

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.**  
**(a non-profit organization)**

**FINANCIAL STATEMENTS  
WITH ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**DHHR - Finance**

**SEP 29 2011**

**Date Received**

# Ware & Hall, PLLC

Certified Public Accountants

The River Tower, Suite 601, 1108 3<sup>rd</sup> Avenue  
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Daniel J. Ware, CPA  
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September 28, 2011

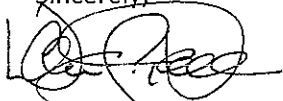
WV Department of Health and Human Resources  
Office of Internal Control and Policy Development  
Division of Compliance and Monitoring  
One Davis Square, Suite 401  
Charleston, WV 25301

RE: West Virginia Health Improvement Institute, Inc.  
Agreement #: G 100390

Dear Sir or Madam:

In accordance with the terms of WV Health Improvement Institute, Inc.'s grant agreement with the WV Department of Health and Human Resources, we are enclosing a copy of the Institute's recently completed audit report for the year 2010. The audit was conducted in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*

Sincerely,



William L. Hall, CPA

Enclosure

**DHHR - Finance**

SEP 29 2011

**Date Received**

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activity	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 10
<b>Accompanying Information</b>	
Schedule of Expenditures of Federal Awards	11
Notes to Schedule of Expenditures of Federal Awards	12 - 13
<b>Independent Auditor's Reports on Compliance and Internal Control</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 - 15
Independent Auditor's Report on Compliance with Requirements that could have a direct and material effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	16 - 18
<b>Schedule of Findings and Questioned Costs</b>	19 - 24
<b>Management's Response and Corrective Action Plan</b>	25

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
West Virginia Health Improvement Institute, Inc.  
Cross Lanes, West Virginia

We have audited the accompanying statement of financial position of West Virginia Health Improvement Institute, Inc. (a non-profit organization) as of December 31, 2010, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Virginia Health Improvement Institute, Inc. as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011 on our consideration of West Virginia Health Improvement Institute, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Wane & Hall PLLC*

Huntington, West Virginia  
September 19, 2011

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
 STATEMENT OF FINANCIAL POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	ASSETS	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$	256,167
Receivables		527,222
Prepaid expenses		<u>2,981</u>
<b>TOTAL CURRENT ASSETS</b>		<u>786,370</u>
 <b>OTHER ASSETS:</b>		
Deposits		<u>7,000</u>
<b>TOTAL ASSETS</b>	\$	<u><u>793,370</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$	542,126
Accrued expenses		<u>4,252</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>546,378</u>
 <b>OTHER LIABILITIES:</b>		
Grants received, not recognized		<u>157,313</u>
<b>TOTAL LIABILITIES</b>		703,691
 <b>NET ASSETS</b>		
Unrestricted		<u>89,679</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	<u><u>793,370</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2010

<b>UNRESTRICTED REVENUE AND SUPPORT</b>	
Grant revenue	\$ 2,863,858
Membership fees	121,200
Donated services	79,514
Program match income	14,156
Interest income	<u>1,309</u>
<b>TOTAL UNRESTRICTED REVENUE, AND SUPPORT</b>	<u>3,080,037</u>
<b>EXPENSES</b>	
Program services:	
Medicaid transformation	1,252,329
Money follows the person	83,010
Tri-state children's health improvement	151,241
Health information technology	<u>1,510,637</u>
<b>TOTAL PROGRAM SERVICES</b>	2,997,217
Supporting services:	
Non-programatic administrative	<u>1,677</u>
<b>TOTAL EXPENSES</b>	<u>2,998,894</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	81,143
<b>UNRESTRICTED ASSETS, BEGINNING OF YEAR</b>	<u>8,536</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 89,679</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>OPERATING EXPENSES</u>	<u>MEDICAID TRANSFORMATION</u>	<u>MONEY FOLLOWS THE PERSON</u>	<u>TRI-STATE CHILDREN'S HEALTH IMPROVEMENT</u>	<u>HEALTH INFORMATION TECHNOLOGY</u>	<u>NON-PROGRAMATIC ADMINISTRATIVE</u>	<u>TOTAL</u>
Compensation	\$ -0-	\$ -0-	\$ -0-	\$ 54,981	\$ -0-	\$ 54,981
Payroll taxes and benefits	-0-	-0-	-0-	11,036	-0-	11,036
Contract services	42,972	83,010	101,241	1,340,239	-0-	1,567,462
Travel	-0-	-0-	-0-	8,638	-0-	8,638
Telecommunications	-0-	-0-	-0-	1,253	-0-	1,253
Support fees	-0-	-0-	-0-	32	-0-	32
Bank charges	-0-	-0-	-0-	-0-	-0-	-0-
Software license fees	-0-	-0-	-0-	625	-0-	625
Donated services	-0-	-0-	-0-	79,514	-0-	79,514
Dues & subscriptions	-0-	-0-	-0-	-0-	428	428
Employee training	-0-	-0-	-0-	200	-0-	200
Equipment rental & costs	-0-	-0-	-0-	405	-0-	405
Insurance - liability	-0-	-0-	-0-	-0-	369	369
Meeting costs	-0-	-0-	-0-	909	-0-	909
Office software & supplies	-0-	-0-	-0-	3,967	-0-	3,967
Payroll Service	-0-	-0-	-0-	1,260	-0-	1,260
Postage & shipping	-0-	-0-	-0-	91	-0-	91
Professional fees	23,796	-0-	-0-	-0-	-0-	23,796
Promotion & development	-0-	-0-	-0-	5,802	-0-	5,802
Purchased services	-0-	-0-	50,000	1,680	-0-	51,680
Taxes & licenses	-0-	-0-	-0-	5	875	880
Sub-grantee costs	<u>1,185,561</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,185,561</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,252,329</b>	<b>\$ 83,010</b>	<b>\$ 151,241</b>	<b>\$ 1,510,637</b>	<b>\$ 1,677</b>	<b>\$ 2,998,894</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS



WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ 81,143
Increase in unrestricted net assets	
Adjustments to reconcile increase in net assets to net cash used by operations:	
Increase in accounts receivable	(363,822)
Increase in pre-paid expenses	(2,981)
Increase in accounts payable	542,126
Increase in accrued expenses	4,252
Decrease in grants received, not recognized	<u>(616,886)</u>
<b>Net cash used by operations</b>	<u>(356,168)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>(7,000)</u>
Security deposits	
<b>Net cash used by investing activities</b>	<u>(7,000)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(363,168)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>619,335</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u>256,167</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES**

West Virginia Health Improvement Institute, Inc ("WVHII") is a non-profit corporation organized for the purpose of providing healthcare stakeholders a forum to improve the health status of all West Virginians through initiatives focusing on improved access, prevention, promotion of wellness and health lifestyle choices, evidence-based care delivery and adoption of electronic technology. WVHII was formed as a West Virginia corporation on January 14, 2009.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** - Cash and cash equivalents include short-term, highly liquid investments both readily convertible to known amounts of cash and so near maturity at acquisition (three months or less) that there is an insignificant risk of change in value because of changes in interest rates. Cash equivalents are stated at cost, which approximates fair value.

**Receivables** - Receivables consist of amounts due for services rendered under federal, state and private contracts. Receivables are written off when determined to be uncollectable by review of receivables, aging and other factors. Recoveries of accounts previously written off are recorded as a reduction of bad debt expense when received. Interest is not charged on receivables. WVHII does not require collateral to secure outstanding receivables.

**Net assets** - Unrestricted net assets are those whose use by WVHII is not subject to imposed stipulations. Temporarily restricted net assets are those whose use by WVHII has been limited to a specific time, period or purpose. Permanently restricted net assets are those use by WVHII is limited in perpetuity. At December 31, 2010, WVHII had no temporarily or permanently restricted net assets.

**Revenue recognition** - WVHII recognized from fixed-price contracts on methods which approximate the percentage-of-completion method. Revenue from annual subscriptions are recognized annually on the date such annual subscription is entered as a receivable. Revenues from cost-reimbursement contracts are recognized when the services have been provided and the related expenses have been incurred. Contracts include all direct and indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which those losses are determined.

**Indirect expense allocation** - Expenses which are not specifically identified with particular program services are allocated to the various programs based upon direct labor and fringe amounts.

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions, grants and awards** - All contributions, grants and awards are considered to be available for unrestricted use unless specifically restricted by the donor/grantor. Amounts received that are designated for future periods, or restricted by the donor/grantor for a specific purpose are reported as deferred revenue or as temporarily or permanently restricted net assets. As of December 31, 2010, WVHII had \$157,313 of funds received that are to be recognized in future periods or returned to the funding source.

**Income taxes** - The Internal Revenue Service has ruled that WVHII is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been made in the financial statements. WVHII is also exempt from state income taxes. WVHII has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification 740 ("FASB ASC 740"), as of and for the year ended December 31, 2010. WVHII's policy is to record a liability for any penalties, when it is more likely than not the position taken by management with respect to a transaction or class or transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2010, accordingly no liability has been accrued.

**NOTE C - GOVERNMENT CONTRACT REVENUES AND RECEIVABLES**

The revenue earned under WVHII's contracts with U S Department of Health and Human Services Office of the National Coordinator for Health Information and Technology ("ONC"), and West Virginia Department of Health and Human Resources ("WVBMS") account for the majority of the revenues of WVHII for the year ended December 31, 2010. A significant reduction in the revenues granted under future contracts would have a significant impact on WVHII's program services. WVHII does not require collateral to secure credits extended under the above contracts. The following is a summary of the receivables as of December 31, 2010.

Federal contracts	\$ 133,225
State contracts	326,767
Private contracts	<u>67,230</u>
	<u>\$ 527,222</u>

**NOTE D - SERVICE CONTRACT COMMITMENTS**

WVHII has entered into a cost reimbursement contract with ONC. Such contract is number 90RC0017 assigns WVHII to serve as the West Virginia state-wide Regional Extension Center ("WVRHITEC") for the period of February 8, 2010 through February 7, 2014. As of December 31, 2010, WVHII had received a Notice of Grant Award ("NGA") totaling \$6,204,000. WVHII must match 10% of any federal funding received.

In 2009, WVHII entered into a contract with WVBMS, agreement number G100390 (the "Transformation Grant") under which WVHII was awarded up to \$1,677,797 on a cost reimbursement basis. As of December 31, 2010, WVHII has recognized revenue of \$1,381,113 for this grant, had been paid \$1,353,016 and had outstanding receivables of \$326,767.

