs of both the old and current facilities. The per diem costs remained stable due to a small patient population for the new facility and the large number of employees needed to both operate the center and achieve appropriate security levels and program effectiveness. DMHMRSAS expects the per diem costs per resident to decrease as the population of the new facility increases.

Comparison of Behavioral Rehabilitation Facility Operations

Virginia Center for Behavioral Rehabilitation	2007	2008
Average resident census	38	60
Total resident days	13,870	22,009
Revenue:		
Adjusted general fund appropriations*	$6,652,546	$10,687,680
Fund 100-general fund, other revenue	331	-
Total revenue	6,652,877	10,687,680
Expenses:		
Personal services	4,740,643	7,768,664
Contractual services	650,016	917,401
Supplies and materials	535,972	916,367
Equipment	267,562	362,061
Continuous charges	116,995	158,669
Plants and improvements	-	8,655
Transfer payments	10,034	3,311
Property and improvements	6,323	2,550
Total expenses	6,327,545	10,137,678
Excess (deficiency) of revenues over expenses	$ 325,332	$ 550,002
Expenses per resident	$ 166,514	$ 168,125
Expenses per resident day	$ 456	$ 461
Revenues per resident	$ 175,076	$ 177,246
Revenues per resident per day	$ 480	$ 486

Source: 2008 CARS Expenditure and Revenue Summaries for VCBR

Community Service Boards

Services

Community Service Boards (Boards) are the single point of entry into the Commonwealth's Mental Health, Mental Retardation, and Substance Abuse Services system, which includes providing access to state mental health and mental retardation facilities, as well as community programs. Individuals who seek services from a Board receive an intake evaluation to determine the type and duration of services needed. The Boards provide pre-admission screening and discharge planning services for consumers entering or leaving state facilities.

In addition, the Boards function as providers of services (directly or contractually), advisors to their local government, client advocates, community educators, and planners on issues related to mental health, mental retardation, and substance abuse. In contrast to hospitalization, the Boards provide services by drawing on community resources and support systems, such as the family and friends of patients.

Financial Information

During fiscal year 2008, DMHMRSAS transferred $291 million (about 31.3 percent of its total budget) to the Boards. Additionally, the Boards access state-funding through medications provided for eligible consumers from the Community Resource Pharmacy located within the Hiram Davis Medical Center in Petersburg. The Boards provide medications for individuals who have been discharged or diverted from state facilities and have Medicaid or cannot pay for medications to treat or prevent a recurrence of their condition. Each year, DMHMRSAS provides the Boards with a capped amount of state-funded medication. DMHMRSAS bases these amounts on the historical costs of covering prescription drugs for those individuals who are unable to pay. The Boards direct individuals eligible for Medicare Part D benefits to outside pharmacies.

Other Items of Interest

System Transformation Initiative

The Central Office has been working with both the facilities and the Boards as part of the state's System Transformation Initiative (Initiative). The Initiative includes funds to rebuild Eastern State Hospital, which completed Phase I and began Phase II in fiscal year 2008, and funds for the replacement of Western State Hospital. Further, it includes funds to renovate existing buildings and build new residential facilities for the Central Virginia Training Center community. Southeastern Virginia Training Center has funds available, though whether to renovate and/or build new residential facilities in their community has yet to be determined.

Table 14 reflects the construction projects related to the Initiative.

Construction Projects

Facility	Location	Maximum Bed Capacity	Fiscal Year 2008 Average Daily Census	Planned Bed Capacity	Funding Source	Funding Approved (Millions)	Amount Spent as of 6/30/08
Eastern State Hospital	Williamsburg						
Phase I - Hancock Geriatric Treatment Center		150	155	150	Bond/General Funds	$23 - Bond / $5 - General Funds	$27,610,081
Phase II - Adult Mental Health Center		150	230	150	General Funds	$59.7	$5,080,722
Western State Hospital	Staunton	263	229	246	General Funds	$110M in addition to $2.15M in planning costs	$1,378,663
Central Virginia Training Center	Lynchburg	718	454	300	General Funds	$43M in addition to $700,000 in planning costs	$591,540
Southeastern Virginia Training Center	Chesapeake	200	173	100	General Funds	$23M in addition to $600,000 in planning costs	$517,622

Source: DMHMRSAS

Initiatives in the public Mental Health, Mental Retardation, and Substance Abuse Services industry stress the benefits of community-based care for this population of citizens. As these initiatives reduce state facility capacity and increase demand on community services, DMHMRSAS' ongoing and collaborative efforts with Boards and other stakeholders is vital to the success of the transformation.

DEPARTMENT OF HEALTH (HEALTH)

Services

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

The State Board of Health, appointed by the Governor, provides planning and policy development to enable Health to implement coordinated, prevention-oriented programs that promote

and protect the health of the Commonwealth's citizens. In addition, the Board serves as the advocate and representative of citizens in health issues.

Health operates through a central office and 35 health districts that operate 119 local health departments. Local health departments work with Health through agreements between the state and participating local governments. These agreements define the health services funded by the localities in the health districts. Programs offered include communicable disease control, and prevention and health education. In addition to patient visits, local health departments are responsible for inspecting restaurants and drinking water, and issuing permits for sewage systems, wells, and waterworks operations. Furthermore, most local health departments provide a variety of non-mandated healthcare services for persons who cannot otherwise afford them.

Financial Information

Health expended $521.8 million throughout thirteen programs in fiscal year 2008. Table 15 summarizes Health's original and adjusted budgets to actual expenses for the fiscal year. Six of the thirteen programs account for 88 percent of Health's total expenses.

