

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

**FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

YEAR ENDED DECEMBER 31, 2011

DHHR - Finance

NOV 14 2012

Date Received

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION
YEAR ENDED DECEMBER 31, 2011**

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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, 2011, 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, 2011 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 21, 2012 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 schedule of state awards, as presented in the schedule of expenditures of federal and state awards, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as presented in the schedule of expenditures of federal and state 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 also not a required part of the 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.

Ware & Hall PLLC

Huntington, West Virginia
September 21, 2012

DHHR - Finance

NOV 14 2012

Date Received

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 187,319
Accounts receivable	371,621
Grants receivable	652,979
Prepaid expenses	<u>1,672</u>
TOTAL CURRENT ASSETS	1,213,591

OTHER ASSETS:

Deposits	<u>7,000</u>
TOTAL ASSETS	\$ <u>1,220,591</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 650,387
Accrued expenses	24,068
Deferred revenue	<u>546,136</u>
TOTAL CURRENT LIABILITIES	1,220,591

NET ASSETS

Unrestricted	<u>-0-</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,220,591</u>

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
STATEMENT OF ACTIVITY
ENDED DECEMBER 31, 2011

UNRESTRICTED NET ASSETS

Support and revenue:		
Grant revenue	\$	3,325,789
Contractual services		311,937
Donated services		6,063
Program match income		13,221
Other		9,420
Interest income		<u>4</u>

TOTAL UNRESTRICTED REVENUE 3,666,434

EXPENSES

Program services:		
Medicaid transformation		339,882
Money follows the person rebalancing demonstration		49,188
Children's health insurance program		612,209
Health information technology regional extension centers program - ARRA		2,080,407
Medicaid assistance program		<u>99,884</u>

TOTAL PROGRAM SERVICES 3,181,570

Supporting services:		
Management and general - indirect		172,927
Management and general - other		<u>311,937</u>

TOTAL SUPPORTING SERVICES 484,864

TOTAL EXPENSES 3,666,434

CHANGE IN UNRESTRICTED NET ASSETS -0-

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS -0-

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS -0-

CHANGE IN NET ASSETS -0-

NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED 89,679

**PRIOR PERIOD ADJUSTMENT - ERROR MADE
IN REVENUE RECOGNITION** (89,679)

NET ASSETS, BEGINNING OF YEAR AS RESTATED -0-

NET ASSETS, END OF YEAR \$ -0-

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	<u>MEDICAID TRANSFORMATION</u>	<u>MONEY FOLLOWS THE PERSON REBALANCING DEMONSTRATION</u>	<u>CHILDREN'S HEALTH INSURANCE PROGRAM</u>	<u>HEALTH INFORMATION TECHNOLOGY REGIONAL EXTENSION CENTERS PROGRAM - ARRA</u>
Compensation	\$ -0-	\$ -0-	\$ 217,831	\$ 381,530
Payroll taxes and benefits	-0-	-0-	46,573	106,838
Contract services	18,991	48,288	184,862	668,391
Travel	4,424	-0-	7,337	20,814
Telecommunications	-0-	-0-	2,767	6,473
Software	-0-	-0-	-0-	6,720
Donated services	-0-	-0-	-0-	6,063
Dues & subscriptions	-0-	-0-	25	339
Equipment rental & costs	-0-	-0-	5,109	5,773
Insurance - liability	-0-	-0-	-0-	-0-
Meeting costs	-0-	900	3,572	2,300
Office software & supplies	-0-	-0-	4,405	1,669
Payroll Service	-0-	-0-	7,752	11,224
Professional fees	5,949	-0-	-0-	3,163
Promotion & development	-0-	-0-	81	4,435
Purchased services	300	-0-	130,350	500
Sub-grantee costs	310,218	-0-	-0-	854,137
Other	<u>-0-</u>	<u>-0-</u>	<u>1,545</u>	<u>38</u>
TOTAL EXPENSES	\$ <u>339,882</u>	\$ <u>49,188</u>	\$ <u>612,209</u>	\$ <u>2,080,407</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

