CENTRAL VIRGINIA
COMMUNITY SERVICES BOARD

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2010

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BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Board of Directors
Central Virginia Community Services Board
Lynchburg, Virginia

In planning and performing our audit of the financial statements of the Central Virginia Community Services Board (the "Board") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with *Government Auditing Standards*, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies included in this report are appropriately designated.

Additionally, during our audit we became aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Our comments and suggestions regarding these matters are also included in the attached report. Since our audit is not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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This report is intended solely for the information and use of the Board of Directors, management, and state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 10, 2010

CORE ACCOUNTING SYSTEM

We noted that the new core accounting system data is based on a SQL standardized structure. Two system analysts have SQL utilities that allow them to directly change data from outside the accounting system. While it appears that no significant changes have been made through this process, such changes are not reviewed regularly.

We recommend that a person without access to these SQL utilities review a log that records any change that is made by those SQL utilities, to determine that appropriate documentation was retained and that the changes were appropriate. Such documentation should explain the nature and effect of such changes.

Management's Response: *The Information Technology manager will begin reviewing the log of SQL changes for any unauthorized changes. This individual does not have access to the SQL utilities to make any changes.*

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

PRIOR YEAR COMMENTS AND SUGGESTIONS

June 30, 2010

AUDITOR ADJUSTMENTS (Material Weakness in 2008, Significant Deficiency in 2009)

As part of our audit, we posted a number of significant journal entries deemed material to the financial statements. In our judgment, these entries represent a material weakness in the Board's internal control over financial reporting. Adjustments which we considered material were posted to the allowance for uncollectible accounts, debt, capital assets, and compensated absences. We also proposed several adjustments to correct the Board's beginning net assets for errors in the prior period and for current year entries posted directly to net assets. (Our audit entries are detailed in a separate required communication to the Board of Directors.) (Certain accounts, such as cash, are being reconciled monthly, however, management should institute procedures whereby all significant general ledger balances are routinely reviewed and reconciled, both to reduce errors at year end and to improve the quality of interim information.)

Status: *We noted continued significant improvement in this area for fiscal year 2010. Management continued its steps to reconciling all significant general ledger balances and we proposed only one significant adjustment to the general ledger at year end. We no longer consider this to be a significant deficiency.*

SEGREGATION OF DUTIES (Material Weakness in 2008, Significant Deficiency in 2009 and 2010)

One of the more important aspects of any system of internal control is the segregation of duties. In an *ideal* system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual would have access to both physical assets and the related accounting records, since such access may allow errors or fraud to occur and remain undetected or concealed.

Following are some areas where duties are not ideally segregated:

- Checks are returned to the accounts payable staff after printing and signing to be readied for mailing. Ideally, mailing should be handled by an individual with no invoice processing capabilities.

  Status: *Accounts payable personnel are still responsible for handling and mailing checks after they are printed and signed.*

- At the outlying offices, administrative personnel job responsibilities for billing and accounts receivable also overlap substantially. Currently, the administrative assistant at each outlying office can create new clients in the system, collects client financial information to determine client ability to pay, enters all billing information for client visits, and collect and deposit payments for clients. One possible remedy would have payments always mailed to the client accounts office. Another option could be to have other personnel, without such access, be responsible for accepting payments at these locations.

  Status: *Controls at these offices remain inconsistent. Administrative personnel still collect and receipt payments from clients and make deposits, but cannot post payments to client accounts. Additionally, for most outlying areas, clinicians are now opening new clients and administrative personnel are inputting financial intake information. We recommend further evaluation of the amounts collected at these offices and that the cost versus benefit of additional controls be evaluated.*

SEGREGATION OF DUTIES (Material Weakness in 2008, Significant Deficiency in 2009 and 2010) (Continued)

- Currently, some employees in the accounts receivable department can post payments, post write-offs, and make adjustments to client accounts. This is because the responsibilities for posting payments, adjustments, write-offs, etc. are divided among personnel by the type of insurance or other coverage, rather than by process (payments, adjustments, cash receipts, etc.). This situation could allow funds to be stolen and the theft concealed by simply adjusting or writing off the receivable. Per the accounts receivable manager, while she can print a report to review write-offs and adjustments she rarely does this due to her workload, and because she also posts payments and entries to client accounts, her review of such activity would serve only to detect fraud by her staff.

  The best solution would be to strictly separate the handling of incoming cash and checks from anyone with the access to the accounts receivable. Two staff members could open the mail together, photocopy all checks and currency, prepare the deposits, and then immediately transport the funds to the bank for deposit. The photocopies would then be used to post the payments. Other controls could include the logging of incoming checks or even the use of a bank lock box. The best controls will separate *access* to the assets from the *accounting* for those assets as early as possible.

  Compensating controls, such as the review of write-offs and adjustments will be of little use because of the volume of such activity.