Analysis of Budgeted to Actual Expenses by Program

Program	Original Budget	Adjusted Budget	Actual Expenses
Community Health Services	$221,446,267	$233,234,685	$226,408,175
State Health Services	99,128,581	109,197,499	94,115,520
Communicable and Chronic Disease Prevention and Control	48,260,441	48,837,133	48,744,287
Emergency Medical Services	30,109,800	40,623,164	38,441,519
Emergency Preparedness	33,882,053	33,882,053	27,299,677
Drinking Water Improvement	36,497,690	36,850,713	22,995,652
Administrative and Support Services	14,775,758	16,745,196	14,802,264
Financial Assistance to Community Human Service Organizations	15,055,686	13,303,184	13,024,559
Health Research/Planning/Coordination	12,225,115	12,813,549	12,598,793
Medical Examiner and Anatomical Services	7,521,771	8,485,358	8,364,683
Environmental Health Hazards Control	7,101,907	8,268,992	7,388,723
Vital Records and Health Statistics	7,414,168	7,425,553	5,876,360
Higher Education Student Financial Assistance	2,008,196	2,052,497	1,779,854
Total	$535,427,433	$571,719,576	$521,840,066

Source: Original Budget - Appropriation Act, Chapter 847; Adjusted Budget and Actual Expenses - CARS

The $36.3 million increase in the original budget occurred for several reasons. About $13.2 million of the increase stems from an increase in expected federal revenue from the U.S. Department of Agriculture for the Special Supplemental Food Program for Women, Infants, and Children (WIC). Health also received an additional $10.3 million to support additional expenses in the Emergency

Medical Services Program. In addition, Health received a $6.6 million general fund transfer to support the Water Supply Assistance grant. These three increases account for 83 percent of the overall increase to the original budget.

There is nearly $50 million difference (8.7 percent) between Health's final budget and actual expenses in fiscal 2008. However, the difference is normal for Health in recent years. In fiscal years 2006 and 2007, Health's actual expenses were 7.2 and 7.0 percent, respectively, less than its final budget. The slight increase in the variation between the final budget and actual expenses resulted from decreased expenses in the Drinking Water Improvement program. Program expenses decreased because of construction delays attributed to poor weather conditions.

Revenues

Health receives funding primarily from three sources; federal grant awards, the general fund, and through the collection of special revenue. Health collected about $217 million in federal revenue, received $165.7 in general fund appropriations, and generated special revenue of about $155.9 million in fiscal year 2008.

Analysis of Material Special Revenue Sources

Revenue Type	Amount	Percent
Reimbursement for Health Services	$ 63,496,583	40.8%
DMV Transfers	36,010,797	23.2%
Health Services	21,452,113	13.8%
Vital Statistics Fees	10,399,868	6.8%
Other	10,031,061	6.4%
Non-medical Permits, Licenses, Fees, etc.	9,528,823	6.1%
Private Donations, Gifts, and Grants	4,555,593	2.9%
Total	$155,866,248	100.0%

Source: CARS 2008 Detailed Revenue Summaries

Of the $155.9 million the Department generates in special revenue (see Table 16), four revenue streams account for 84 percent ($134.4 million); locality reimbursement for health services, Department of Motor Vehicle transfers, patient collections for health services, and Vital Statistics fees.

About $63.5 million represents the localities' share of funding towards operating costs of local health departments. The Department of Motor Vehicles collected a "4 for Life" vehicle registration fee and transferred the collections to Health, which accounted for $36 million. Health uses the "4 for Life" funding to support, train, and provide grants to local rescue squads. Approximately $21.5 million comes from patient collections for services at the local health departments. About $10.4 million represents monies that Health collected for vital statistics (birth and death certificates). Fees charged for non-medical services such septic systems, wells, restaurants, bedding, and campgrounds accounted for $9.5 million. The Department also received

about $4.6 million in private grants. The grants are typically from non-profit entities that rely on Health's infrastructure to perform special studies. Finally, all other revenue, including refunds, fines, penalties, sales revenue, etc. amounted to $10.4 million.

Expenses

Health's expenses consist primarily of payroll and related fringe benefit costs ($236.3 million), the non-payroll costs of administering its federal programs ($145.6 million), and monies used for emergency medical services at the local level ($30.4 million). These three expense categories constitute 79 percent of Health's total expenses.

COMPREHENSIVE SERVICES FOR AT-RISK YOUTHS AND FAMILIES

Services

The Office of Comprehensive Services (Office) administers the Comprehensive Services Act for At-Risk Youth and Families (CSA), which provides services and funding to address the needs of emotionally and behaviorally disturbed youth and their families. CSA 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) governs the Office and 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 two employees in the central office to process CSA disbursements. The Office has 11 employees that are employees of the Department of Social Services.

Program delivery under CSA occurs through management of the cases at the local level and includes funding sources other than those disbursed through the Office. CSA uses three teams to manage collective efforts among state and local agencies.

State and Local Advisory Team

The State and Local Advisory Team makes recommendations to the Council on interagency programs and fiscal policies and advises the Council on the impacts of proposed policies, regulations, and guidelines. They also offer training and technical assistance to state agencies and localities.

Community Policy and Management Team

The Community Policy and Management Team (CPMT) serves as the community's liaison to the Office. The CPMTs coordinate long-range, community-wide planning, which ensures the development of resources and services needed by children and families in its community. It is their duty to establish policies governing referrals and reviews of children and families to the Family Assessment and Planning Teams. Each CPMT establishes and appoints one or more Family

Assessment and Planning teams based on the needs of the community. CPMTs also authorize and monitor the disbursement of funds by each Family Assessment and Planning Team.

Family Assessment and Planning Team

The Family Assessment and Planning Team (FAPT) assesses the strengths and needs of troubled youth and families and develops an individual family service plan, which provides appropriate services. The FAPT recommends expenditures to the CMPTs.

Financial Information

The Office received funding from the Commonwealth's General Fund and federal grants. In fiscal year 2008, funding increased more than ten percent from fiscal year 2007 due to increased cost of serving children mandated for care under CSA. During the year, the Office served an estimated 18,181 children. Table 17 summarizes their 2008 budget and actual activities along with their proposed budget for 2009.

Analysis of Budgeted to Actual Expenses by Funding Source

Funding Source	Original Budget	Adjusted Budget	Actual Expenses	Proposed Budget for 2009
General	$239,329,274	$238,930,739	$238,458,026	$301,917,687
Federal	52,607,746	9,939,216	9,716,804	53,573,325
Total	$291,937,020	$248,869,955	$248,174,830	$355,491,012

The CSA original budget includes all the General and Federal Funds moneys for the program for a year. However, Medical Assistance Services actually makes the payments for the Medicaid portion of CSA costs and therefore there is transfer of General and Federal Funds from the CSA budget to Medical Assistance Services. These transfers amounted to $54.2 million in general funds and $43.2 million in federal funds for the year. The adjusted budget reflects an additional appropriation of $54.3 million in General Funds to fully fund growth in the CSA program during the year.