<u>MEDICAID ASSISTANCE PROGRAM</u>	<u>TOTAL PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL - INDIRECT</u>	<u>MANAGEMENT AND GENERAL - OTHER</u>	<u>TOTAL SUPPORTING SERVICES</u>	<u>TOTAL EXPENSES</u>
\$ -0-	\$ 599,361	\$ 1,949	\$ 244,483	\$ 246,432	\$ 845,793
-0-	153,411	350	52,949	53,299	206,710
92,442	1,012,974	155,935	-0-	155,935	1,168,909
39	32,614	-0-	2,087	2,087	34,701
1,050	10,290	-0-	-0-	-0-	10,290
-0-	6,720	1,097	34	1,131	7,851
-0-	6,063	-0-	-0-	-0-	6,063
-0-	364	748	-0-	748	1,112
-0-	10,882	-0-	-0-	-0-	10,882
-0-	-0-	1,480	-0-	1,480	1,480
2,958	9,730	928	-0-	928	10,658
30	6,104	3,824	198	4,022	10,126
-0-	18,976	58	9,332	9,390	28,366
-0-	9,112	6,353	2,854	9,207	18,319
1,940	6,456	-0-	-0-	-0-	6,456
1,425	132,575	-0-	-0-	-0-	132,575
-0-	1,164,355	-0-	-0-	-0-	1,164,355
<u>-0-</u>	<u>1,583</u>	<u>205</u>	<u>-0-</u>	<u>205</u>	<u>1,788</u>
\$ <u>99,884</u>	\$ <u>3,181,570</u>	\$ <u>172,927</u>	\$ <u>311,937</u>	\$ <u>484,864</u>	\$ <u>3,666,434</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ -0-
Adjustments to reconcile change in net assets to net cash (used in) operations:	
(Increase) in accounts receivable	(304,421)
(Increase) in grants receivable	(86,355)
Decrease in pre-paid expenses	1,309
Increase in accounts payable	108,261
Increase in accrued expenses	19,816
Increase in deferred revenue	<u>192,542</u>
Net cash (used in) operating activities	<u>(68,848)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,848)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>256,167</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>187,319</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	\$ <u><u>-0-</u></u>
Income taxes	\$ <u><u>-0-</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - 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. The Organization is supported primarily through federal grants.

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 carried at their estimated collectible amounts. 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 by the donor. Permanently restricted net assets are those use by WVHII is limited in perpetuity by the donor. At December 31, 2011, WVHII had no unrestricted, temporarily, or permanently restricted net assets.

Revenue and expense recognition - The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Grants, inclusive of program income, restricted for specific purposes are reported as revenue when qualifying expenses have been incurred. Grants received in advance of incurring qualifying expenses are recorded as deferred revenue. Revenue from fee for service contracts is recognized in the accompanying financial statements when the services have been performed.

Indirect expense allocation - The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - 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, 2011, WVHII had \$546,136 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 accompanying 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, 2011. 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, 2011, accordingly no liability has been accrued. Management believes the Organization is no longer subject to income tax examination for years prior to 2008.

NOTE 2 - CONCENTRATION OF REVENUE

The revenue earned under WVHII's contracts with U.S. Department of Health and Human Services account for the majority of the revenues of WVHII for the year ended December 31, 2011. 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. Accounts receivable have been adjusted for all known uncollectible accounts. The following is a summary of the revenue and receivables from the U.S. Department of Health and Human Services as of and for the year ended December 31, 2011.

Revenue	\$ <u>3,299,841</u>
Grants Receivable	\$ <u>593,813</u>

NOTE 3 - SERVICE CONTRACT COMMITMENTS

In 2010, WVHII entered into a contract with ONC, agreement number 90RC0017/01 (WVRHITEC) to serve as the West Virginia state-wide Health Information Technology Regional Extension Center. The grant is for the period of February 8, 2010 through February 7, 2014 and provides up to \$6,710,775 on a cost reimbursement basis. During the year ended December 31, 2011, WVHII recognized revenue of \$2,113,190, received \$1,897,258, and has outstanding receivables of \$396,649 and has recorded deferred revenue of \$23,900 as of December 31, 2011.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 - SERVICE CONTRACT COMMITMENTS (CONTINUED)

In 2009, WVHII entered into a contract with WVBMS, agreement number G100390 (Medicaid Transformation) to recruit and maintain an innovation community to facilitate provider engagement in accelerating medicaid transformation and the migration to the medical home model of care delivery. The grant is for the period July 1, 2009 through March 31, 2011 and provides up to \$1,998,869 on a cost reimbursement basis. During the year ended December 31, 2011, WVHII recognized revenue of \$371,804 on this grant, received \$647,869, paid the grantor \$103,032 of unspent grant funds, and has recorded deferred revenue of \$29,872 as of December 31, 2011.

