

Delaware Health Information Network

**Financial Statements,
Independent Auditors' Reports,
and Single Audit**

June 30, 2012

Issuance Date: November 1, 2012

Delaware Health Information Network
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Independent Auditors' Report

To the Board of Directors
Delaware Health Information Network

We have audited the accompanying financial statements of the Delaware Health Information Network (DHIN) as of June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of DHIN'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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DHIN as of June 30, 2012, and the changes in its financial position 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 October 10, 2012, on our consideration of DHIN's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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.

To the Board of Directors
Delaware Health Information Network

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DHIN's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 basic 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.

Belfint, Lyons & Shuman, P.A.

October 10, 2012
Wilmington, Delaware

Management's Discussion and Analysis

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2012

As management of the Delaware Health Information Network (DHIN), we offer readers of DHIN's financial statements this narrative overview and analysis of the financial activities of DHIN for the fiscal year ended June 30, 2012 (FY 2012). Please read it in conjunction with DHIN's audited financial statements, which begin on page 8.

DHIN was enacted by the Delaware General Assembly in 1997 as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information. Effective January 1, 2011, DHIN became its own self-governing entity as a public instrumentality of the State of Delaware (State). This discussion and analysis contains unaudited financial information for the entire fiscal year beginning July 1, 2010 through June 30, 2011 (FY 2011) for comparison purposes.

Financial Highlights

- DHIN's total net assets increased approximately 36 percent as a result of FY 2012 operations.
- During FY 2012, DHIN had revenues that were \$584,523 more than the \$5,099,472 generated in total expenses. This improved from FY 2011 when expenses exceeded revenues by \$1,935,172.
- Operating revenues increased by \$536,820 (or approximately 38 percent) during FY 2012 as a result of signing six new data senders during the year.
- Nonoperating revenues increased by \$2,085,393 (or approximately 125 percent) during FY 2012 as a result of receiving an additional \$1,845,283 in State funding and receiving an additional \$239,102 in federal funds under a reimbursable federal grant award.
- Administrative and personnel expenses increased \$72,275 (or approximately 5 percent) during FY 2012 as a result of leasing and operating an office location and increasing the number of staff.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to DHIN's basic financial statements. DHIN's basic financial statements are comprised of four components: statement of net assets; statement of revenues, expenses, and changes in net assets; statement of cash flows; and notes to financial statements.

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2012

Overview of the Financial Statements--Continued

The Statement of Net Assets presents information on all of DHIN's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information detailing how DHIN's operations generated revenues and expenses, regardless of the timing of cash flows.

The Statement of Cash Flows presents information detailing DHIN's cash receipts and payments during the fiscal year classified by principal sources and uses and segregated into key elements.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The financial statements of DHIN have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned and expenses are recognized when incurred. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. DHIN's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. DHIN has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principle Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. DHIN has elected not to follow subsequent private-sector FASB guidance.

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2012

Financial Analysis

	<u>2012</u>	<u>2011</u>
Assets		
Cash and Cash Equivalents	\$ 2,332,193	\$ 774,535
Restricted Cash	228,228	100,830
Receivables		
Trade	81,035	566,286
State	483,886	234,297
Federal	83,703	190,975
Lease Deposit	6,979	6,979
Total Assets	<u><u>\$ 3,216,024</u></u>	<u><u>\$ 1,873,902</u></u>
Liabilities		
Accounts Payable	\$ 908,341	\$ 249,062
Accrued Expenses	98,320	-
Total Liabilities	<u><u>1,006,661</u></u>	<u><u>249,062</u></u>
Net Assets		
Restricted	228,228	100,830
Unrestricted	1,981,135	1,524,010
Total Net Assets	<u><u>2,209,363</u></u>	<u><u>1,624,840</u></u>
Total Liabilities and Net Assets	<u><u>\$ 3,216,024</u></u>	<u><u>\$ 1,873,902</u></u>

DHIN's total assets exceeded total liabilities by \$2,209,363 at the close of FY 2012.