The Office separates state and federal expenses into two funds: state pool and administrative. The Office allocates the funds based on Appropriation Act requirements. The Office classifies the majority of its funds as pool funds. The Office uses state and federal funds to reimburse localities for costs of providing private residential or day special education, foster care, and foster care prevention services for eligible children and their families.

Administrative funds offset the additional cost localities incur for implementing the CSA and represent about $1.5 million, or less than one percent, of total expenses for the year. The localities may use these funds for administrative and coordinating expenses or direct services to eligible youth and families.

DEPARTMENT OF REHABILITATIVE SERVICES (REHABILITATIVE SERVICES)

Services

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

Financial Information

Table 18 summarizes Rehabilitative Services' original and adjusted budget and actual expenses for state fiscal year 2008.

Analysis of Budgeted to Actual Expenses by Program

Program	Original Budget	Final Budget	Actual Expenses
Rehabilitation Assistance Services	$ 91,615,900	$ 94,273,406	$ 91,944,759
Continuing Income Assistance Services	35,996,635	40,006,250	38,616,366
Administrative and Support Services	8,807,423	12,743,953	11,155,772
Total	$136,419,958	$147,023,609	$141,716,897

Source: CARS

Administrative and Support Services program final budget increase was a result of an increase in salary and benefits for the statewide cost of living increase. In addition, Rehabilitative Services incurred additional expenses to support information systems. The new integrated case management system (AWARE) and new financial management system (FMS) was implemented during fiscal year 2008.

Table 19 illustrates Rehabilitative Services' total expenses for fiscal year 2008.

Expenses by Type

	Expenses	% of Total
Transfer Payments	$ 58,045,122	41.0%
Personal Services	55,141,157	38.9%
Contractual Services	19,596,071	13.8%
Continuous Charges	5,115,710	3.6%
Equipment	1,954,128	1.4%
Supplies and Materials	1,529,655	1.1%
Plant and Improvements	335,055	0.2%
Total	$141,716,898	100.0%

Source: Fiscal Year 2008 CARS Expenditure Detail Summary Report (Agency 262)

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

Woodrow Wilson Rehabilitative Center (Center)

Services

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

Financial Information

Rehabilitative Services transferred $15 million to the Center during fiscal year 2008 for programs such as the Postsecondary Education Rehabilitation Program and the Life Skills Transition Program. The transfers from Rehabilitative Services account for approximately 88 percent of the Center's total revenue of $17 million, which includes third party medical reimbursements from insurers, such as Medicare, Medicaid, and private insurance carriers, and private funds and student financial aid assistance. In addition to these revenues, the Center received General funds of $13 million.

Table 20 summarizes the Center's expenses in fiscal year 2008.

Expenses by Type

	Expenses	% of Total
Personal Services	$19,197,409	60.7%
Contractual Services	9,762,334	30.9%
Supplies and Materials	1,249,710	4.0%
Continuous Charges	1,178,371	3.7%
Equipment	194,315	0.6%
Transfer Payments	26,921	0.1%
Property and Improvements	26,489	< 0.1%
Total	$31,635,549	100.0%

Source: CARS

Personal services account for 61 percent of the Center's expenses. As of the beginning of fiscal year 2008, there were approximately 400 classified, wage, and contract employees. Payments for contractual services on behalf of the clients and the Center make up a little over 30 percent of expenses.

DEPARTMENT FOR THE AGING (AGING)

Services

Aging fosters the independence and well-being of older Virginians and supports their caregivers through leadership, advocacy and oversight of state and community programs, and guides the Commonwealth in preparing for an aging population. Aging is the federally recognized state unit for the Older Americans Act (Act). The Act contains objectives that address the inherent dignity of older people, and the duty and responsibility of governments of the United States to assist older Americans. The objectives cover the areas of adequate income, availability of mental and physical services, suitable housing, long-term care needs, employment opportunities, transportation, and protection against abuse, neglect, and exploitation.

Aging, in its role as state administrator of the Act, is responsible for the implementation of a plan and delivery of services that accomplishes the objectives of the Act. Aging accomplishes its mission through the receipt of federal funds and General Fund appropriations. Additionally, Aging receives special revenue funds through state tax refund contributions and miscellaneous grants.

Area Agencies on Aging

Aging contracts with 25 Area Agencies on Aging (Area Agencies) to provide services to older Virginians. 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.

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

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

Population 60+	30%
Population 60+ in Rural Jurisdictions	10%
Population 60+ in Poverty	50%
Population 60+ Minority in Poverty	10%
Total Allocation	100%

The Bureau of the Census completed its special tabulation of the 2000 census in fiscal 2005. Aging began using the 2000 census statistics to allocate funds beginning federal fiscal year 2007. The new tabulation revealed a significant shift in the population demographics of older Virginians since the previous census. To "hold harmless" those Area Agencies that would have experienced funding shortfalls as a result of the census information the 2006 budget added $1.2 million into Aging's base budget which Aging provides to the affected Area Agencies. The "hold harmless" provision remains a short-term solution. If the population demographic of older Virginians continues to shift in the future, the Area Agencies will face the same issue once the special tabulation of the 2010 census is complete.

Financial Information

Table 21 reflects Aging's fiscal year 2008 revenues.

Revenue by Funding Source

Fund Source	FY 2008	Percent
Federal	$30,979,810	62.3%
General	18,574,675	37.4%
Special	131,525	0.3%
Total	$49,686,010	100.0%

Source: CARS 402

Table 22 below shows that Aging's final budget was within 2 percent of its original budget.

Analysis of Budgeted to Actual Expenses by Program

Program	Original	Final	Actual Expenses
Individual Care Services	$30,806,751	$31,095,596	$29,898,099
Nutritional Services	17,212,165	17,982,697	17,912,609
Administrative and Support Services	2,923,350	2,821,160	2,578,124
Total	$50,942,266	$51,899,453	$50,388,832

Source: State Budget Bills, FATS System, CARS

As depicted in Table 23, approximately 94 percent of Aging's total expenses are grants to Area Agencies and other contractors and service providers. For fiscal year 2008 Aging had the following operating expenses.