In 2011, WVHII entered into a contract with WVBMS, agreement number G111024 (Medicaid Assistance Program) to provide planning and development functions to provide health homes for enrollees with chronic conditions. The grant is for the period from March 1, 2011 through February 29, 2012 and provides up to \$410,000 on a cost reimbursement basis. During the year ended December 31, 2011, WVHII recognized revenue of \$88,248 on this grant, no amounts have been received on this grant, has outstanding receivables of \$170,830 and has recorded deferred revenue of \$82,582 as of December 31, 2011.

In 2011, WHII entered into a contract with WVBMS, agreement number G111025 (Medicaid Assistance Program) to provide communications and education support to facilitate faster and more widespread adoption of electronic health records among West Virginia's eligible medicaid providers. The Grant is for the period from May 1, 2011 through April 30, 2012 and provides up to \$77,000 on a cost reimbursement basis. During the year ended December 31, 2011, WVHII recognized revenue of \$23,347 on this grant, no amounts have been received on his grant, has outstanding receivables of \$25,500 and has recorded deferred revenue of \$2,153 as of December 31, 2011.

In 2010, WVHII entered into a contract with WVBMS, agreement number G101036 (Children's Health Insurance Program) to assist health care providers in their preparations for qualification as a "patient-centered medical home". The grant is for the period from June 1, 2010 through March 31, 2011 and provides up to \$60,000 on a cost reimbursement basis. During the year ended December 31, 2011, no revenues were recognized on this grant, no amounts have been received on this grant, and WVHII has outstanding receivables of \$60,000 and has recorded deferred revenue of \$60,000 as of December 31, 2011.

In 2010, WVHII entered into a contract with West Virginia Department of Administration, agreement number 132370 (Children's Health Insurance Program) to operate the Tri-state Children's Health Improvement Consortium. The grant is for the period from February 22, 2010 through February 21, 2015 and provided up to \$3,631,015 on a cost reimbursement basis. During the year ended December 31, 2011, WVHII recognized revenue of \$680,014 on this grant, received \$676,055, and has recorded deferred revenue of \$44,800 as of December 31, 2011.

In 2010, WVHII entered into a contract with WVBMS, agreement number G110857 (Money Follows the Person Rebalancing Demonstration) to develop an operational protocol to be submitted with the Money Follows the Person grant application. The grant is for the period from October 1, 2010 through September 30, 2012 and provides up to \$197,000 of funds on a cost reimbursement basis. As of December 31, 2011, WVHII has recognized revenue of \$49,188 on this grant, has received \$168,018, and has recorded deferred revenue of \$35,821 as of December 31, 2011.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 - 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.

Community Health Network pays WVHII for the use of their employee pool (payroll and fringe benefits) utilized by the Network and other incidental expenses which are paid by WVHII on the Network's behalf. Community Health Network also provides a 10% match to WVHII's WVRHITEC program.

WVHII pays Community Health Network for management services and other programmatic contractual services in addition to sub-granting funds to Community Health Network.

WVHII pays CSI Solutions, LLC. for management services and other programmatic contractual services in addition to sub-granting funds to CSC Solutions, LLC.

The following is a summary of transactions and balances with these related parties:

	Community Health Network	CSI Solutions, Inc.
Revenue from related parties	\$ <u>331,973</u>	\$ <u>-0-</u>
Accounts receivable from related parties as of December 31, 2011	\$ <u>287,792</u>	\$ <u>-0-</u>
Expenses to related parties	\$ <u>303,858</u>	\$ <u>851,938</u>
Accounts payable to related parties as of December 31, 2011	\$ <u>260,904</u>	\$ <u>203,851</u>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

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.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5 - COMMITMENTS AND CONTINGENCIES

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.

In addition, as a result of the financial and compliance audit for the year ended December 31, 2011, instances of noncompliance were identified which could result in disallowed costs. The determination as to the allowability of the questioned costs will be made by the grantor agencies.

NOTE 6 - DEFERRED REVENUE

Deferred revenue, which consists of restricted funds received by WVHII but not yet expended for qualifying expenses, is comprised of the following as of December 31, 2011:

	<u>Amount</u>
Medicaid Transformation Grant	\$ 29,872
Medicaid Assistance Program	84,735
Money Follows the Person Rebalancing Demonstration	35,821
Children's Health Insurance Program	104,800
Health Information Technology Regional Extension Centers Program - Fees	267,008
Health Information Technology Regional Extension Centers Program - ARRA	<u>23,900</u>
Total	\$ <u>546,136</u>

NOTE 7 - PRIOR PERIOD ADJUSTMENT

Net assets at the beginning of 2011 has been adjusted to correct an error in recognizing revenue made in 2010 and 2009. Had the error not been made, the change in net assets would have been decreased by \$81,143 and \$8,536 for 2010 and 2009, respectively. Net assets at the beginning of 2011 has been decreased by \$89,679.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 8 - SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to December 31, 2011 through September 21, 2012 (the date the financial statements were available to be issued) for possible adjustment to, or disclosure in, the accompanying financial statements as required by the subsequent events topic of the FASB Accounting Standards Codification.