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**NOTE D - SERVICE CONTRACT COMMITMENTS (CONTINUED)**

WVHII entered into a grant agreement with West Virginia department of Administration for the benefit of the West Virginia Children's Health Insurance Program ("WVCHIP") to operate the Tri-state Children's Health Improvement Consortium ("ICHIC"). The grant is for the period from February 22, 2010 through February 21, 2015 and provided up to \$3,631,015 on funds on a cost reimbursement basis. During the year ended December 31, 2010, WVHII recognized \$166,366 from this grant, and had \$33,634 of deferred revenue related to this grant.

WVHII entered into agreement number G110857 with WVBMS for a program to develop an operational protocol to be submitted with the Money Follows the Person grant application ("MFP"). The grant is for the period from October 1, 2010 through January 31, 2011 and provides up to \$200,000 of funds on a cost reimbursement basis. During the year ended December 31, 2010, WVHII had not completed this program and had not recognized any revenue.

WVHII entered into agreement number G101036 with WVBMS for a program to improve the health status of West Virginians ("Health Improvement"). The grant is for the period from June 1, 2010 through March 31, 2011 and provides up to \$60,000 of funds on a cost reimbursement basis. During the year ended December 31, 2010, WVHII had not completed this program and had not recognized any revenue.

**NOTE E - RELATED PARTIES**

WVHII has entered into contractual agreements with the Community Health Network of West Virginia, a non-profit organization and CSI Solutions, LLC, a private consulting firm specializing in the health care industry. Both organizations are represented by a member of WVHII's board of directors.

The Community Health Network provides contractual services to the Regional Extension Center ("WVRHITEC") relating to administration, care, and direct assistance services, and to the Medicaid Transformation Program ("BMS") as a sub-grantee performing an Electronic Health Records Incentives Pilot. CSI Solutions provides management services to the WVRHITEC, ICHIC and BMS programs as well as a subgrantee of the BMS program, performing a Medical Home Savings Pilot and a Reporting Feasibility Pilot.

**NOTE F - COMMITMENTS AND CONTINGENCIES**

**Economic dependency** - WVHII generates a substantial portion of its revenue from contracts with ONC and WVBMS. Discontinuation of support from these sources could significantly impact operations. During 2010, WVHII received revenue of approximately \$2,864,000 from these sources, and at December 31, 2010, the receivable from these entities was approximately \$460,000.

**Cash balances in excess of FDIC insurance** - WVHII maintains cash in a demand deposit account with a federally insured bank. At times the balances in this account may exceed the federally insured limits.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**NOTE F - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Risks and uncertainties** - WVHII is subject to certain claims which arise in the ordinary course of business. It is not possible, at the present time, to estimate the ultimate legal and financial liability, if any, with respect to such claims that may be presented to WVHII. In the opinion of management, the eventual outcome of any such claim would not have a material adverse effect on WVHII's financial position. Depending on the amounts and timing of any such resolution, an unfavorable outcome could materially affect the results of operations or cash flows in a particular period.

WVHII receives significant financial assistance from the U.S. Government and the State of West Virginia in the form of contracts and other federal awards. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the contracts and applicable federal and state regulations, including the expenditure of the resources for allowable purposes. WVHII provides for estimates of any material disallowance arising in connection with the operation of these programs when such amounts become reasonably estimable. Federal awards are subject to financial compliance audits under either the federal Single Audit Act or by contracting agencies of the federal government or their designees. The ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits and the related impact on the financial statements of WVHII is unknown. The ultimate resolution of any regulatory review process could materially impact WVHII's future operations or cash flows in a particular period.

**NOTE G - SUBSEQUENT EVENTS**

Management evaluated the effect subsequent events would have on the financial statements through September 19, 2011, which is the date the financial statements were available to be issued.

On February 8, 2011, the NGA related to WVRHITEC from the ONC were amended to increase the federal funding under the WVRHITEC contract by \$506,755 to \$6,710,775. These increased funds are being provided to provide services to critical access hospitals, rural hospitals and other healthcare providers.

On January 27, 2011, WVBMS amended the Transformation Grant by increasing the funds available under the grant by \$535,120 and altering the statement of work to include more services as part of the program.

On August 8, 2011, WVHII refunded WVBMS \$103,032 of unused funds collected by WVHII under the Transformation Grant.

In January 2011 twelve employees of WVCHN became employees of WVHII. Arrangements between the two organizations for reimbursements of allocated employee compensation, rental of facilities and other office overhead expenses are being negotiated.

**ACCOMPANYING INFORMATION**

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010**

Agency	Number	Program Title	Number	Expenditures
<b>U.S. Department of Health and Human Services</b>				
<b>Direct Program:</b>				
(ARRA) Health Information Technology Regional Extension Centers	93.718	West Virginia Health Information Technology Program	90RC0017/01	\$ 1,309,923
<b>Pass-through Programs from:</b>				
West Virginia Department of Health and Human Resources	93.793	Medicaid Transformation Grant	G 100390	1,252,329
West Virginia Children's Health Insurance Program	93.767	Tri-state Children's Health Improvement Consortium	132370	<u>151,421</u>
<b>Total Expenditures of Federal Awards</b>				<b>\$ <u>2,713,673</u></b>

SEE ACCOMPANYING NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL LAW

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the Federal grant activity of the West Virginia Health Improvement Institute, Inc. (WVHII) under programs of the federal government for the year ended December 31, 2010

The information in this Schedule is presented in accordance with requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Because the Schedule presents only a selected portion of the operations of the WVHII, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the WVHII.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, "Cost Principles for Non-Profit Organizations," wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2) Pass-through entity identifying numbers are presented where available.



WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE C - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, WVHII provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
93.793	Medicaid Transformation Grant	\$1,185,561

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS**

Ware & Hall, PLLC  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
West Virginia Health Improvement Institute, Inc.  
Cross Lanes, West Virginia

We have audited the financial statements of West Virginia Health Improvement Institute, Inc. (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Virginia Health Improvement Institute, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Virginia Health Improvement Institute, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Virginia Health Improvement Institute, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 10-1, 10-2 and 10-3.

West Virginia Health Improvement Institute, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit West Virginia Health Improvement Institute, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ware & Hall PLLC*

Huntington, West Virginia  
September 19, 2011

# Ware & Hall, PLLC

Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
West Virginia Health Improvement Institute, Inc  
Cross Lanes, West Virginia

We have audited West Virginia Health Improvement Institute, Inc.'s compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of West Virginia Health Improvement Institute, Inc.'s major federal programs for the year ended December 31, 2010. West Virginia Health Improvement Institute, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of West Virginia Health Improvement Institute, Inc.'s management. Our responsibility is to express an opinion on West Virginia Health Improvement Institute, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about West Virginia Health Improvement Institute, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of West Virginia Health Improvement Institute, Inc.'s compliance with those requirements.

As described in items 10-4 through 10-8 in the accompanying schedule of findings and questioned costs West Virginia Health Improvement Institute, Inc. did not comply with requirements regarding allowable costs/cost principles; cash management; procurement, suspension and debarment; and subrecipient monitoring requirements that are applicable to its RHITEC and Medicaid Transformation programs. Compliance with such requirements is necessary, in our opinion for West Virginia Health Improvement Institute, Inc. to comply with requirements applicable to those programs

In our opinion, except for the noncompliance described in the preceding paragraph, West Virginia Health Improvement Institute, Inc. complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010

#### Internal Control Over Compliance

Management of West Virginia Health Improvement Institute, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered West Virginia Health Improvement Institute, Inc.'s internal control over compliance with the requirements that could have a direct and a material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of West Virginia Health Improvement Institute, Inc.'s internal control over compliance

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-4, 10-5 and 10-8 to be material weaknesses

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-6 and 10-7 to be significant deficiencies

West Virginia Health Improvement Institute, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit West Virginia Health Improvement Institute, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ware & Hall PLLC*

Huntington, West Virginia  
September 19, 2011

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of Auditor's Report Issued - Unqualified

Internal Control Over Financial Reporting:

- |                                                                                              |          |                       |
|----------------------------------------------------------------------------------------------|----------|-----------------------|
| • Material weakness(es) identified?                                                          | —<br>Yes | ✓<br>No               |
| • Significant deficiency (ies) identified that are not considered to be material weaknesses? | —<br>Yes | ✓<br>None<br>Reported |

Noncompliance material to the financial statements?	✓ Yes	— No
-----------------------------------------------------	----------	---------

**FEDERAL AWARDS**

Internal Control Over Major Programs:

- |                                                                                              |          |                       |
|----------------------------------------------------------------------------------------------|----------|-----------------------|
| • Material weakness(es) identified?                                                          | ✓<br>Yes | —<br>No               |
| • Significant deficiency (ies) identified that are not considered to be material weaknesses? | ✓<br>Yes | —<br>None<br>Reported |

Type of Auditor's Report Issued on Compliance for Major Programs - Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	✓ Yes	— No
------------------------------------------------------------------------------------------------------------------------	----------	---------

Identification of Major Programs:

Program

<b>Department of Health and Human Services</b>	<b><u>CFDA #</u></b>
------------------------------------------------	----------------------

West Virginia Regional Health Information Technology Program	93 718
--------------------------------------------------------------	--------

Medicaid Transformation Grant	93 793
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
--------------------------------------------------------------------------	-------------------

Auditee qualified as low-risk auditee?	— Yes	✓ No
----------------------------------------	----------	---------

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**10 - 1 Indirect Cost Allocation**

Condition: The agency charged the Medicaid Transformation Award with a 10% overhead charge, but no indirect cost proposal was prepared or negotiated.

Criteria: OMB Circular A-133 "Cost Principles for Non-Profit Organizations: defines indirect costs as costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective, such as general administration expenses. To recover indirect costs, a Non-Profit organization must prepare an indirect cost proposal which is based on the most current financial data supported by the Organization's accounting and audited financial statements, if applicable. The circular further states that if a non-profit organization has not previously established an indirect cost rate with a federal agency that it shall submit its initial cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award.

Effect: Allocation of common or joint general and administrative costs without the completion and negotiation of an acceptable indirect allocation proposal can result in noncompliance as well as possible disallowed costs

Recommendation: Review the cost principles set forth in OMB Circular a-122 and other federal regulations, and then develop and implement the proper procedures to ensure that indirect costs are allocated based on a properly prepared and negotiated indirect cost rate proposal.