Expenses by Type

Type of Expenses	2008	Percent
Transfer Payments	$47,357,913	94%
Personal Services	1,946,057	4%
Contractual Services	799,101	2%
Continuous Charges	229,291	<1%
Supplies and Materials	35,723	<1%
Equipment	20,747	<1%
Total	$50,388,832	100%

Source: CARS

DEPARTMENT FOR THE BLIND AND VISION IMPAIRED (BLIND AND VISION IMPAIRED)

Services

Blind and Vision Impaired enables blind, deaf-blind, and visually impaired individuals to achieve their maximum level of employment, education, and personal independence. Blind and Vision Impaired provides vocational training and placement services, daily living skills instruction, orientation and mobility services, counseling, Braille, and training in the use of various types of adaptive equipment. Blind and Vision Impaired works cooperatively with the Department of Education and the public school systems to assist in the education of blind, deaf-blind, or visually impaired students. Blind and Vision Impaired provides these services and devices through a variety of entities such as Vocational Rehabilitation, Rehabilitation Teaching and Independent Living, Educational Services, Virginia Industries for the Blind, the Library and Resource Center, Randolph Sheppard Vending Program, and Virginia Rehabilitation Center for the Blind and Vision Impaired.

Financial Information

Table 24 summarizes Blind and Vision Impaired's total expenses for fiscal year 2008. As indicated in the table below, Blind and Vision Impaired's spends over 41 percent of its expenses on supplies and materials, mostly for merchandise and manufacturing supplies used in the enterprise division, Virginia Industries for the Blind.

Expenses by Type

	Expenses	%
Supplies and Materials	$16,600,619	41.87%
Personal Services	13,107,199	33.06%
Contractual Services	3,608,276	9.10%
Transfer Payments	3,083,959	7.78%
Equipment	1,835,069	4.63%
Continuous Charges	1,121,384	2.83%
Plant and Improvements	290,161	0.73%
Total	$39,646,667	100.00%

Source: FY08 CARS Expenditure Detail Summary (Agency 702)

Virginia Rehabilitation Center For The Blind And Vision Impaired (Blind And Vision Impaired Center)

Services

The Blind and Vision Impaired Center is a sub-agency of Blind and Vision Impaired that provides comprehensive adjustment services to severely visually impaired Virginians. The Blind and Vision Impaired Center provides a program of evaluation, adjustment, and prevocational

training, which enables students to learn skills necessary for greater independence and efficiency and safety on the job, at home, and in social settings.

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

Financial Information

During fiscal year 2008, Blind and Vision Impaired Center incurred $3.5 million in expenses for plant and improvements. Blind and Vision Impaired recently completed a dorm renovation project. The average length of stay at the Blind and Vision Impaired Center is three to four months.

Table 25 summarizes the Blind and Vision Impaired Center's expenses for fiscal year 2008.

Expenses by Type

	Expenses	%
Plant and Improvements	$3,551,241	57.5%
Personal Services	1,551,675	25.1%
Contractual Services	864,605	14.0%
Supplies and Materials	101,831	1.7%
Continuous Charges	99,263	1.7%
Transfer Payments	3,059	0.0%
Equipment	2,893	0.0%
Total	$6,174,566	100.0%

Source: CARS

VIRGINIA INDUSTRIES FOR THE BLIND (INDUSTRIES)

Services

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

Industries is a self-supporting division of that manufactures and sells items to military bases and government offices. Currently, Industries operates nine office supply stores on military bases and federal administration locations. Industries has manufacturing locations in Charlottesville and Richmond. Products manufactured by Industries include mattresses, writing instruments, mop heads

and handles, and physical fitness uniforms. Industries also operate a full service mail handling service.

DEPARTMENT OF HEALTH PROFESSIONS (HEALTH PROFESSIONS)

Services

Health Professions, the Board of Health Professions (Board), and Virginia's 13 health regulatory boards have responsibility for ensuring the safe and competent delivery of healthcare services through the regulation of the health professions. The Board recommends policy, reviews the Health Profession's budget matters and monitors its activities, adopts standards to evaluate the competency of the professions and occupations, and certifies compliance with those standards. The Board has one member from each of the 13 health regulatory boards and five citizen members. The Governor appoints all members, who may serve two, four-year terms.

Health Professions provides administrative services, coordination, and staff support to the following regulatory boards.

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

Each of the health regulatory boards determines which applicants meet the necessary requirements for licensure, certification, and registration. Licensure or certification typically requires the completion of a board-approved professional education program and the passage of approved examination in the professional field.

Financial Information

Health Profession uses a dedicated special revenue fund to account for the daily operations of the agency. The largest source of revenue comes from licensing application and renewal fees. Table 26 summarizes the Health Profession's budgeted expenses compared with actual results for fiscal year 2008.

Analysis of Budgeted and Actual Expenses by Program and Funding Source

Program	Original Budget	Final Budget	Actual Expenses	Special Revenue	Federal
Higher Education Student Financial Assistance	$ 65,000	$ 65,000	$ 57,670	$ 57,670	$ -
Regulation of Professions and Occupations	23,347,064	26,536,794	25,715,740	25,296,232	419,508
Total	$23,412,064	$26,601,794	$25,773,410	$25,353,902	$419,508

DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING (DEAF AND HARD-OF-HEARING)

Services

Deaf and Hard-of-Hearing works to reduce communication barriers between individuals who are deaf or hard-of-hearing, their families, and the professionals who serve them. All of Deaf and Hard of Hearing's programs deal with communication, both as a service (through interpreters, technology, and other modes) and as a means of sharing information for public awareness (through training and education). Deaf and Hard of Hearing provide 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 receive special revenue funds from the State Corporation Commission from earmarked tax collections.

Financial Information

In fiscal 2007, Deaf and Hard of Hearing and the Virginia Information Technologies Agency (VITA) jointly entered into contracts with both Sprint and the AT&T Cooperation to open, staff, and operate a telecommunications Relay Center in Norton, Virginia. The Relay Center provides telecommunication relay services for deaf and hearing-impaired citizens across the Commonwealth. Deaf and Hard of Hearing serves as the oversight agency for the operation of the telecommunications relay services in the state.

Table 27 summarizes Deaf of Hard of Hearing's expenses for fiscal year 2008. More than $10 million of Deaf and Hard of Hearing's $11 million total expenses are contractual service payments, of which $9.5 million goes to Sprint and AT&T.

