



Virginia Department of Health's Financial Management, Staffing, and Accountability

Study resolution

- Review the Virginia Department of Health (VDH), including:
 - financial management
 - staffing
 - information technology systems and staffing
 - organization and management
 - programs for improving the pipeline of nurses

Commission resolution (November 2023)

Primary research activities

- Interviewed key stakeholders in Virginia and nationally
 - VDH leadership and staff
 - Other state agency staff, including DHRM, APA, DOA, DPB, DGS, VITA
 - Federal grantors and national subject matter experts
- Surveyed VDH staff and participants in nursing incentive programs
- Analyzed data on staffing, hiring, expenditures, grants, vendor invoice payments, and nursing incentive programs
- Reviewed relevant reports and documents, including internal and external audits and VDH job descriptions

In brief

Several major overlapping developments have created substantial operational challenges for VDH.

VDH's numerous financial management problems have affected other organizations and required state intervention.

VDH lacks sufficient qualified and well-trained staff, reliable and efficient systems, and effective internal controls to manage its finances.

In brief (cont'd)

VDH has experienced considerable staffing challenges in recent years, and VDH's protracted and inefficient hiring process prolongs vacancies in critical positions.

VDH is overly reliant on contractors, which prevents it from developing a stable and knowledgeable workforce.

VDH staff are not consistently held accountable for their performance, increasing employee discontent and perpetuating a negative workplace culture.

In this presentation

Background

Financial management at VDH

VDH staffing and hiring process

Management and accountability at VDH

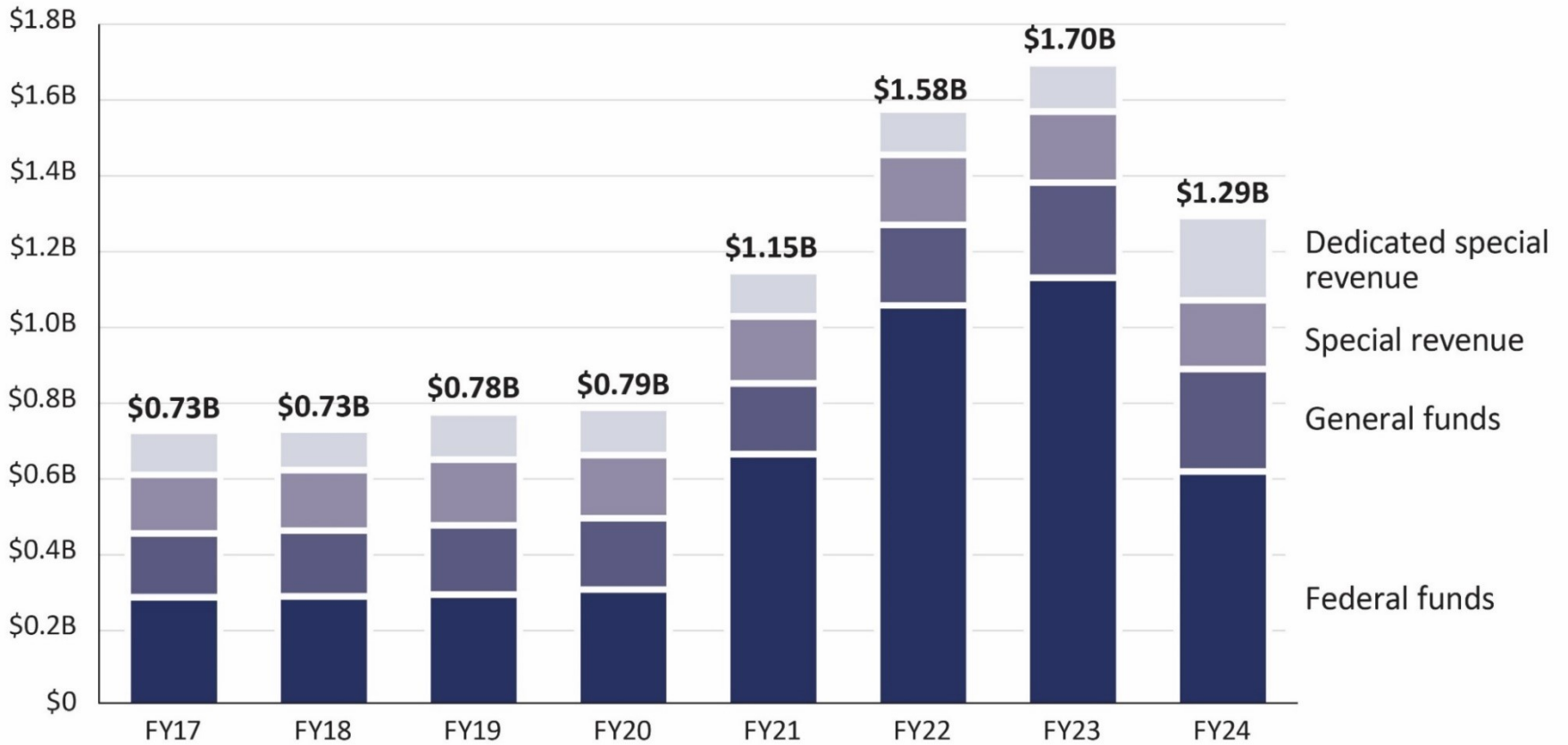
VDH administers a broad range of public health programs and services

- VDH provides a wide variety of public health programs and services. For example, it is responsible for:
 - detecting and mitigating communicable diseases (which includes administering vaccinations)
 - administering health and nutrition programs
 - maintaining the state's system of vital records
 - inspecting restaurants and drinking water sources
 - determining cause and manner of certain deaths
- Commissioner also has powers related to public health emergencies, including the authority to order quarantines or treatments to protect public health

VDH's central office is responsible for supporting a complex statewide public health system

- Central office supervises the implementation of public health programs across the state but also provides some services directly (e.g., hospital licensing and inspections)
- VDH delivers most of its services through the agency's 32 health districts and 114 health departments
 - Health departments are generally responsible for public-facing activities, such as vaccinations and WIC services
 - Health districts generally serve as administrative and programmatic headquarters for several departments
- Around two-thirds of VDH's ~3,100 classified staff work in a health district or department

VDH relies heavily on federal funds and received an influx of funds following the COVID-19 pandemic



Notes: Dedicated special revenue & special revenue are revenue streams outside the general fund that are earmarked for a particular purpose. VDH received a total of \$2.3 billion in COVID-related funds between FY20 and FY24.