**10 - 2 Subrecipient Monitoring**

Condition: The Organization did not perform adequate during-the-award monitoring of the subrecipients' use of federal awards to provide reasonable assurance that the subrecipients administered the federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved. Further, the Organization did not take the appropriate steps to verify the subrecipients received an annual audit if required and took timely and appropriate corrective action for any findings

Criteria: OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Non-Profit Organizations, states that the recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients also shall monitor subawards to ensure subrecipients have met the applicable audit requirements.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**10 - 2 Subrecipient Monitoring (continued)**

Effect: The Organization is in noncompliance with the subrecipient monitoring requirements. Further, the Organization could be responsible for repaying funds that were found to be questionable costs as a result of a subrecipient's operations.

Recommendation: Develop and implement the necessary policies and procedures to monitor the activities of those agencies to whom federal grant funds are passed. Additionally, ensure these procedures include requirements to obtain and review the audits of the subrecipients and that timely, appropriate corrective action was taken for any findings noted in the audits.

**10 - 3 Cost Allocation**

Condition: It was noted during our review that costs incurred for common or joint objectives of several programs including operation and maintenance and general and administrative costs were directly allocated to the programs. No documentation was maintained to verify that the costs were prorated using a base which accurately measures the benefits provided to each award or other activity.

Criteria: OMB Circular A-122 "Cost Principles for Nonprofit Organizations" states that the direct allocation of method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The base must be established in accordance with reasonable criteria, and be supported by current data.

Effect: Allocation of costs to particular awards without documentation to support the base used could result in noncompliance with grant regulations and possible disallowed costs.

Recommendation: Review the cost principles set forth in OMB Circular A-122 and other federal regulations, and then develop and implement the proper procedures to ensure that costs are directly allocated using a base supported by current data that accurately measures the benefits provided to each activity. The criteria and methodology of allocation should also be documented to support the allowability of costs charged against each award.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Department of Health and Human Services:

Questioned  
Costs

10 - 4 Medicaid Transformation Grant - CFDA No. 93.793  
 Grant No. G100390  
 Grant Period 7/1/09 - 3/31/11  
 The finding identified in 10-1, indirect cost allocation,  
 also applies to this program

Questioned Costs None

10 - 5 Medicaid Transformation Grant - CFDA No. 93.793  
 Grant No. G100390  
 Grant Period 7/1/09 - 3/31/11  
 The finding identified in 10-2, subrecipient monitoring,  
 also applies to this program.

Questioned Costs None

10 - 6 West Virginia Regional Health Information Technology  
 Program - CFDA No. 93.718  
 Grant No. 90RC0017/01  
 Grant Period 2/8/10 - 2/7/14  
 Medicaid Transformation Grant - CFDA No. 93.793  
 Grant No. G100390  
 Grant Period 7/1/09 - 3/31/11  
 The finding identified in 10-3, cost allocation,  
 also applies to these programs.

Questioned Costs None

10 - 7 Medicaid Transformation Grant - CFDA No. 93.793  
 Grant No. G100390  
 Grant Period 7/1/09 - 3/31/11

**Cash Management**

Condition: The Organization drew funds from the pass-through agency in equal quarterly installments without consideration for the immediate cash requirements for carrying out the purpose of the approved program. Further, the Organization had a substantial deferred revenue for this program at the fiscal year indicating that cash draws were in excess of expenditures.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Department of Health and Human Services:

Questioned  
Costs

10 - 7 Cash Management: (Continued)

Criteria: OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations: requires that cash advances to a recipient organization be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Effect: The drawing down of funds in excess of immediate cash needs results in noncompliance with federal regulations.

Recommendation: Review the federal regulations and sections of the funding award related to the advance payment of federal funds and develop and implement the necessary policies and procedures to minimize the time elapsing between the transfer of funds and disbursement by the recipient.

Questioned Costs:

None

10 - 8 West Virginia Regional Health Information Technology  
Program - CFDA No. 93.718  
Grant No. 90RC0017/01  
Grant Period 2/8/10 - 2/7/14  
Medicaid Transformation Grant - CFDA No. 93.793  
Grant No. G100390  
Grant Period 7/1/09 - 3/31/11

**Procurement, Suspension and Debarment**

Condition: The Organization entered into several contracts with various agencies without verifying that these agencies were not debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. Further, the Organization did not maintain proper documentation on the selection of contractors or the reasons for limiting competition in those cases where competition was limited. Also, entities who helped develop the specification for various activities of the project also were awarded these contracts.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Department of Health and Human Services:

Questioned  
Costs

10 - 8 Procurement, Suspension and Debarment (Continued)

Criteria: OMB Circular A-110 Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations: requires recipients to comply with the nonprocurement debarment and suspension common rule that restricts subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from participation in Federal assistance programs or activities. The recipient is required to perform a verification check for covered transactions by checking the Excluded Parties List System (EPLS) before entering into the contracts or agreements. Further, the circular specifies that procurement records and files for purchases in excess of the small purchase threshold (contracts greater than \$25,000 and the subawards of any amounts) shall include a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. Also, in order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specification, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements.