Expenses by Type

	Expenses	%
Contractual Services	$10,198,616	90.4%
Personal Services	738,713	6.5%
Equipment	227,540	2.0%
Continuous Charges	109,420	1.0%
Supplies and Materials	6,624	0.1%
Plant and Improvements	4,945	0.0%
Total	$11,285,858	100.0%

Source: CARS

VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES (BOARD)

Services

The Board serves as the Developmental Disabilities Planning Council for addressing the needs of people with developmental disabilities as established under the federal *Developmental Disabilities Assistance and Bill of Rights Act* and the state *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 total expenses for fiscal year 2008 were $1.9 million.

Financial Information

The Board's primary source of funding is its federal grant funds from the Administration for Children and Families and state general funds. The agency also receives periodic donations to the Youth Leadership Forum. Expenses of the board consist mainly of personal services and transfer payments to run the boards programs including, but not limited to the Partners in Policy Making Program, Youth Leadership Forum, Disability Policy Fellowship, and Developmental Disabilities Competitive Grant Program.

Table 28 summarizes the Board's expenses for fiscal year 2008.

Expenses by Type

	Expenses	%
Personal Services	$949,838	49.4%
Transfer Payments	486,996	25.3%
Contractual Services	328,858	17.1%
Continuous Charges	132,024	6.9%
Equipment	13,279	0.7%
Supplies and Materials	11,616	0.6%
Total	$1,922,611	100.0%

Source: Fiscal Year 2008 CARS Expenditure Detail Summary (Agency 606)

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 10, 2008

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

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

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, for the year ended June 30, 2008. 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, 2008 and test compliance for the Statewide Single Audit. In support of this objective, for those agencies with significant cycles, as listed below, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, their accounting systems, and other financial information they reported to the Department of Accounts, reviewed the adequacy of their internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and if applicable reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Management at 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 materiality and control risk in determining the nature and extent of our audit procedures. By agency, our review encompassed controls over the following significant cycles, classes of transactions, account balances, and systems:

Department of Medical Assistance Services

- Medicaid revenues and expenses
- Accounts receivable
- Accounts payable
- Contract management
- Performance measures
- Operating leases
- General system controls
- System penetration
- Oracle financial system

Department of Social Services

- Federal revenues and expenses
- Payroll expenses
- Monitoring of Local Social Services
- Capital leases
- Performance measures
- Budgeting and cost allocation
- Network security and system access
- Systems development
- Oracle financial system

Department of Mental Health, Mental Retardation, and Substance Abuse Services

- Federal revenues and expenses
- Accounts receivable
- Payroll expenses
- Institutional revenues
- Monitoring of Community Service Boards
- Network security
- Financial Management system
- Capital contruction and reporting

Department of Health

- Payroll expenses
- Support for local rescue squads
- Aid to local government
- Collection of fees for services
- Performance measures
- Payments from localities
- Pharmacy controls
- Network security
- Financial and Accounting system
- Federal revenues and expenses

Comprehensive Services for At Risk Youth and Families

- Administrative controls at the Department of Edcuation

Department of Rehabilitative Services

- Payroll expenses
- Revenues and expenses for the Vocational Rehabilitation Grant
- Network security and system access
- Multi-agency Accounting System
- Capital leases

Department of Aging

Federal revenues and expenses	Monitoring of Area Agencies on Aging
Payroll expenses	Commonwealth Accounting and Reporting System

Our Office, for the significant cycles listed below, has or is planning to issue statewide reports that cover the topics from the perspective of the entire Commonwealth. To view these reports or request electronic copies as they come available go to: www.apa.virginia.gov.

Accounts receivable	Performance measures
Pharmacy controls	Network security

The Department of Aging was audited for the years ended June 30, 2007, and June 30, 2008.

At the request of the Department of Medical Assistance Services' management, we completed penetration testing of its information systems in fiscal year 2008. Given the sensitive nature of these results, they are not included in this report; however, detailed results were provided to management in a separate report.

Our audit did not include the Department of Health Professions, which we will audit and report on our results under a separate report. Additionally, Comprehensive Services for At Risk Youth and Families receives administrative services from the Department of Education, which were audited and reported on under a separate report.

The Department of Rehabilitative Services provides administrative services for six other agencies: Woodrow Wilson Rehabilitation Center, Department for the Blind and Vision Impaired, Virginia Industries for the Blind, Virginia Rehabilitation Center for the Blind and Vision Impaired, the Department for the Deaf and Hard-of-Hearing, and the Virginia Board for People with Disabilities.

We performed audit tests to determine whether the agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, contracts, reconciliations, board minutes, and the Code of Virginia, and observation of the agencies' operations. We tested transactions and 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 have been categorized by agency and are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Exit Conference and Report Distribution

We discussed this report with management at the Agencies of the Secretary of Health and Human Resources between January 22 and 26, 2009. Management's responses have been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

COMMONWEALTH *of* VIRGINIA

DEPARTMENT OF
MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES
Post Office Box 1797
Richmond, Virginia 23218-1797

JAMES S. REINHARD, M.D.
COMMISSIONER

Telephone (804) 786-3921
VOICE/TDD (804) 371-8977
www.dmhmrsas.virginia.gov

MEMORANDUM

To: Walter J. Kucharski
Auditor of Public Accounts

From: James S. Reinhard, M.D. JR

Subject: **Responses to APA Audit for FY 2008**

Date: January 27, 2009

Attached is the Department of Mental Health, Mental Retardation and Substance Abuse Services Responses to the APA Audit for FY 2008.

If you have any questions, please do not hesitate to contact me. Thank you.

JSR/bm
Attachment

Department of Mental Health, Mental Retardation and Substance Abuse Services
Responses to APA Audit for FY 2008

Presented below are the responses to the Auditor of Public Accounts audit for the fiscal year ended June 30, 2008.