On June 22, 2012, the agency received an amended Notice of Grant Award for the Health Information Technology Extension Centers Program - ARRA grant to increase funding by an additional \$433,543, bringing the total award to \$7,144,318.

ACCOMPANYING INFORMATION

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	Federal <u>CFDA Number</u>	Pass-through <u>Entity ID Number</u>	<u>Program Period</u>
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FEDERAL AWARDS

Department of Health and Human Services

Health Information Technology Regional Extension Centers Program - ARRA	93.718	N/A	02/08/10 - 02/07/14
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**Pass-through - West Virginia Department of
Health and Human Resources:**

Medicaid Transformation Grant	93.793	G100390	07/01/09 - 03/31/11
Medicaid Assistance Program	93.778	G111024	03/01/11 - 02/29/12
Medicaid Assistance Program	93.778	G111025	05/01/11 - 04/30/12
Money Follows the Person Rebalancing Demonstration	93.791	G110857	10/01/10 - 09/30/12

**Pass-through - West Virginia Health
Insurance Program:**

Children's Health Insurance Program	93.767	132370	02/22/10 - 02/21/15
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**TOTAL DEPARTMENT OF HEALTH
AND HUMAN SERVICES**

TOTAL FEDERAL AWARDS

STATE AWARDS

**West Virginia Department of Health
and Human Resources:**

Medicaid Assistance Program	N/A	G111024	03/01/11 - 02/29/12
Medicaid Assistance Program	N/A	G111025	05/01/11 - 04/30/12

TOTAL STATE AWARDS

TOTAL FEDERAL AND STATE AWARDS

Combined Expenditures

1) CFDA No. 93.778	\$ 85,645	
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**Program or
Award Amount**

Expenditures

\$ 6,710,775

\$ 2,113,190

1,998,869

371,804

300,284

64,633 1)

69,300

21,012 1)

197,000

49,188

3,631,015

680,014

3,299,841

3,299,841

109,716

23,615

7,700

2,335

25,950

\$ 3,325,791

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the West Virginia Health Improvement Institute, Inc. and is presented in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE 2 - 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	\$ 310,218
93.718	Health Information Technology Regional Extension Centers Program - ARRA	\$ 854,137

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

Ware & Hall, PLLC

Certified Public Accountants

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Certified Public Accountants
WV Society of Certified Public Accountants

**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.
Barboursville, 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, 2011, and have issued our report thereon dated September 21, 2012. 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

Management of West Virginia Health Improvement Institute, Inc. is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-1 through 11-3 to be material weaknesses.

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 11-1 through 11-2.

West Virginia Health Improvement Institute, Inc.'s response to the findings identified in our audit is described in the accompanying corrective action plan. 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 the Board of Directors, management, others within the Organization, 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.

Wans & Hall PLLC

Huntington, West Virginia
September 21, 2012

DHHR - Finance

NOV 14 2012

Date Received

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.
Barboursville, West Virginia

Compliance

We have audited West Virginia Health Improvement Institute, Inc.'s compliance with the types of 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, 2011. 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 11-4 through 11-5 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 that are applicable to its Health Information Technology Regional Extension Center Program - ARRA, Medicaid Transformation Grant, and Children's Health Insurance Program, and subrecipient monitoring requirements that are applicable to its Medicaid Transforming Grant. 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, 2011. The results of our auditing procedures also disclosed one other instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-6.

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 material weaknesses and other deficiencies 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 11-4 through 11-5 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-6 to be a significant deficiency.

West Virginia Health Improvement Institute, Inc.'s responses to the findings identified in our audit are described in the accompanying corrective action plan. 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 the Board of Directors, management, 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 21, 2012

DHHR - Finance

NOV 14 2012

Date Received

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011

- 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.

Current Status: This funding has been repeated as finding number 11-4 in the 2011 audit. See current year corrective action plan for management's response to findings number 11-4.

- 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.

Current Status: This finding has been repeated as finding number 11-5 in the 2011 audit. See current year corrective action plan for management's response to finding number 11-5.

- 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 applied to these programs.