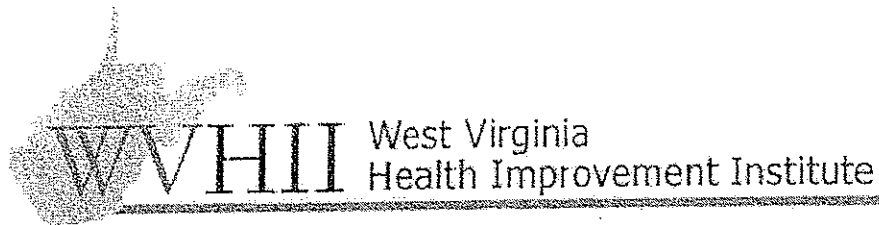
Effect: The failure to comply with all aspects of the procurement requirements found in the OMB Circular A-110 or other federal regulations could result in the disallowance of costs

Recommendation: Review the federal regulations and agency's policies related to procurement to strengthen the controls to ensure complete compliance with all requirements.

Questioned Costs

None

**MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN**



Ware & Hall, PLLC  
The River Tower Suite  
1108 3<sup>rd</sup> Avenue  
Suite 601  
Post Office Box 819  
Huntington West Virginia 25712-0819

September 25, 2011

Dear Sirs:

This letter represents Management's response to your findings and recommendations from your A-133 audit for the West Virginia Health Improvement Institute for the year ended December 31, 2010. The audit period addressed represented the first operational year of the Health Improvement Institute as an independent not for profit entity. We believe the audit process is an important step in ensuring we are maintaining a high standard in our business and accounting processes. As such we appreciate your thoroughness and diligence in the process. We are very pleased that you did not find any material weaknesses in our internal control over financial reporting.

With the respect to your findings and recommendations we wish to offer the following clarifications and corrective actions:

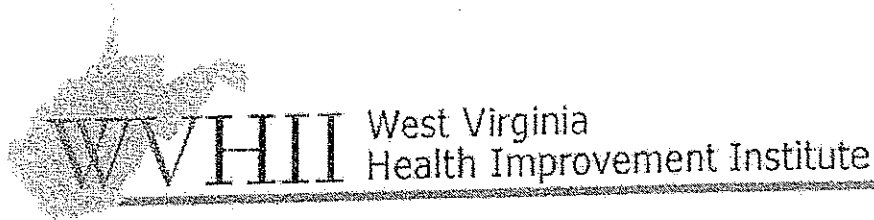
## Section II: Financial Statement Findings

### 10-1 Indirect Cost Allocation

**Auditor's Condition:** The agency charged the award with a 10% overhead charge, but no indirect cost proposal was prepared or negotiated.

**Criteria:** OMB Circular A-122 "Cost Principles for Non-Profit Organizations" defines indirect costs as costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective, such as general administration expenses. To recover indirect costs, a Non-Profit Organization must prepare an indirect cost proposal which is based on the most current financial data supported by the organization's accounting and audited financial statements, if applicable. The circular further states that if a non-profit organization has not previously established an indirect cost rate with a Federal agency it shall submit its initial indirect cost proposal immediately after the organization is advised that an





award will be made and, in no event, later than three months after the effective date of the award.

**Effect:** Allocation of common or joint general and administrative costs without the completion and negotiation of an acceptable indirect allocation proposal can result in noncompliance as well as possible disallowed costs.

**Recommendation:** Review the cost principles set forth in OMB Circular A-122 and other federal regulations, and then develop and implement the proper procedures to ensure that indirect costs are allocated based on a properly prepared and negotiated indirect cost rate proposal.

**RESPONSE:**

The West Virginia Health Improvement Institute during the audit period being addressed transitioned from a virtual enterprise to an operating entity. Because WVHII is a new entity it does not have an established indirect rate and had no history upon which to develop the application for an approved rate. A benchmarking was completed with other not for profit entities and a range of 10-65% was identified. The indirect rate was estimated at 10% for the initial period, while WVHII is establishing the history required to obtain a federally approved indirect rate. Guidance was also sought from federal grant sources. Absent this rate, we had received guidance to include a 10% budgetary allocation from two of the federal agencies from which grants were awarded. We anticipate the indirect rate application to be submitted for the year ended 2011.

**10-2 Subrecipient Monitoring**

**Auditor's Condition:** The Organization did not perform adequate during the award monitoring of the sub recipients' use of federal awards to provide reasonable assurance that the sub recipients administered the federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved. Further, the Organization did not take the appropriate steps to verify the sub recipients received an annual audit if required and took timely and appropriate corrective action for any findings.

**Criteria:** OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Non-Profit Organizations, states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients also shall monitor subawards to ensure sub recipients have met the applicable audit requirements

**Effect:** The Organization is in noncompliance with the subrecipient monitoring requirements. Further, the Organization could be responsible for repaying funds that were found to be questionable costs as a result of a subrecipient's operations

**Recommendation:** Develop and implement the necessary policies and procedures to monitor the activities of those agencies to whom federal grant funds are passed. Additionally, ensure these procedures include requirements to obtain and review the audits of the sub recipients and that timely, appropriate corrective action was taken for any findings noted in the audits.