Risk Alert- Discussion of Centralizing DMHMRSAS Administrative Functions

The APA recommends looking at the centralization of certain functions to ensure proper and consistent application of administrative policies and procedures. We feel that the core issue at hand is the notion that the Central Office should be in a position to either perform administrative functions for facilities or be in a position to validate that they have been performed properly and consistently. Although we do not concur with centralizing facility administrative functions and do not have the staff resources to accomplish such a task, we do concur with the need to validate that functions are being performed timely and appropriately and that each facility is held accountable. For this reason we intend to address this alert as follows:

1. All facility related issues noted and responded to as part of this APA audit will be included as part of each Facility Director's Employee Work Plan. This will serve to hold each facility accountable for the proper execution of administrative functions.
2. Policy and guidance will continue to come from the Central Office as it always has. Such policy and guidance will continue to be congruent with overall applicable state policies and procedures where applicable.
3. The Central Office will validate compliance with administrative, human resources and financial management policies on a routine basis. This will be accomplished through the use of the Office of Internal Audit and the appropriate administrative and program offices at the Central Office.

It must be noted that as we endeavor to accomplish this oversight we do so with greatly diminished staff resources.

Improve Monitoring Program Over Community Services Boards

This issue is attributable to both the Division of Finance and Administration and the Division of Services and Supports. We generally concur with the finding and its spirit and will approach addressing it as follows:

1. DMHMRSAS will develop a risk based approach to the review of program, administrative and financial services provided by community services boards. This will include the development of a risk assessment process. We will work with our sister agencies within the HHR Secretariat with comparable local operational structures to develop the most appropriate approach.

2. The Office of Budget and Financial Reporting will increase the number of field site reviews performed each year. This will be done in conjunction with the Office of Internal Audit.
3. The Office of Budget and Financial Reporting will continue to use the Single Audits of our CSBs as a basis to follow up on areas of concern noted in the audits.

Full implementation of the processes noted above will occur no later than December 31, 2009 and will be the responsibility of the entire Department as an organization. We must note that as we move forward with this plan we do so with very limited staff resources due to recent budgetary actions.

Recording Construction In Progress

In response to problems noted in this area we have substantially changed our procedures. The new procedures are as follows:

1. The Budget Manager for Planning and Development (BMPD) continues to produce capital outlay reports that distinguish between which projects are CIP, which are capitalizable and not CIP and which are purely maintenance expense.
2. The Facility CFO is informed of the CIP amount to post to FAACS by the BMPD.
3. The Assistant Financial Management Analyst (AFMA) is given the CIP amounts to be posted by each facility. She has read only access to each facility FAACS system and uses this to verify that CIP has been posted timely and appropriately. The posting process and verification takes place on a quarterly basis.

We consider these procedures to be adequate for purposes of posting CIP. These procedures have been implemented and are currently operational.

Controlling Capital Assets

We recently (September 24, 2008) published guidance related to management of capital assets.

Our plan of correction attributable to this issue is as follows:

1. Staff of our Office of Budget and Financial Reporting will work with the Department of Accounts to identify adjustments, facility by facility, that need to be made to each facility's fixed assets system (FAACS). Once these adjustments have been identified they will be communicated to each facility CFO and posting of the needed adjustments will be required. Our staff will follow up on this process to ensure that this occurs.
2. Staff of the Office of Internal Audit will coordinate with staff of the Office of Budget and Financial Reporting to perform needed FAACS reviews of the processes governing fixed asset management at the facility level. Properly

addressing noted weaknesses in this area will be included in the employee work plan of each Facility Director with the expectation that issues such as this not recur.

3. A fixed assets committee will be formed as part of the Financial Management Users Group. The group will be comprised of the best fixed asset staff at the facility level and will include a staff member of the Office of Budget and Financial Reporting. The intent is to make this an area of importance and priority at the facility level.
4. Responsible parties for this plan are our Office of Budget and Financial Reporting, our Office of Internal Audit and our Facility CFOs. Reinforcement of the importance of the correction of these problems will take place via the performance evaluation process. Estimated time of completion is June 30, 2009 for most parts of this plan with employee evaluation reinforcement taking place no later than December 31, 2009.

Access to Timekeeping System

We concur with the finding although addressing this issue completely would involve the purchase of the KRONOS system at a cost of nearly $200,000 per facility. Approximately one half of our facilities currently have the KRONOS system.

Our corrective action plan to address this issue is as follows:

1. We will make addressing this issue and all APA audit issues a matter of performance as it relates to each Facility Director's performance evaluation. Each Facility Director will be held accountable for addressing these issues.
2. Estimated completion date of the plan is October 31, 2009.

Completing Employment Eligibility Verification Forms

The problem issue seems to be the completion of the I-9 form. As this seems to be human error we will continue to instruct each facility HR office to pay more close attention to this. The Office of Human Resources staff will monitor HR processes in place at the facility level and will work with facility HR staff to resolve problem issues.

Information Systems Security Program

Many of the security issues noted will be addressed by the VITA transformation efforts scheduled for completion on June 30, 2009. Central Office has provided the requisite guidelines to each facility to address systems security issues but these guidelines have not been completely or properly implemented in some cases.

Our Central Office Security Officer will work with Security Officers at our facilities and develop an oversight program to ensure that guidelines are implemented properly. The

responsible office will be the Office of Information Technology and the plan will be implemented by June 30, 2009.

Documentation of Security Awareness Training

The automated training modules for security awareness exist and are currently being used. The issue is the validation that the training has been completed. According to our IT Director, software exists that provides confirmation of the completion of courses such as these. Due to budgetary constraints funding is not available for this software at this time.

Our Office of Human Resources will add security awareness training to the Learning Management System (LMS). This system will enable us to electronically confirm that security training has taken place. The estimated time of completion is June 30, 2009 and our Office of Human Resources and Office of Information Technology will be the responsible parties.

Developing and Testing of Continuity of Operations and Disaster Recovery Plans

External credentialing (e.g. JCAHO) for state facilities includes requirements that they have Continuity of Operations and Disaster Recovery Plans. In support of this requirement the Department has a Departmental Instruction 602 (EM) 04, which is currently under revision that details facility and Central Office responsibilities regarding emergency planning. The instruction includes a requirement that facilities have a plan to conduct regular drills to test emergency management procedures. Central Office maintains copies of all facility disaster recovery plans in the Jefferson Building. At least quarterly Central Office staff holds a conference call with facilities regarding preparedness and to provide Central Office coordination and support. We consider these procedures to be adequate.