A certain amount of DHIN's net assets represents resources that are subject to external and internal restrictions on how they may be utilized. The value of externally restricted assets includes \$228,228 in revenue received from the State of Delaware usable only to meet DHIN's matching requirement under their federal grant award by the Office of the National Coordinator for Health Information Technology. DHIN has internally restricted \$20,000 for a planned Local Area Network (LAN) conversion at DHIN's office and \$28,000 for professional fees.

Total unrestricted net assets increased \$457,125 (or approximately 30 percent) during FY 2012.

Total restricted net assets increased \$127,398 (or approximately 126 percent) during FY 2012.

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2012

Financial Analysis--Continued

	2012	2011
Operating Revenue		
Data Sender Fees	\$ 1,784,959	\$ 1,399,489
Professional Service Income	151,350	-
Total Operating Revenue	<u>1,936,309</u>	<u>1,399,489</u>
Expenses		
Administration	225,169	22,757
Contractual (Non-Technical)	865,725	686,545
Depreciation	-	16,047
Implementation Costs	396,972	260,686
Licenses and Software Maintenance	1,046,042	1,049,747
Marketing	71,796	4,152
Operations	1,076,699	1,409,814
Personnel	1,417,069	1,547,206
Total Expenses	<u>5,099,472</u>	<u>4,996,954</u>
Operating Loss	<u>(3,163,163)</u>	<u>(3,597,465)</u>
Nonoperating Revenue		
State Operating Assistance	2,996,900	1,151,617
Federal Grant Income	746,964	507,862
Interest Income	3,822	2,814
Total Nonoperating Revenue	<u>3,747,686</u>	<u>1,662,293</u>
Change in Net Assets	584,523	(1,935,172)
Net Assets - Beginning of Year	<u>1,624,840</u>	<u>3,560,012</u>
Net Assets - End of Year	<u>\$ 2,209,363</u>	<u>\$ 1,624,840</u>

DHIN activities increased DHIN's total net assets by \$584,523 during FY 2012.

Operating revenues increased by \$536,820 (or approximately 38 percent) during FY 2012 as a result of signing six new data senders during the year and increasing 2012 volumes for current data senders.

Nonoperating revenues increased by \$2,085,393 (or approximately 125 percent) during FY 2012 as a result of receiving an additional \$1,845,283 million in State funding and receiving an additional \$239,102 in federal funds under a reimbursable federal grant award.

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2012

Financial Analysis--Continued

During FY 2012, DHIN was notified that beginning July 1, 2012, the State Employee Health Fund and Department of Health and Social Services, Division of Medicaid and Medical Assistance will begin participating in DHIN. Charges for participation will be established as a result of 16 Del. C. § 10303. As a result, the State will no longer fund DHIN through the State's bond bill in which during FY 2012, DHIN received \$2,996,900. DHIN estimates revenues of \$2,800,000 will be generated through the participation of the State Employee Health Fund and the Department of Health and Social Services, Division of Medicaid and Medical Assistance.

As of June 30, 2012, DHIN has utilized \$1,254,826 million of their \$4,680,284 million federal grant award. The award expires on September 30, 2013.

Administration expenses represent overhead costs such as rent expense, supplies, meeting expenses, and travel.

Contractual (Non-Technical) expenses represent costs for project development and management and costs relating to connecting DHIN to several systems within the State.

Implementation costs expenses represent costs directly related to the implementation of new functions, new data types, and new data senders during FY 2012, including license and software maintenance costs.

Licenses and software maintenance expenses represent costs for license and maintenance costs for functions implemented and data senders joined in prior years.

Marketing expenses represent costs for outreach materials, consumer educational materials, web page rebranding, and brand awareness.

Operations expense consists of costs for data center and help desk functions involved with maintaining the DHIN system.

Personnel expenses consist of costs for payroll and payroll-related expenses for DHIN employees.

Total expenses increased \$102,518 (or approximately two percent) during FY2012 as a result of leasing and operating an office location and increasing the number of staff.