  Status: *Management has implemented a process requiring two individuals to open and sort incoming mail together, with one of those individuals transporting the funds to the bank. This at least partially mitigates the overlapping responsibilities pervasive in this area. Individuals are still assigned responsibility for entire funding streams (i.e. one person handles billings, payments and adjustments for Medicaid, for example), rather than for a given function/process, such as being responsible for posting payments for all funding streams. Of ongoing concern, the supervisor in this area is posting payments, billings, adjustments, and assisting in sorting mail. Management has added a new employee to the Client Billings/Reimbursement department and is working on realigning job duties to attempt to provide better segregation.*

DISASTER RECOVERY PLAN

During our audit and consideration of the Board information systems internal controls, we did note that the Board does have a disaster recovery plan in place. However, we also noted that this plan is currently over two years old and updates to the plan should be considered. The plan also should be tested periodically and the results monitored by management.

Status: *The Board has finalized its disaster recovery plan. However, the plan has not yet been tested.*

(Continued)

NETWORK SECURITY

We noted that the Board has not had an external party perform a vulnerability assessment or penetration test on the network. Since workstations are able to access the internet, we recommend the Board consider the cost/benefit of determining what vulnerabilities it might have from an internet-based attack. The number of security incidents involving hacking/cracking into systems from the internet has continued to escalate, especially over the last five years. We also recommend that the Board consider the cost/benefit of a periodic third party penetration test be considered to determine potential vulnerabilities to the network or to the core applications or data on your systems.

Status: *The Board engaged an external party to perform a network vulnerability assessment during the current year, with no major vulnerabilities noted.*

ACCOUNTS RECEIVABLE (Material Weakness in 2008, paragraphs that were fully addressed in 2009 have been removed)

The Board has many accounts that are significantly delinquent, and collections on such accounts appear not to be actively pursued, nor is there a clear process for monitoring the following up on delinquent accounts. The Board has multiple options available to it to pursue these delinquent accounts, including the utilization of an outside collections firm and filing with the debt set-off program administered by the Commonwealth of Virginia to have amounts withheld from individual tax refunds. We recognize that decisions to pursue or not pursue collections, for an organization such as the Board, are made differently than for a for-profit enterprise. However, we believe that the current rates of delinquency and noncollection are partially attributable to inadequate policies and procedures. A step as significant as outsourcing the billing and collection process entirely may be worth consideration.

We also noted that current practice only posts cash receipts to the general ledger subsequent to month end. The result is that the Board's general ledger cash balance never truly reflects the cash position of the Board as postings to the ledger are always behind. We recommend the Board begin posting receipts at least weekly to the general ledger. More frequent posting will allow management to make decisions based on more reliable information.

Additionally, we noted approximately 2,800 individual client accounts that had a negative receivable balance at June 30, 2009, totaling approximately $190,000. While none of these accounts contain significant balances, the total is significant enough to warrant attention. These negative accounts appear to result from incorrect postings at some point to individual client accounts – whether it be billings, payments or adjustments rather than amounts that are owed back to clients. We recommend the Board's staff determine the reason for these negative balances and make the necessary corrections. We also suggest periodic review of the sub-ledger for negative accounts, with appropriate follow-up and resolution.

Status: *Management continues to post receipts on a monthly basis. The Board has not yet developed a clear policy for writing off old accounts, although this is being discussed by management. Management is currently trying to evaluate client accounts on a case-by-case basis to determine collectability and has worked on reducing the number of severely delinquent accounts. Staff has completed training to use the debt set-off program provided by the Commonwealth of Virginia. Finally, the Board has taken steps to reduce the number of accounts with negative balances during fiscal year 2010. At June 30, there were approximately 1,750 individual client accounts with negative balances, totaling approximately $72,600.*

(Continued)

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

PRIOR YEAR COMMENTS AND SUGGESTIONS

June 30, 2010

UNAUTHORIZED BANK ACCOUNT

We noted an employee Christmas Club account held in the name of the Board with a financial institution, but not reflected on the Board's general ledger. Upon further inquiry, we learned that the account contains no agency funds, but is funded and managed by employees of the Hudson House. This account should not be held under the Board's name or identification number.

We recommend that the Board take the steps to have its name removed from this account, and ensure that only authorized personnel open financial institution accounts in the Board's name.

Status: *The agency has moved the majority of the funds from this account. Management expects that this account will be closed during fiscal year 2011.*

STORAGE OF BACKUP TAPES

We noted that the Board's backup tapes are currently stored on the same street as the Board's data center. This leaves the Board's main backup source extremely close to the live center and leaves the Board at risk in the event of a substantial disaster.

We recommend that the Board seek a secure storage location that is more geographically distant from its data center location.

Status: *The Board now has an off-site, geographically distant storage location for back-up tapes.*