Current Status: Corrective action has been taken.

WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011

- 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.

Current Status: This finding has been repeated as finding number 11-6 in the 2011 audit. See current year corrective action plan for management's response to finding number 11-6.

- 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.

Current Status: Corrective action has been taken.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of Auditor's Report Issued - Unqualified

Internal Control Over Financial Reporting:

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- | | | |
|--|-----------------|------------------------------|
| • Material weakness(es) identified? | <u>✓</u>
Yes | <u>—</u>
No |
| • Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>✓</u>
Yes | <u>—</u>
None
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?	<u>✓</u> Yes	<u>—</u> No
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Identification of Major Programs:

Program

Department of Health and Human Services	<u>CFDA #</u>
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Health Information Technology Regional Extension Centers Program - ARRA	93.718
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Pass-through - West Virginia Department of Health and Human Resources:

Medicaid Transformation Grant	93.793
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Pass-through - West Virginia Health Insurance Program:

Children's Health Insurance Program	93.767
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
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Auditee qualified as low-risk auditee?	<u>—</u> Yes	<u>✓</u> No
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WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

11 - 1 Indirect Cost Allocation

Condition: The agency allocated indirect costs among the various grants but no indirect cost proposal was prepared or negotiated until the last quarter of 2011.

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 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. Thereafter, an indirect cost proposal must be submitted within six months after the close of each fiscal year.

Effect: Allocation of common or joint general and administrative costs without the completion and negotiation of an acceptable indirect cost 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.

This finding was also noted in the prior year audit.

11 - 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
YEAR ENDED DECEMBER 31, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

11 - 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 questioned 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.

This finding was also noted in the prior year audit.

11 -3 Revenue Recognition

Condition: Instances were noted where revenue from cost reimbursable grants was recognized by the Organization prior to incurring the qualifying expenses. As a result, revenues of the various grants were overstated.

Criteria: Grants, inclusive of program income, restricted for specific purposes are to be reported as revenue when qualifying expenses have been incurred. Grants received in advance of incurring qualifying expenses are to be recorded as deferred revenue.

Effect: Net assets and revenue were overstated and deferred revenue was understated on the Organization's December 31, 2011 financial statements. The necessary adjusting journal entries were made during the audit to correct the revenue recognition.

Recommendation: Implement monthly review procedures over revenue recognition to ensure that revenues are recorded when qualifying expenses are incurred. Revenue received in excess of qualifying expenses should be deferred.

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Department of Health and Human Services:

**Questioned
Costs**

11 - 4 Indirect Cost Allocation

**Health Information Technology Regional Extension
Centers Program - ARRA
Program - CDFA No. 93.718
Grant No. 90RC0017/01
Grant Period 02/08/10 - 02/07/14**

**Medicaid Transformation Grant - CFDA No. 93.793
Grant No. G100390
Grant Period 07/01/09 - 03/31/11**

**Children's Health Insurance Program - CFDA No. 93.767
Grant No. 132370
Grant Period 02/22/10 - 02/21/15**

The finding identified in 11-1, indirect cost allocation,
also applies to these programs.

Questioned Costs

None

This finding was also noted in the prior year audit for the
Medicaid Transformation Grant.

11 - 5 Subrecipient Monitoring

**Medicaid Transformation Grant - CFDA No. 93.793
Grant No. G100390
Grant Period 07/01/09 - 03/31/11**

The finding identified in 11-2, subrecipient monitoring,
also applies to this program.

Questioned Costs

None

This finding was also noted in the prior year audit.

**WEST VIRGINIA HEALTH IMPROVEMENT INSTITUTE, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2011**

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

Department of Health and Human Services:

**Questioned
Costs**

11 - 6 Cash Management

**Medicaid Transformation Grant - CFDA No. 93.793
 Grant No. G100390
 Grant Period 07/01/09 - 03/31/11**

**Children's Health Insurance Program - CFDA 93.767
 Grant No. 132370
 Grant Period 02/22/10 - 02/21/15**

Condition: The Organization drew funds from the pass-through agencies in quarterly installments without consideration for the immediate cash requirements for carrying out the purpose of the approved program.

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

This finding was also noted in the prior year audit for the Medicaid Transformation Grant

Total Questioned Costs - Department of Health and Human Services

None

Total Questioned Costs

None

CORRECTIVE ACTION PLAN

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

September 27, 2012

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 (WVHII the Organization or the agency) for the year ended December 31, 2011. The audit period addressed represents the second 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.