Financial Statements

Delaware Health Information Network
Statement of Net Assets
June 30, 2012

Assets

Cash and Cash Equivalents	\$ 2,332,193
Restricted Cash	228,228
Receivables	
Trade	81,035
State	483,886
Federal	83,703
Lease Deposit	<u>6,979</u>

Total Assets	<u><u>\$ 3,216,024</u></u>
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Liabilities

Accounts Payable	\$ 908,341
Accrued Expenses	<u>98,320</u>

Total Liabilities	<u>1,006,661</u>
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Net Assets

Restricted	228,228
Unrestricted	<u>1,981,135</u>

Total Net Assets	<u>2,209,363</u>
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Total Liabilities and Net Assets	<u><u>\$ 3,216,024</u></u>
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The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2012

Operating Revenue	
Data Sender Fees	\$ 1,784,959
Professional Service Income	<u>151,350</u>
Total Operating Revenue	<u>1,936,309</u>
Operating Expenses	
Administration	225,169
Contractual (Non-Technical)	865,725
Implementation Costs	396,972
Licenses and Software Maintenance	1,046,042
Marketing	71,796
Operations	1,076,699
Personnel	<u>1,417,069</u>
Total Operating Expenses	<u>5,099,472</u>
Operating Loss	<u>(3,163,163)</u>
Nonoperating Revenue	
State Operating Assistance	2,996,900
Federal Grant Income	746,964
Interest Income	<u>3,822</u>
Total Nonoperating Revenue	<u>3,747,686</u>
Change in Net Assets	<u>584,523</u>
Net Assets - Beginning of Year, As Previously Reported	1,403,623
Prior Period Adjustment	<u>221,217</u>
Net Assets - Beginning of Year, As Restated	<u>1,624,840</u>
Net Assets - End of Year	<u><u>\$ 2,209,363</u></u>

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statement of Cash Flows
June 30, 2012

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 2,393,693
Cash Payments to Suppliers	(2,995,257)
Cash Payments to Employees	<u>(1,318,749)</u>
Net Cash from Operating Activities	<u>(1,920,313)</u>
Cash Flows from Investing Activities	
Interest Income	3,822
Net Transfers Restricted Cash	<u>(127,398)</u>
Net Cash from Investing Activities	<u>(123,576)</u>
Cash Flows from Noncapital Financing Activities	
State Operating Assistance	2,747,311
Federal Grant Income	<u>854,236</u>
Net Cash from Noncapital Financing Activities	<u>3,601,547</u>
Change in Cash and Cash Equivalents	1,557,658
Cash and Cash Equivalents - Beginning of Year	<u>774,535</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 2,332,193</u></u>

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statement of Cash Flows—Continued
June 30, 2012

Reconciliation of Change in Net Assets to

Net Cash from Operating Activities

Operating Loss	\$ (3,163,163)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities	
Bad Debt	27,867
Increase in Assets	
Accounts Receivable - Trade	457,384
Increase in Liabilities	
Accounts Payable	659,279
Accrued Expenses	<u>98,320</u>

Net Cash from Operating Activities	<u><u>\$ (1,920,313)</u></u>
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The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Notes to Financial Statements
June 30, 2012

Note 1: Nature of Activities

Organization and Operations—The Delaware Health Information Network (DHIN) was enacted by the Delaware General Assembly in 1997 as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information. Effective January 1, 2011, DHIN became its own self-governing entity as a public instrumentality of the State of Delaware (State). As such, DHIN is subject to an audit of its financial statements for the first time since its inception.

DHIN is not a health care provider and is not subject to claims under Delaware Code Title 18 Chapter 68. In addition, DHIN has no power, unless expressly granted, to pledge the credit or create any debt or liability of the State or any agency thereof. DHIN's major operation is the design and implementation of an integrated, statewide health data system. This health care system shares real-time clinical information among all health care providers (office practices, hospitals, labs, diagnostic facilities, etc.) across the state to improve patient outcomes and patient-provider relationships, while reducing service duplication and the rate of increase in health care spending.

DHIN's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by DHIN are discussed in Note 2 of the financial statements.

Reporting Entity—Delaware Code, Title 16, Chapter 103, effective January 1, 2011, created a public instrumentality of the State of Delaware known as DHIN. DHIN is governed by 19 voting directors. Of these 19 directors, 15 are appointed by the State's Governor. The Director of the Office of Management and Budget, the Chief Information Officer of the Department of Technology and Information, the Secretary of the Department of Health and Social Services, and the Comptroller General, or their designees, serve as the remaining 4 directors.