Regarding the information technology component of the plan, we concur with the finding. The Central Office has provided comprehensive guidance to the facilities but the implementation of such guidance has been an issue. Central Office IT staff will work with facility IT staff to address weaknesses in implementation and will complete this process by June 30, 2009. The VITA transformation activities will make it considerably easier for facilities to develop their Continuity of Operations and Disaster Recovery Plans. Our Office of Information Technology will be the responsible party.

COMMONWEALTH of VIRGINIA

Karen Remley, MD, MBA, FAAP
State Health Commissioner

Department of Health
P O BOX 2448
RICHMOND, VA 23218

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

January 27, 2009

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

Dear Sir:

We are providing this letter in response to your report on audit of the financial records of the Virginia Department of health for the fiscal year ended June 30, 2008.

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

Sincerely,

Karen Remley, M.D.,M.B.A., FAAP
State Health Commissioner

CC: Department of Accounts

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Summarized VDH Audit Responses

Update and Expand Security Awareness Training – Second Year Finding

Agency Response:
Health agrees with this management point on the need for Security Awareness Training for regular system users; however we believe it should be noted that the Virginia Department of Health (VDH) has provided specialized Security Awareness Training for System Owners and Administrators. VDH will provide all users with refresher training on Security Awareness by the end of March 2009.
Responsible party: Dr. Jim Burns (Chief Information Officer)
Expected Completion date: March 31, 2009.

Improve and Test Contingency and Disaster Recovery Planning – Second Year Finding

Agency Response:
Health concurs with this finding. VDH has made substantial progress in improving the contingency and disaster documentation of its critical systems. The SEC 501-01 Standard requires "*periodic* review, reassessment, testing, and revision of the IT DRP to reflect changes in essential business functions, services, IT system hardware and software, and personnel." However, VDH does not think that annual testing of all plans is reasonable.
Responsible party: Dr. Jim Burns (Chief Information Officer)
Expected Completion date: June 30, 2009.

Establish and Document Responsibilities for Securing Partnership's Equipment – First Year Finding

Agency Response:
Health agrees that there was confusion between the Virginia Information Technology Agency (VITA), Northrop Grumman (NG) and VDH over responsibilities for access to the computer room located in the Madison Building. VDH will henceforth require its Agency Security Officer to approve any computer room access request from VITA or NG. Furthermore, VDH is reviewing the structure of the swipe card access groups with DGS to validate the permissions system and arrange monthly reports of those with current access.
Responsible party: Dr. Jim Burns (Chief Information Officer)
Expected Completion date: February 1, 2009.

Initiate Corrective Action Plan for Federal Reporting (WIC) – First Year Finding

Agency Response:
Health concurs with this finding. The Division of WIC and Community Nutrition developed a list of responsibilities and tasks related to the WIC program. The division held a meeting in October 2008 with all involved parties to determine delineation of the roles and responsibilities of the individuals involved in performing the year end

reconciliation and generating the year end reports for WIC. A new WIC Accountant was hired and the Employee Work Profile (EWP) was updated to include the performance of a monthly reconciliation, analysis and corrections of errors, as well as reconciling CARs data to T&E data and resolving discrepancies.
Responsible Party:
Alissa Nashwinter, Deputy for Administration, Office of Family Health Services
Expected Completion date: June 30, 2009.

Improve Information on Virginia Performs – First Year Finding
Agency Response: Health concurs with this finding. The Department of Planning and Budget was notified of the need to make changes to the Website in December 2008.
Responsible Party: Joe Hilbert – Executive Advisor to the Health Commissioner
Expected Completion Date: June 30, 2009.

Ensure Secure Delivery of Controlled Substances – First Year Finding
Agency Response:
Health concurs with this finding. Effective June 10, 2008, the Chesterfield Health District pharmacy began including a list of the medications being shipped with the dosage and quantity indicated with all deliveries to perspective local health departments. Additionally, the requirement for the listing to be initialed by the pharmacist, the courier and the receiver of the shipment was implemented along with the requirement for the copy to be kept on file in the Chesterfield pharmacy.
Responsible Party: Brenda Early, Chesterfield - Pharmacist in Charge
William Nelson, M.D. - Chesterfield Health Director
Expected Completion Date: June 10, 2008.

Standardize Pharmaceutical Ordering – First Year Finding
Agency Response:
Health concurs with this finding. The corrective action of standardizing the operational section of the pharmacy that did not already have minimum and maximum stock levels was implemented in October 2008. Utilization data was reviewed and reorder points and quantities were established. Pharmacy shelving was appropriately labeled with the above data to assist dispensing staff with replenishing requests.
In addition, the Pharmacy Director has added the inventory maintenance capability for the pharmacy module to the list of requested enhancements to be performed by the VDH application development staff during the current rewrite of the F&A system. The Pharmacy Director will continue to work to improve interface capabilities between the three systems unitized in daily pharmacy operations. An annual in-service will beheld for all pharmacy personnel that have been granted procurement privileges on par level inventory ordering processes and procedure.
Responsible Party: Roland Parrish - Director of VDH Pharmacy Services
Expected Completion Date: October 2008

COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Office of the Commissioner

Anthony Conyers, Jr.
COMMISSIONER

January 22, 2009

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

Dear Mr. Kucharski:

We have reviewed your Report on Audit for the year ended June 30, 2008. We concur with your findings and have initiated corrective actions.

If you have questions, please contact J. R. Simpson, Chief Financial Officer.

Sincerely,

Anthony Conyers, Jr.

AC:jrs

cc: VDSS Leadership Team

7 North Eighth Street • Richmond, VA 23219-3301
http://www.dss.state.va.us
(804) 726-7000 Fax: (804) 726-7015 TDD: (800) 828-1120

COMMONWEALTH of VIRGINIA

James A. Rothrock, M.S., L.P.C.
COMMISSIONER

Department Of Rehabilitative Services
8004 FRANKLIN FARMS DRIVE
RICHMOND, VIRGINIA 23229

VOICE: (804) 662-7000
TTY: (804) 662-9040
VOICE - TOLL FREE: 800-552-5019
TTY - TOLL FREE: 800-464-9950
FAX: (804) 662-9532
EMAIL: drs@drs.virginia.gov

January 27, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Agencies Serving Virginians with Disabilities appreciates the opportunity to respond to the findings and recommendations contained in your audit report of the Agencies' financial activities administered by the Department of Rehabilitative Services (DRS) for the fiscal year ended June 30, 2008.