Several major overlapping developments have created substantial operational challenges for VDH

- VDH's central role in responding to the COVID-19 pandemic placed significant demand on staff and strained the agency's administrative functions
- VDH attempted to implement an ultimately unsuccessful reorganization of administrative staff just before the pandemic
- VDH has experienced significant leadership changes and vacancies in key administrative offices
- Low morale and staff dissatisfaction with administrative operations have developed

Current VDH leaders recognize administrative challenges and are taking steps to address them

- VDH has received increased attention from legislators, the executive branch, and public news reports for many of its financial management deficiencies
- Current VDH leaders and the administration have been transparent about problems and have taken steps to begin to address them. For example:
 - Increasing oversight of central office operations
 - Creating new chief operating officer, chief financial officer, and controller positions
 - Adding financial management staff to VDH program offices

In this presentation

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Two offices lead VDH's financial management activities, but many other staff are involved

- VDH is a large, financially complex agency with numerous funding streams
 - ~\$1.3B in FY24, including funding from 165 federal grants
- Office of Financial Management (OFM) and Office of Procurement and General Services (OPGS) lead VDH financial management activities
- Around 150 additional financial management staff and another 120 contractors with financial management roles throughout agency

Finding

In recent years, VDH has experienced numerous financial challenges, including fraudulent activity; overspending; late payments to vendors, its own staff, and other state agencies; poor management of federal grants; and late and inaccurate financial reporting.

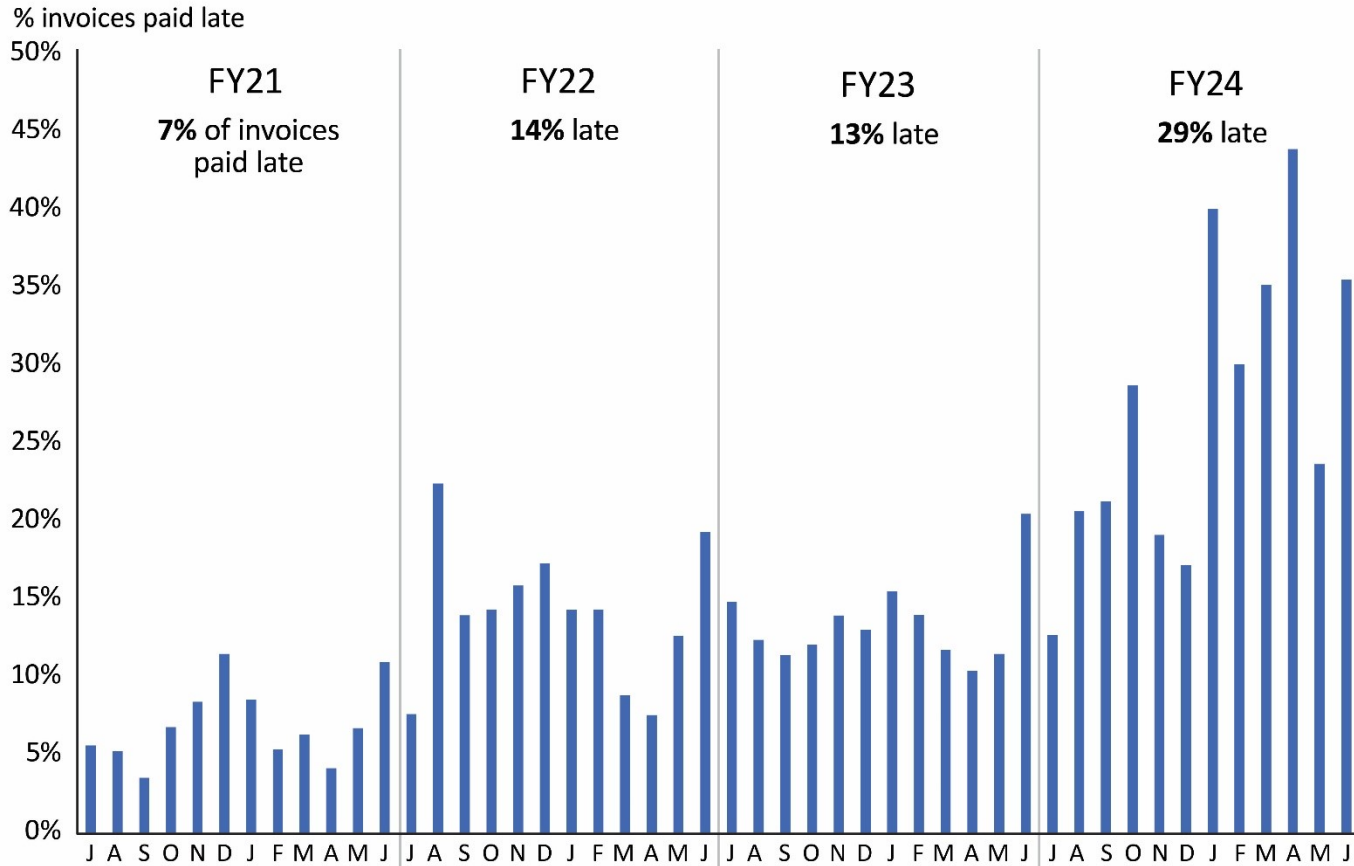
VDH has had significant problems managing and accounting for state and federal funds