DHIN is a related organization of the State. The financial activities of DHIN are not included in the State's Comprehensive Annual Financial Report since it has not met the criteria to be considered a component unit of the State. DHIN's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2012

Note 2: Summary of Significant Accounting Policies

Basis of Accounting–Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The financial statements of DHIN have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned and expenses are recognized when incurred. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met.

DHIN has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. DHIN has elected not to follow subsequent private-sector (FASB) guidance.

Operating Revenues and Expenses–DHIN’s operating revenues and expenses consist of charges for services and the cost of providing those services. All other revenues and expenses are reported as nonoperating. All revenues are shown net of discounts and allowances.

Use of Estimates–The preparation of financial statements in conformity with accounting principles generally accepted 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 are considered to be demand deposits, short-term investments, and other deposits held by financial institutions with original maturities of three months or less.

Receivables–All receivables are reported net of estimated uncollectible amounts. As of June 30, 2012, all receivables are considered fully collectible by management and no allowance for bad debts has been recorded. Bad debt expense for the fiscal year ended June 30, 2012 totaled \$27,867.

Capital Assets–DHIN capitalizes all software and equipment with costs of \$5,000 or greater per unit. Buildings with a cost of \$100,000 and greater are capitalized. Capital assets are depreciated and amortized using the straight-line method over the estimated useful life of the related asset. At June 30, 2012 DHIN has no capital assets.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2012

Note 2: Summary of Significant Accounting Policies–Continued

Net Assets–GASB defines net assets into three categories:

Invested in Capital Assets, Net of Related Debt–Consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets. DHIN has no capital assets or related debt at June 30, 2012.

Restricted Net Assets–Consist of net assets that are externally restricted by creditors (such as through debt covenants), grantors (both federal and state), contributors, or laws or regulations of other governments. Restrictions may also be imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets–Consist of net assets whose use is not externally restricted, although their use may be limited by other factors such as board designation.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), DHIN's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Contractual (Non-Technical) Expense–DHIN expenses costs as incurred for project development and management. Costs relating to project development and management include expenses for travel, equipment, and consulting.

Operations Expense–DHIN expenses costs as incurred for data center support and help desk functions involved with maintaining the DHIN system.

Income Taxes–DHIN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, DHIN is exempt from filing federal informational returns with the Internal Revenue Service since it is a related organization of the State.

Subsequent Events–DHIN's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2012

Note 3: Related-Party Transactions

Certain members of DHIN’s Board of Directors are the Chief Information Officers of organizations which utilize DHIN. These organizations disbursed a total of \$1,292,332 to DHIN during the fiscal year ended June 30, 2012 for services provided. As of June 30, 2012, no accounts receivable was due from these organizations.

Note 4: Lease Agreements

DHIN leases office space and equipment under operating lease arrangements expiring through June 30, 2015. Rental expense for the year ended June 30, 2012 totaled \$86,354.

As of June 30, 2012, future minimum lease payments under noncancelable operating leases are approximately:

	<u>Office Space</u>	<u>Equipment</u>
2013	\$ 85,977	\$ 2,604
2014	-	2,604
2015	-	2,604
	<u>\$ 85,977</u>	<u>\$ 7,812</u>

The office space lease agreement, effective through June 30, 2013, gives DHIN the option to extend the lease for five additional one-year increments. DHIN must provide the lessor with notice no less than six months prior to the exercise option.

Note 5: Concentrations

Large volumes of business transacted with a particular customer, supplier, lender, grantor, or contributor may lead to an organization having a concentration in that particular area. DHIN experienced the following concentrations during the year ended June 30, 2012.

Cash in Excess of Insured Limits–DHIN maintains cash balances at one financial institution located in Dover, Delaware. Non-interest-bearing deposit accounts were fully insured by the Federal Deposit Insurance Corporation. All other deposit accounts were insured up to \$250,000 per institution. Uninsured cash balances as of June 30, 2012 totaled \$2,107,280.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2012

Note 5: Concentrations–Continued

Major Customers–Four major customers accounted for approximately 89% of DHIN’s Data Sender Fees revenue for the year ended June 30, 2012. Three of these major customers were related parties (Note 3).