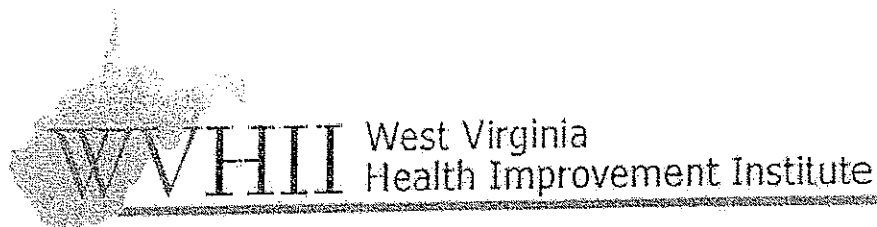
**RESPONSE:**

WVHII does have a policy for monitoring of sub recipients, as defined in OMB Circular No. A-133 Part 210. With respect to the Medicaid Transformation Grant, the organizations contracted to perform the pilot operations were all performing the services defined by WVHII as the grantee. Those organizations did not have programmatic decision making responsibilities with respect to the Medicaid Transformation Grant, but instead were contracted through a grant mechanism to perform a specific service and prepare a specific work product, and were identified through the WVHII as the most appropriate organizations to conduct this work based on their prior performance of similar services. OMB Circular No. A-133 Part 210(d) indicates that in making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. WVHII therefore had considered the pilot sub-grantees as vendors rather than sub recipients with respect to OMB Circular No. A-133.

The agreements provided a series of payments to the vendors based on a statement of work and a payment schedule established at the time of the award. Such agreements required each organization to participate in regular project management meetings and provide a status report and an accounting of the use of funds provided before any subsequent payments would be approved by WVHII. These records were not made available to the auditors because they were not maintained by the accounting staff that participated in the audit and who had limited knowledge of the operational details of the program. These records can be made available, and will be maintained in the corporate office in the future so that they can be readily available for such an audit.

**10-3 Cost Allocation**

**Auditor's Condition:** It was noted during our review that costs incurred for common or joint objectives of several programs including operation and maintenance and general and administration costs were directly allocated to the programs. No documentation was maintained



to verify that the costs were prorated using a base which accurately measures the benefits provided to each award or other activity

Criteria: OMB Circular A-122 "Cost Principles for Nonprofit Organizations" states that the direct allocation method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The base must be established in accordance with reasonable criteria, and be supported by current data.

Effect: Allocation of costs to particular awards without documentation to support the base used could result in noncompliance with grant regulations and possible disallowed costs. This applies to Medicaid Transformation grant CFDA No. 93.793; Grant Number G100390 (grant period 7/1/09-3/31/11); Medicaid Transformation grant CFDA No. 93.793 Grant No. G100390 (Grant period 7/1/09-3/31/11) and West Virginia Regional Health Information Technology Program CFDA No. 93.718 Grant No. 90RC0017/01 (grant period 7/1/09-3/31/11).

Recommendation: Review the cost principles set forth in OMB Circular A-122 and other federal regulations, and then develop and implement the proper procedures to ensure that costs are directly allocated using a base supported by current data that accurately measures the benefits provided to each activity. The criteria and methodology of allocation should also be documented to support the allowability of costs charged against each award.

**RESPONSE:**

Because WVHII is a new entity it does not have an established indirect rate. As noted previously, the indirect rate was estimated at 10% for the initial period, while WVHII is establishing the history required to obtain a federally approved indirect rate; this is anticipated to be for the year ended 2011.

Allocation of overhead costs charged to the WVHII was estimated for 2010. For 2011, detailed records are being maintained of staff time using a time accounting system. The various categories of overhead such as space and telecommunications will be allocated on the basis of staff effort. Policies on criteria and methodology for allocation are being developed and will be applied for all future accounting periods.



**10-4 Medicaid Transformation Grant - CFDA No. 93.793**

**RESPONSE:**

With respect to finding identified in 10-1, indirect cost allocation, please refer to our response to 10-1, above.

**10-5 Medicaid Transformation Grant - CFDA No. 93.793**

**RESPONSE:**

With respect to finding identified in 10-2, subrecipient monitoring, please refer to our response to 10-2, above.

**10-6 Medicaid Transformation Grant - CFDA No. 93.793**

**RESPONSE:**

With respect to finding identified in 10-3, cost allocation, please refer to our response to 10-3, above.

**Section III: Federal Award Findings and Questioned Costs**

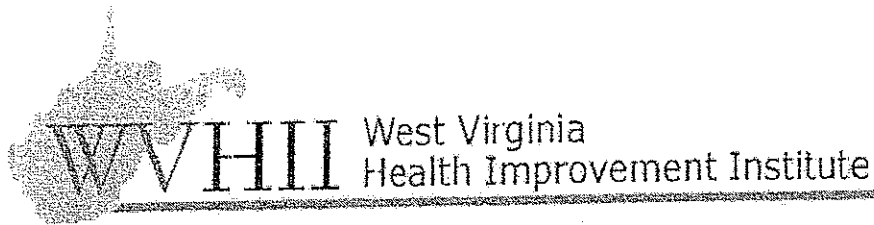
**10-7 Cash Management**

**Auditor's Condition:** The organization drew funds from the pass-through agency in equal quarterly installments without consideration for the immediate cash requirements for carrying out the purpose of the approved program. Further, the organization had a substantial deferred revenue for this program at the fiscal year end indicating that cash draws were in excess of expenditures.

**Criteria:** OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations" requires that cash advances to a recipient organization be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

**Effect:** The drawing down of funds in excess of immediate cash needs results in noncompliance with federal regulations.