- Problems managing state and federal funding
 - \$33M deficit in FY24 after VDH's Office of Emergency Medical Services had years of overspending, poor financial management, and over \$4M of fraudulent activity
 - \$2M deficit in FY22 after VDH's Office of Drinking Water used one-time funds for recurring expenses
- Repeated external findings of deficiencies with internal controls, financial reporting, and management of state and federal funds

VDH has struggled to pay its bills promptly and accurately, negatively affecting other entities

- VDH frequently pays its financial obligations late
 - VDH paid 29% of its 29,688 vendor invoices late in FY24; total value of all late payments in FY24 was \$193.6M
 - Payment backlogs to other state agencies (e.g., DGS, VITA) have impacted those agencies' ability to pay vendors
- VDH has made duplicative payments to vendors, other state agencies, and staff
 - Example: \$1.3M of excess payments to DGS in April 2024

VDH paid substantially more vendors late in FY24 than in previous years



Note: Payments categorized as late if paid 31 days or more after receipt of invoice. State law requires agencies to pay for delivered goods and services within 30 days after receipt of an invoice.

VDH's challenges managing grant funding has jeopardized essential funding

- VDH has experienced significant grants management challenges, including:
 - Incorrect drawdowns of grant funding
 - Inadequate documentation of expenses
 - Incorrect and late financial reporting
- Before August 2024, VDH did not have a complete inventory of all the agency's grants

Federal agencies have modified processes for issuing funds to VDH to protect grant funds

- Since 2022, EPA has required VDH to fund grant expenses up front and request reimbursement because of concerns about VDH's ability to manage federal funds
 - EPA is VDH's second largest federal funder
 - Has created cashflow pressures within the agency
- EPA staff report it is uncommon for state agencies to need to be placed on reimbursement status
 - VDH is only state agency in its EPA region on reimbursement status as of October 2024

EPA = U.S. Environmental Protection Agency

VDH's financial problems have required intervention from legislative, executive branches

- General Assembly has appropriated funding to:
 - meet Office of Emergency Medical Services' obligations
 - avoid staff layoffs after Office of Drinking Water shortfall
 - modernize the agency's administrative systems
 - create a new office of grants administration within VDH
- Executive branch has also dedicated significant time and resources to addressing VDH's financial management challenges
 - Example: Recent DPB review of VDH's grants management with 28 recommendations for improvement

Recommendation

The General Assembly may wish to consider including language in the Appropriation Act directing VDH to report on its progress in implementing DPB's grants management recommendations to the Joint Subcommittee on Health and Human Resources Oversight no later than September 1, 2025.

Finding

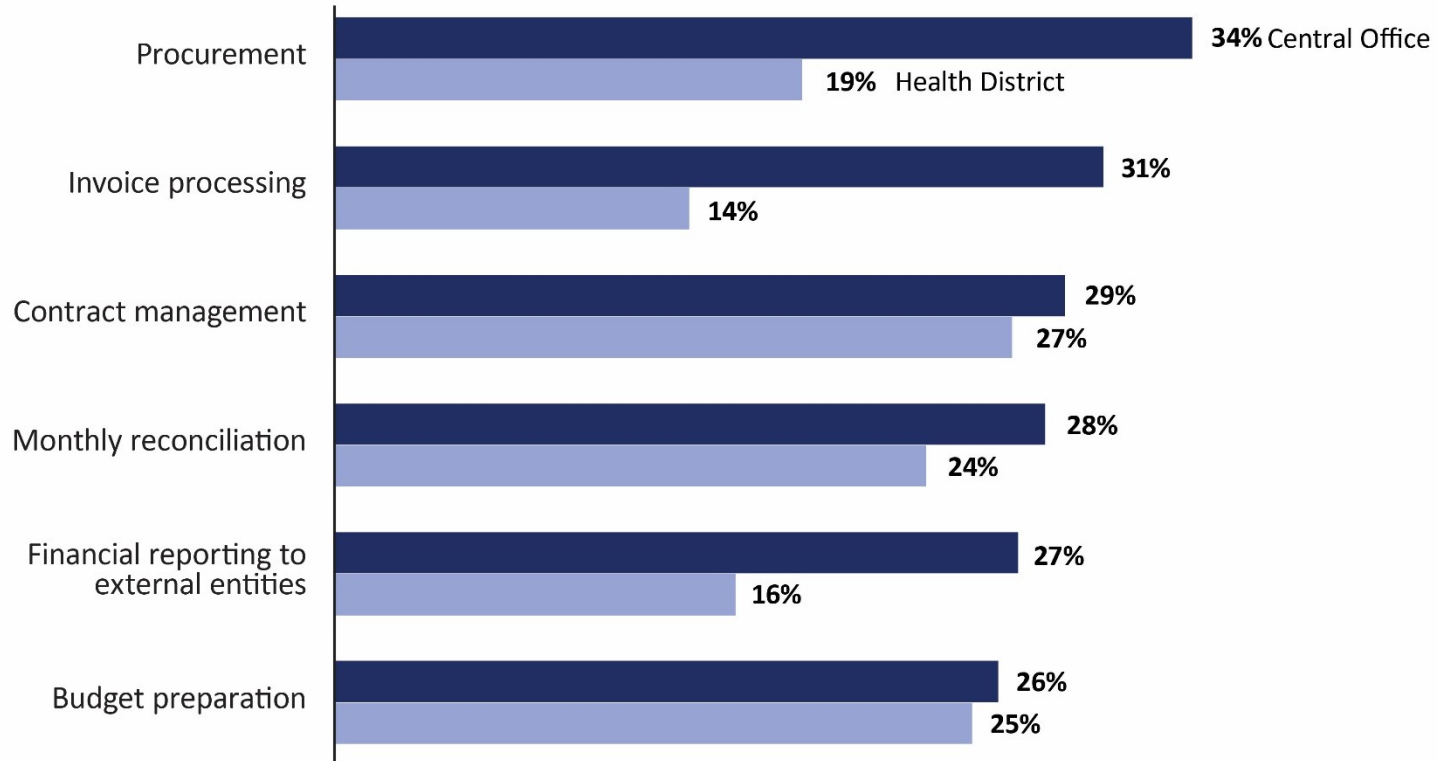
Staffing challenges, insufficient training, poor internal controls, and inadequate financial management IT systems have contributed to VDH's inability to manage its finances.