Presented below are the responses to the internal control findings specific to the Department of Rehabilitative Services' information systems.

DRS's Response to: Properly Record Leases in the Lease Accounting System – First Year Finding

The Department of Rehabilitative Services concurs with this recommendation and is currently updating all policies and procedures related to data entry in the Lease Accounting System (LAS). The Leasing Coordinator and back-up have both received additional information and instruction on the use of LAS and taken steps to ensure the integrity of the data maintained within the LAS.

DRS's Response to: Utilize Efficiencies in the New System - Efficiency Recommendation

As of March 3, 2008, with installation of the AWARE case management system, counselors are no longer required to complete paper eligibility determination documentation. Paper documentation existing in the current case folders are from eligibility determinations prior to this date. The paper documentation must be retained on these determinations due to the inability to convert key data from the previous case management system.

Training and facilitation of new business processes are ongoing, longitudinal activities. With the launch of the new AWARE case management system on March 3, 2008, extensive reviews of current business process were conducted and recommendations for initial transitions were made via project management in collaboration with the policy division with the goal of moving toward more efficient paperless procedures and more fully integrating the new capabilities of AWARE. DRS has in place a continuous process review that coincides with version upgrades to the case management system and also includes external applications and processes such as electronic document management. This effort is fully endorsed and encouraged by management.

Again, thank you for the opportunity to respond. Please contact me should you require further information.

Very Truly Yours,

Philip W. Benton
DSA Financial Services Director

cc: James A. Rothrock, M.S., L.P.C., Commissioner, DRS
Raymond E. Hopkins, Commissioner, DBVI
Heidi L. Lawyer, Director, VBPD
Ronald L. Lanier, Director, VDDHH
David A. Von Moll, Comptroller, DOA

COMMONWEALTH of VIRGINIA

Department for the Aging

Linda L. Nablo, Commissioner

January 20, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Department of Aging (Aging) appreciates the opportunity to respond to the findings and recommendations contained in the audit report of the Agencies' activities for the year ended June 30, 2008. Aging concurs with APA's Internal Control and Compliance Issue to Strengthen the Information Security Program.

Aging will be collaborating with the Department of Accounts and their new staff resources to assist state agencies with developing an information security program that is compliant with the Commonwealth's Security Standard.

As noted in the finding, Aging is a small state agency. The agency acquires most of its IT resources through outside vendors. Aging contracts these services in full compliance with VITA's standards and requires all of its contractors to adhere to the Commonwealth's Information Security Policy, Standards, and Guidelines.

To strengthen the Aging's IT infrastructure, we are in the process of developing and implementing an information security program that will provide the required assurance over data confidentiality, integrity and availability. Aging plans to be fully compliant with this requirement no later than December 31, 2009. We look forward to working with VITA, Department of Accounts, and APA in meeting this requirement.

1610 Forest Avenue, Suite 100, Richmond, Virginia 23229
Toll-Free: 1-800-552-3402 (Voice/TTY) · Phone: 804-662-9333 · Fax: 804-662-9354
E-mail: aging@vda.virginia.gov · Web Site: www.vda.virginia.gov

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Virginia department for the Aging

Again, thank you for the opportunity to respond and please contact me should you require further information.

Sincerely,

Linda Nablo

Linda Nablo
Commissioner

Cc: David A. Von Moll, Comptroller, Department of Accounts

COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

PATRICK W. FINNERTY
DIRECTOR

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

January 28, 2009

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

Dear Mr. Kucharski:

We have reviewed your Report on Audit for the Year Ended June 30, 2008. We concur with your findings and will initiate corrective action.

If you have any questions, please do not hesitate to contact our Director of Internal Audit, Charles W. Lawver.

Sincerely,

Patrick W. Finnerty

AGENCY OFFICIALS

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

Patrick Finnerty,
Agency Director

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Ronald L. Lanier
Director

VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES

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Director

APPENDIX A: INDEX OF AGENCY FINANCIAL TABLES

TABLE	TABLE DESCRIPTION	Page
HHR Table 1	Expenses for each agency	26
Medical Assistance Services		
Table 1	Analysis of Budgeted and Actual Expenses by Program	27
Table 2	Analysis of Actual Expenses by Program Funding Source	28
Table 3	Medicaid Expenses by Service Category – Fiscal Year 2005-2008	29
Table 4	Administrative Expenses	30
Table 5	Administrative Contractual Services Payments and Dental and Medical Services	30
Social Services		
Table 6	Analysis of Budgeted to Actual Funding by Funding Source	32
Table 7	Analysis of Budgeted to Actual Expenses by Program	33
Figure 1	Expenses by Type	34
Table 8	Aid to Locality Expenses by Subprogram	35
Table 9	Payment to Individuals by Subprogram	36
Mental Health, Mental Retardation and Substance Abuse Services		
Table 10	Comparison of Facility Operations – Hospital Facilities	39-40
Table 11	Comparison of Facility Operations – Training Centers	41-42
Table 12	Analysis of Transfer Payments	44
Table 13	Comparison of Behavioral Rehabilitation Facility Operations	45
Table 14	Construction Projects	47
Health		
Table 15	Analysis of Budgeted to Actual Expenses by Program	48
Table 16	Analysis of Material Special Revenue Sources	49
Comprehensive Services		
Table 17	Analysis of Budgeted to Actual Expenses by Funding Source	51
Rehabilitative Services		
Table 18	Analysis of Budgeted to Actual Expenses by Program	52
Table 19	Expenses by Type	53
Woodrow Wilson Rehabilitation Center		
Table 20	Expenses by Type	54

Aging		
Table 21	Revenues by Funding Source	56
Table 22	Analysis of Budgeted to Actual Expenses by Program	56
Table 23	Expenses by Type	56
Blind and Vision Impaired		
Table 24	Expenses by Type	57
Virginia Rehabilitation Center for the Blind and Vision Impaired		
Table 25	Expenses by Type	58
Health Professions		
Table 26	Analysis of Budgeted and Actual Expenses by Program and Funding Source	60
Deaf and Hard-of-Hearing		
Table 27	Expenses by Type	61
Virginia Board for People with Disabilities		
Table 28	Expenses by Type	62