**Recommendation:** Review the federal regulations and sections of the funding award related to the advance payment of federal funds and develop and implement the necessary policies and procedures to minimize the time elapsing between the transfer of funds and disbursement by the recipient.



**RESPONSE:**

The Medicaid Transformation Grant is a grant agreement between the West Virginia Health Improvement Institute ("WVHII" or the "organization") and the state of West Virginia Bureau for Medical Services. The grant provided for the draw of funds according to a schedule incorporated into the grant agreement. This was done because the West Virginia Department of Health and Human Resources required the WVHII to invoice for each grant draw and obtain a manual check; this process required anywhere between 30 and 60 days. WVHII was a newly formed entity with limited resources, so was not in a position to pay the sub grantees and capitalize the grant operations until such time as funds could be made available. This arrangement was coordinated with the West Virginia Bureau for Medical Services. WVHII drew funds when it became apparent that the funds would be required, provided an accounting of the use of funds during each quarter as well as anticipated expenses for the next quarter. The Institute did not draw all the funds made available through the grant agreement, nor did the Institute draw funds in advance of any scheduled payment anticipated by the grant agreement. When the grant operations were completed, WVHII provided a final accounting of the use of proceeds and refunded the unused funds, including the interest earned on funds held in advance of use.

A policy will be written that addresses the timing on invoicing and funds draws for federal grants and cooperative agreements.

**10-8 Procurement, Suspension and Debarment**

**Auditor's Condition:** The Organization entered into several covered contracts with various agencies without verifying that these agencies were not debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. Further, the organization did not maintain proper documentation on the selection of contractors or the reasons for limiting competition in those cases where competition was limited. Also, entities who helped develop the specifications for various activities of the project also were awarded these contacts.

**Criteria:** OMB Circular A-110 Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations" requires recipients to comply with the non-procurement debarment and suspension common rule that restricts subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from participation in



# WVHII West Virginia Health Improvement Institute

Federal assistance programs or activities. The recipient is required to perform a verification check for covered transactions by checking the Excluded Parties List System (EPLS) before entering into the contracts or agreements. Further, the circular specifies that procurement records and files for purchases in excess of the small purchase threshold (contracts greater than \$25,000 and subawards of any amounts) shall include at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. Also, in order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids and/or requests for proposals shall be excluded from competing for such procurements

Effect: The failure to comply with all aspects of the procurement requirements found in the OMB Circular A-110 or other federal regulations could result in the disallowance of costs.

Recommendation: Review the federal regulations and agency's policies related to procurement to strengthen the controls to ensure complete compliance with all requirements.

### RESPONSE:

WVHII did execute EPLS checks on all sub-recipients related to the ONC grant for which the WVHII is the prime grantee. However, records for such checks were not maintained such that they could be audited. WVHII will make the required changes to our records retention such that EPLS checks can be audited in the future.

The selection of subgrantees for the Transformation Grant was not made by the WVHII staff but was instead a function of a work group structure that included the prime grantee and provided multiple levels of review and approval; final approval of each project and the responsible party was made by the prime grantee (the Bureau for Medical Services). Minutes of all work group meetings were maintained to reflect the discussions of the group and can be made available. All of the grantees were in good standing with the state of West Virginia. During the audit, it was not clear that these records were being requested, so this audit determination was made without the data that was available. WVHII will make the required changes to our records retention such that project materials such as this will be made available in the future to the auditors from a central location.



**WVHII** West Virginia  
Health Improvement Institute

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Summary

Management would like to thank the auditors for their diligence in review of the audit and financial processes. The recommendations are constructive and the necessary changes in policy and procedures have been implemented. The audit did not reveal any material deficiencies or disallowed costs. The audit will be reviewed by the Finance Committee of the Board and presented to the full board.

Respectfully submitted,

Roger Chaufournier  
Chairman of the Board and Chief Executive Officer

DHHR - Finance

SEP 29 2011

Date Received

# Ware & Hall, PLLC

Certified Public Accountants

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Daniel J. Ware, CPA  
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September 19, 2011

To the Board of Directors  
West Virginia Health Improvement Institute, Inc.  
Cross Lanes, West Virginia

We have audited the financial statements of West Virginia Health Improvement Institute, Inc. for the year ended December 31, 2010 and have issued our report thereon dated September 19, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 19, 2011. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by West Virginia Health Improvement Institute, Inc. are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:



Management's allocation of costs between the various program activities and administrative functions.

We have commented and made recommendations regarding direct and indirect cost allocation as findings 10-1 and 10-3 in the Schedule of Findings and Questioned Costs section of our report.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during this audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 19, 2011.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The results of our audit disclosed no significant deficiencies in the Organization's internal control over financial reporting. However, three items of noncompliance material to the financial statements were disclosed.

Five significant deficiencies were noted during the audit of the two major federal award programs. Three of the deficiencies were considered to be material weaknesses.

For further information concerning the audit findings please refer to the Schedule of Findings and Questioned Costs section of our report.

This information is intended solely for the use of the Board of Directors and Management of West Virginia Health Improvement Institute, Inc. and is not intended and should not be used by anyone other than these parties.

Very truly yours,

*Warr & Hall PLLC*

DHHR - Finance

SEP 29 2011

Date Received