VDH has experienced high turnover in financial leadership and staff, relies heavily on contractors

- 13 individuals have held four key financial management leadership positions since 2018
- 43% of OFM's classified staff left the agency between June 2023 and June 2024
 - OFM's vacancy rate was 33% as of August 2024
- Contractors made up 63% of OFM's staff and 37% of all staff across VDH with financial management roles as of June 2024

OFM = VDH's Office of Financial Management

Many VDH staff with financial responsibilities report being untrained or unqualified to do them



Note: Figure shows % of staff reporting that they have been asked to perform a financial management activity in the past 12 months that they “did not feel sufficiently qualified or trained to do,” by type of activity. Responses for other financial management activities are listed in report.
Source: JLARC survey of VDH staff (July and August 2024)

Recommendations

The secretary of administration should direct DHRM to lend its expertise to (i) identify key vacant financial management positions at VDH, (ii) develop a plan and timeline for filling those positions, and (iii) assist VDH with recruiting candidates.

The secretary of finance should direct DOA to lend its expertise to (i) help identify key vacant financial management positions at VDH; (ii) advise on the qualifications necessary for each vacant position; assess the quality of the applicant pools; and participate, as appropriate, in final interviews of selected candidates.

Recommendation

VDH's new chief financial officer should (i) determine whether the agency has an appropriate number of staff with the right qualifications and training to carry out its financial management functions, (ii) take appropriate steps to ensure that all staff with financial management responsibilities are trained or otherwise qualified to perform those responsibilities, and (iii) propose changes to the agency's financial management workflows, if needed, to improve their efficiency and accuracy.

VDH's internal controls are insufficient to avoid financial errors or misuse of funding

- Duplicate payments, repeated incorrect grant drawdowns, budget shortfalls, and fraud indicate deficiencies in internal controls
- VDH has self-certified as non-compliant or partially compliant with the state's required internal control and risk management standards for the last three years
 - 16 transaction-level financial management controls failed testing in VDH's most recent evaluation
 - Relying on VDH to evaluate its own internal controls is likely insufficient as its most recent evaluation failed to identify known deficiencies

Recommendations

The General Assembly may wish to consider requiring VDH to designate a senior staff member to be responsible for ensuring the adequacy of the agency's internal controls and ensuring the timely correction of any identified deficiencies.

DOA should complete a quality assurance review of VDH's key financial processes, internal controls, and evaluation process for internal controls, and should conduct a follow-up review six months to a year later to ensure identified deficiencies are corrected.