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

Section II: Financial Statement Findings

11-1 Indirect Cost Allocation

Auditor's Condition: The agency allocated indirect costs among the various grants but no indirect cost proposals was prepared or negotiated until the last quarter of 2011.

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. Thereafter, an indirect cost proposal must be submitted within six months after the close of each fiscal year.

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 WVHII during the audit period submitted its first Indirect Rate Proposal and was awarded a provisional rate agreement effective starting in December 2011. Because WVHII is a new entity it did 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. Each of the grant agreements included in the allocation made in 2011 included project budgets that with an allocation of 10% of certain costs. For the purposes of 2011, the allocation method implied by the projects budgets were used for the period prior to December 2011, the allocation method from the provisional rate agreement was used for the December 2011. WVHII has a provisional rate agreement that covers the period starting January 1, 2012 for the 2012 fiscal year and all allocations will be based upon this method.

11-2 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:

This condition was noted with respect to only the Medicaid Transformation Grant, such grant was completed during the first half of 2011. WVHII has established a policy for monitoring of sub recipients, as defined in OMB Circular No. A-133 Part 210 and followed this policy with respect to all other grants which were the subject of the audit findings. 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.

11-3 Revenue Recognition

Auditor's Condition: Instances were noted where revenue from cost reimbursement grants was recognized by the Organization prior to incurring the qualifying expenses. As a result, revenues of the various grants were overstated.

Criteria: Grants, inclusive of program income, restricted for specific purposes are to be reported as revenue when qualifying expenses have been incurred. Grants received in advance of incurring qualifying expenses are to be recorded as deferred revenue.

Effect: Net assets and revenue were overstated and deferred revenue was understated on the Organization's December 31, 2010 financial statements. The necessary adjusting journal entries during the audit to correct the revenue recognition.

Recommendation: Implement monthly review procedures over revenue recognition to ensure that revenue is recorded when qualifying expenses are incurred. Revenue received in excess of qualifying expenses should be deferred.

RESPONSE:

The revenue recognized in 2010 and adjusted in 2011 came from 2 sources: 1) Indirect revenue recognized prior to the indirect rate agreements and 2) program income resulting from contractual arrangements between WVHII and specific providers.

With respect to the indirect revenue, these adjustments conform the WVHII's Net Assets to our current methods of recognizing indirect income. The current recognition method resulted from our efforts to take corrective actions with respect to the West Virginia Health Improvement Institute, Inc. Schedule of Findings and Questioned Costs for the Year Ended December 31, 2010.

With respect to program income resulting from contractual arrangements between WVHII and specific providers, the recognition method had been determined based upon the relationship between the parties to the contracts that gave rise to the receivables recognized as revenue. It was determined that the recognition of such revenue was controlled by the grant contract rather than the contracts that gave rise to the receivables because the grant contract had a non-federal funds matching requirement. The impact of this change was to defer such revenue until the cash received from these non-federal sources were expended in satisfaction of grant related expenses. This change only impacts the timing of revenue recognition, and does not alter the cash or other grant operations.

WVHII will review its revenue recognition policies and recommend any changes that will strengthen the decision making process with respect to revenue recognition.

11-4 Indirect Cost allocation

With respect to finding identified in 11-1, indirect cost allocation, please refer to our response to 11-1, above.

11-5 Subrecipient Monitoring

With respect to finding identified in 11-2, subrecipient monitoring, please refer to our response to 11-2, above.

Federal Award Findings and Questioned Costs

11-6 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.

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.

WVHII West Virginia Health Improvement Institute

RESPONSE:

WVHII has several grant agreements with state agencies which are pass-through grants from federal granting agencies. These grants provide for the draw of funds according to a schedule incorporated into the grant agreements. This was done because the state agencies do not have a equivalent system to the federal Payment Management System, so WVHII was required to invoice for each grant draw and obtain a manual check; such process required anywhere between 30 and 60 days. WVHII is not in a position to pay the operational costs of such grants and capitalize the grant operations until such time as funds could be made available. This arrangement was coordinated with the granting state agencies. 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.

Summary

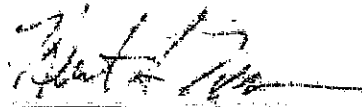
Management would like to thank the auditors for their diligence in review of the audit and financial processes. The recommendations are constructive and the necessary changes in policy and procedures have been implemented. The audit did not reveal any material deficiencies or disallowed costs. The audit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

Respectfully submitted,



Roger Chaufourier

Chairman of the Board and Chief Executive Officer



Kent Tapper

Chief Financial Officer (acting)