In this presentation

Background

Financial management at VDH

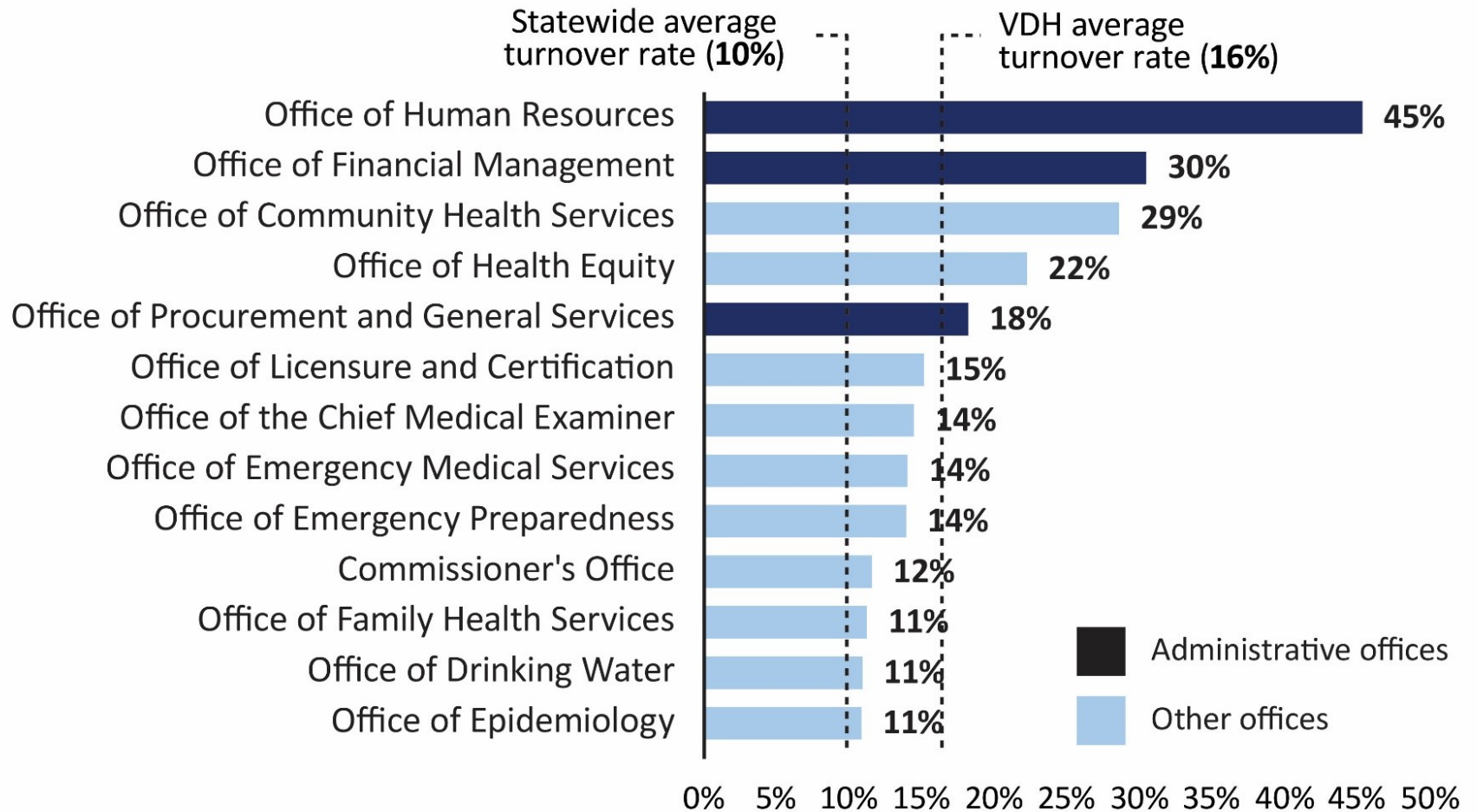
VDH staffing and hiring process

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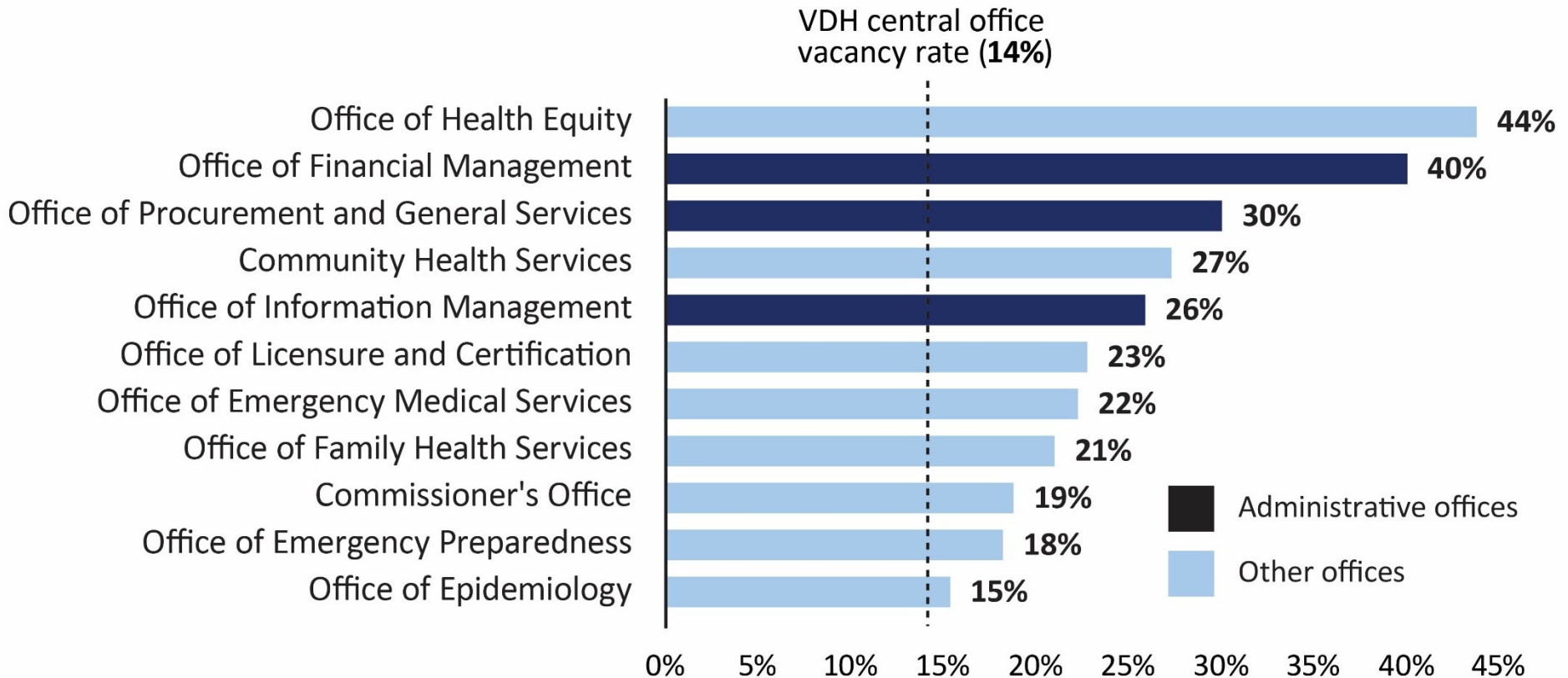
Findings

VDH has experienced considerable staffing challenges in recent years, especially in offices responsible for carrying out critical administrative functions.

FY24 VDH central office turnover rate was higher than statewide rate; much higher in some offices



Some administrative offices have among the highest vacancy rates



Note: Statewide vacancy rate was not available as of October 2024.

Many central office staff feel their office has insufficient staff compared with workload

- Almost half of central office staff report their offices are understaffed compared with the workload
- More than two-thirds of staff in four VDH offices expressed that their office has insufficient staff compared with the workload
 - Office of Emergency Medical Services
 - Office of Internal Audit
 - Office of Procurement and General Services
 - Office of Licensure and Certification

Example: VDH inspections backlog (as of August 2024)

- Due to insufficient staffing, VDH's Office of Licensure and Certification has been unable to perform key state-mandated inspections
 - 99% of inpatient hospitals, 91% of outpatient surgical hospitals, and 39% of nursing homes were overdue for mandated biennial state licensure inspection
- Virginia had the sixth-highest proportion of nursing homes that had not been inspected within the past two years, as required by CMS

CMS = U.S. Centers for Medicare and Medicaid Services

Some health districts are also experiencing substantial staffing challenges

- Average turnover rate for health districts was 16% in FY24, but 10 districts had rates that were 20% or higher
 - Portsmouth (42%), Hampton (26%), Eastern Shore (25%), and Southside (25%) had the highest turnover rates
- Average vacancy rate was 17% in June 2024, but 11 districts had rates that were 20% or higher
 - Portsmouth (38%), Peninsula (35%), and Hampton (29%) had the highest vacancy rates
 - Several positions that are key to VDH's core mission have especially high vacancy rates, including WIC program staff and public health nurses

Top reasons for dissatisfaction are compensation, agency management, and lack of accountability



Note: Includes top six reasons staff reported dissatisfaction with their jobs or with VDH as an employer.

Finding

VDH's protracted and inefficient hiring process prolongs vacancies in critical positions.

VDH's hiring process is slow, but dedicated recruitment staff improve hiring for some positions

- VDH's average time to fill positions was 101 days (FY24), longer than the statewide average of 75 days
 - 55% of VDH hiring managers and 46% of recently hired employees think the process takes too long and is inefficient
 - At least 490 qualified candidates took another job or withdrew their application because of delays in VDH's process
- VDH has dedicated staff to assist certain offices with hiring, but most are contractors funded with a temporary grant
 - Has resulted in slightly faster hiring times
 - Hiring managers report positive experiences
 - Other large state agencies have full-time classified recruiters

Recommendation

The General Assembly may wish to consider providing general funds for at least four full-time classified recruiter positions at VDH. These positions should be dedicated to recruiting qualified candidates into especially critical or hard-to-fill positions.

Confusion about hiring process and poorly written job descriptions also contribute to hiring delays

- VDH has not clearly defined or documented hiring process and staff's roles and responsibilities
 - Staff may duplicate tasks or assume someone else is handling certain tasks
 - Difficult to hold staff accountable for carrying out their role
- Job descriptions for advertised positions do not always accurately describe the job or specific skills required
 - Delays hiring because agency receives many applications from candidates who do not meet job requirements

Recommendations

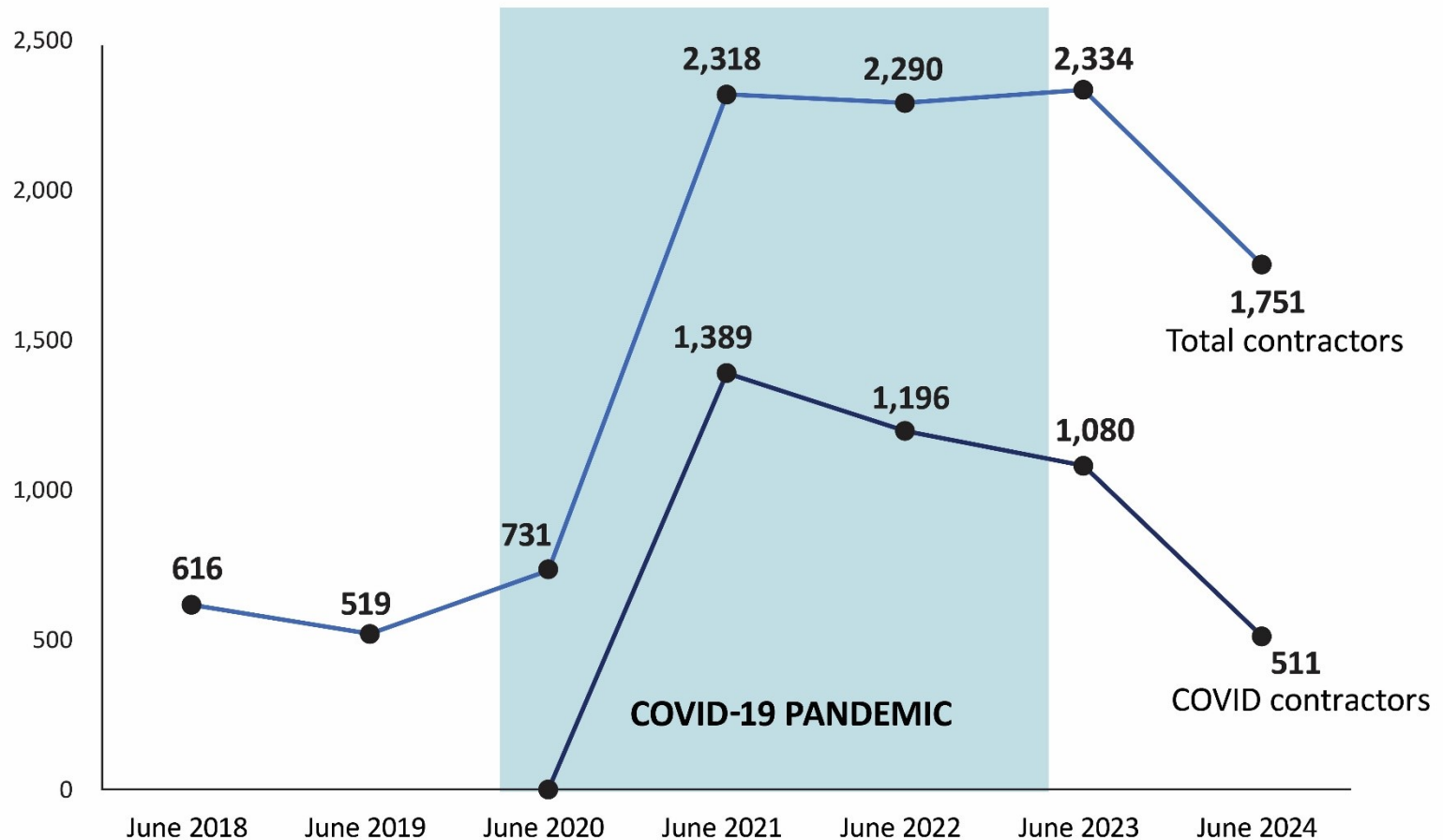
VDH should

- work with DHRM and other agencies to increase the efficiency of its hiring process and the timeliness of filling vacant positions;
- develop a written description of the agency's hiring process (including who is responsible for completing each part of the process and approximate timeframes for each component); and
- ensure that advertisements for open positions include only the job duties and qualifications for the specific position to be filled and enough detail to attract interested and qualified applicants.

Finding

VDH is overly reliant on contractors, which prevents it from building a stable and knowledgeable workforce.

VDH's use of contractors increased substantially during the pandemic and remains high



Reliance on contractors is preventing VDH from developing a stable and knowledgeable workforce

- Contractors make up 36% of VDH's current workforce
- VDH uses contractors more than other state agencies and state public health departments in nearby states
- Contractors are less likely to stay with an agency for an extended period
 - Leads to increased turnover and loss of knowledge
 - Requires VDH staff to continuously train new contractors
- High reliance on contract staff also contributes to management and accountability challenges

VDH does not have formal guidelines or policies to help determine when to use contractors

- In some cases, use of contractors appears reasonable (e.g., projects funded by time-limited grants)
- In other cases, use of contractors does not appear strategic or cost-effective (e.g., to fill long-term roles)
 - 39% of contractors have worked at VDH for 3+ years
 - 10% of contractors have worked at VDH for 10+ years
- High reliance on long-term contractors may put VDH at risk of employee misclassification, civil penalties
- No guidelines or policies at VDH to determine when contractors should be used

Recommendations

VDH, in consultation with DHRM and DGS, should develop and enforce an internal policy that specifies when contract employees may be used.

VDH should determine whether each contract position is necessary and develop a plan, as needed, to replace contractors with classified staff or transition them to classified positions.

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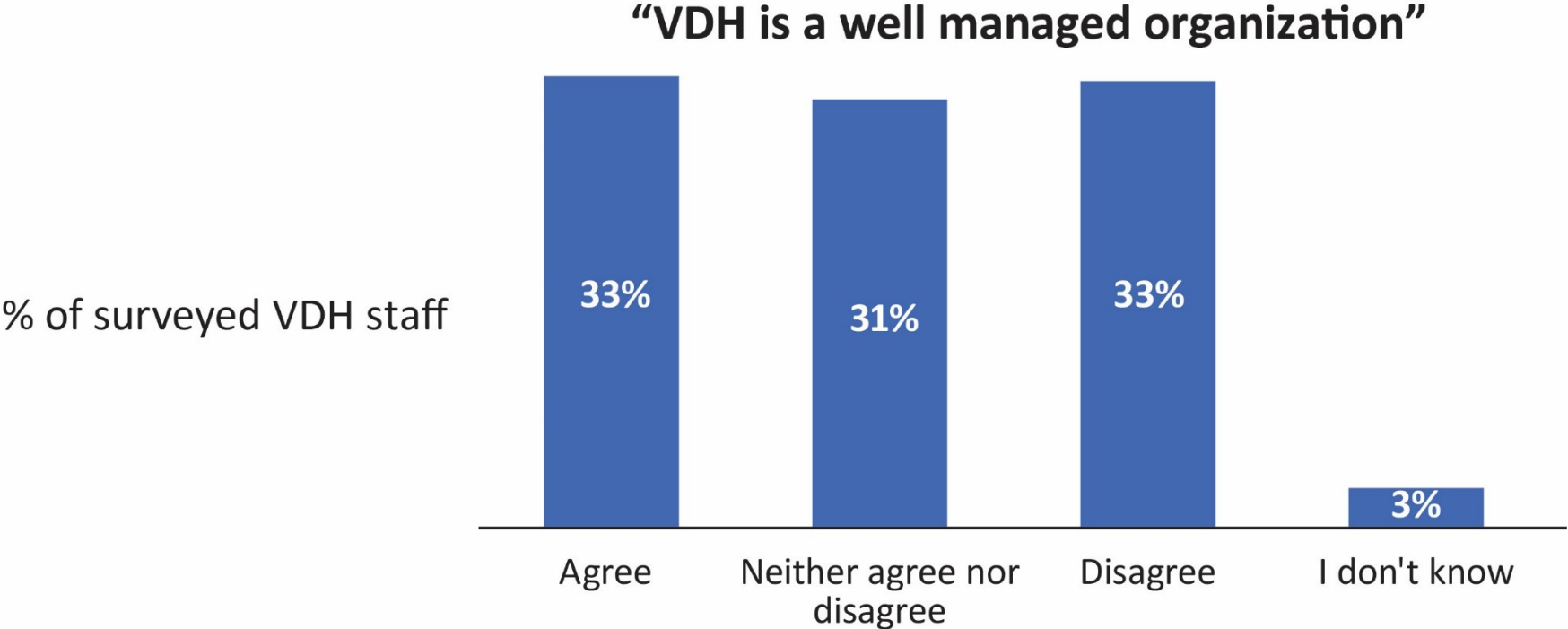
Background

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Management and accountability at VDH

Only one in three staff believe VDH is a well-managed organization



Note: N=2,505. Includes VDH central office and district staff.

Findings

VDH staff are not consistently held accountable for their performance, contributing to employee discontent and perpetuating a negative workplace culture.

VDH staff at all levels reported concerns about the agency's lack of accountability

- Almost 20 percent of staff reported that their coworkers are not held accountable for their performance
 - Higher in OHR, OFM, and OEMS
- Supervisors are especially concerned about a lack of accountability
 - More than a third of supervisors responding to JLARC's survey reported that VDH's processes for evaluating staff performance and addressing underperformance are not working well

Lack of accountability is contributing to low morale and employee turnover

- “There is not a culture of accountability within VDH... When you try and hold staff accountable, you are met with resistance and red tape to address the issues.”
- “Overall, staff are not being held accountable. In our district, it is habitual that staff are not held accountable and the work they are not completing or doing well is handed off to another employee to do...”
- “It is difficult to address the underperformance of staff, particularly those you inherit, when they have been effectively mismanaged for their entire career at VDH...”

Several managerial problems at VDH make accountability more challenging

- State law and DHRM policy establish employee performance management requirements
 - Staff at VDH and other agencies view requirements as often challenging and time-consuming
- Certain issues at VDH make accountability more difficult
 - Lack of clear performance expectations for some staff and supervisors
 - Lack of supervisors' understanding of state performance management requirements
 - Excessive number of direct reports under some supervisors
 - Inconsistent guidance and support from VDH's OHR

Recommendations

VDH should

- ensure that all VDH staff are provided with clear performance expectations that are reviewed annually;
- ensure that all supervisors have clear written expectations that they are responsible for performance management;
- implement a training program for VDH supervisors about performance management requirements; and
- identify supervisory positions that have either too many or too few direct reports and develop and implement a plan to ensure supervisors have appropriate spans of control.

Findings

Current VDH leadership has taken steps to better monitor central office operations and performance but still lacks sufficient visibility into operations and performance of the agency's 32 health districts.

VDH leaders lack sufficient information about operations, performance of districts and offices

- VDH leaders need timely, relevant, and actionable information on the operations and performance of its sub-units to effectively manage such a large organization
 - A lack of awareness about central office operations allowed problems to grow (e.g., OEMS issues)
- Current leaders have taken steps to improve their oversight of central office, but their visibility into health districts' performance remains limited and insufficient
 - Example: No information readily available on timeliness or quality of services provided by health districts (e.g., past-due restaurant inspections, patient wait times)

Internal agency dashboard would help leaders understand and address agency performance

- Several other large agencies, including DBHDS and VDOT, have developed internal dashboards that leverage agency data to synthesize and provide information leaders need to understand agency performance
 - Similar initiative could be undertaken by VDH through its Office of Information Management
- A dashboard with up-to-date and critical information would allow leadership to focus its efforts on offices and health districts that need the most attention and support

Recommendation

VDH should develop and maintain an agency management dashboard that

- (i) provides agency leaders with up-to-date information on the operations and performance of each program office, administrative office, and health district; and
- (ii) includes appropriate measures to assess whether the key functions in each office or health district are being performed adequately.

Findings

VDH leadership has increased internal audit staff over the past year, but OSIG-required investigations have strained available staffing resources.

OSIG investigations and OEMS review have strained available internal audit resources

- VDH leaders increased internal audit staffing, but new staff primarily used for OSIG investigations and OEMS review
 - OSIG determines whether to assign waste, fraud, and abuse hotline investigations to itself or other agencies
 - Investigations delegated to VDH by OSIG tripled in recent years, from 10 in FY22 to 31 in FY24
- VDH unable to complete any internal audits of VDH health districts since 2020 and completed less than half of required IT security audits of its 59 sensitive systems in recent years

Recommendations

The Office of the Governor should direct OSIG to assign all waste, fraud, and abuse hotline investigations relating to VDH to its own staff rather than VDH's Office of Internal Audit.

The General Assembly may wish to consider providing general funds to support at least two additional IT auditor positions within VDH's Office of Internal Audit.

Code of Virginia's requirements for VDH leadership should be strengthened

- VDH needs multiple leaders with strong administrative and leadership experience to manage the agency well
- Codifying a chief operating officer (COO) position at VDH would allow commissioner to focus on public health responsibilities
 - Newly created COO position bolstered VDH's ability to begin to resolve its many operational and financial problems
- State law requires VDH commissioner to be a physician but does not require experience managing large and complex organizations

Recommendation

The General Assembly may wish to consider establishing a chief operating officer position at the Virginia Department of Health.

The General Assembly may wish to consider amending the Code of Virginia to add “organizational leadership and administration experience” to the required qualifications for the commissioner of health.

VDH's problems warrant increased attention by the legislature, at least temporarily

- Current VDH leaders' willingness to accept ownership of the challenges facing the agency is positive and encouraging
- Addressing VDH's financial management, human resources, and accountability challenges will take multiple years, require attention across administrations

Recommendation

The General Assembly may wish to consider requiring the VDH commissioner to provide semi-annual written and in-person reports on the agency's progress implementing the report's recommendations to the Joint Subcommittee on HHR Oversight through at least December 2026.

JLARC staff for this report

Tracey Smith, Associate Director

Drew Dickinson, Project leader

Christine Wolfe, Senior Legislative Analyst

Laura White, Senior Associate Legislative Analyst

Hannah Garfinkel, Associate Legislative Analyst

Martha Tyler, Research Associate