Major Source of Revenue–Beginning July 1, 2012, the State Employee Health Fund and Department of Health and Social Services, Division of Medicaid and Medical Assistance will begin participating in DHIN. Charges for participation will be established as a result of 16 Del. C. § 10303. As a result, the State will no longer fund DHIN through the State’s bond bill in which during FY 2012, DHIN received \$2,996,900, or 53% of total revenue. DHIN estimates revenues of \$2,800,000 will be generated through the participation of the State Employee Health Fund and the Department of Health and Social Services, Division of Medicaid and Medical Assistance.

Note 6: Net Assets

Restricted net assets are comprised of revenue received from the State usable only to meet DHIN’s matching requirement under their federal grant award by the Office of the National Coordinator for Health Information Technology.

Unrestricted net assets includes internally board-designated funds. As of June 30, 2012, \$20,000 has been designated by the board for a planned Local Area Network (LAN) conversion at DHIN’s office and \$28,000 has been designated for professional fees.

Note 7: Commitments and Contingencies

In the normal course of business, there are various commitments and contingences outstanding which are not reflected in these financial statements. In the opinion of management, the outcome of such events, if any, will not have a material effect on DHIN’s financial statements.

Note 8: Prior Period Adjustment

During the initial audit of DHIN as of and for the year ended June 30, 2012, the following adjustments were discovered, proposed, and accepted by management to the statement of net assets and revenues, expenses, and changes in net assets for the year ended June 30, 2011, as reported solely to DHIN’s Board of Directors.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2012

Note 8: Prior Period Adjustment–Continued

Net Assets, June 30, 2011 As Originally Reported Internally	\$ 1,403,623
Overstatement of Accrued Expenses Related to Unapproved Personnel Bonuses	44,024
Understatement of Accounts Receivable and Federal Grant Income Due to Improper Revenue Recognition	190,975
Overstatement of Accounts Receivable Related to Bad Debt Expense	<u>(13,782)</u>
Net Assets, June 30, 2011 As Adjusted	<u><u>\$ 1,624,840</u></u>

Net assets have been increased by \$221,217 as a result of the cumulative aforementioned adjustments.

Single Audit



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***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***

To the Board of Directors of
Delaware Health Information Network

We have audited the financial statements of Delaware Health Information Network (DHIN), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012. 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.

Internal Control Over Financial Reporting

Management of DHIN is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered DHIN'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 DHIN's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DHIN'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 deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings 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

To the Board of Directors of
Delaware Health Information Network, Inc.

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 Finding Numbers 12-1 and 12-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHIN'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 statement 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 an instance of noncompliance required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding Number 12-3.

We noted other matters that we reported to management of DHIN in a separate letter dated October 10, 2012.

DHIN's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit DHIN's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required under 29 Del. C., Section 10002(d), was provided to the Office of Auditor of Accounts, Office of the Governor, Office of Controller General, Office of Attorney General, and Office of Management and Budget.

Belfint, Lyons & Shuman, P.A.

October 10, 2012
Wilmington, Delaware



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Independent Auditors' 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

To the Board of Directors of
Delaware Health Information Network

Compliance

We have audited Delaware Health Information Network's (DHIN'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 DHIN's major federal program for the year ended June 30, 2012. DHIN's major federal program is identified in the summary of auditors' 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 DHIN's management. Our responsibility is to express an opinion on DHIN'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 DHIN'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 DHIN's compliance with those requirements.

In our opinion, DHIN complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of the each of its major federal programs for the year ended June 30, 2012.

To the Board of Directors of
Delaware Health Information Network

Internal Control Over Compliance

Management of DHIN is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered DHIN's internal control over compliance with requirements that could have a direct and 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 DHIN's internal control over compliance.

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 of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Finding Number 12-3. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

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

To the Board of Directors of
Delaware Health Information Network

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required under 29 Del. C., Section 10002(d), was provided to the Office of Auditor of Accounts, Office of the Governor, Office of Controller General, Office of Attorney General, and Office and Management and Budget.

Belfint, Lyons & Shuman, P.A.

October 10, 2012
Wilmington, Delaware

Delaware Health Information Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Receipts/ Revenue Recognized	Value of New Disbursements/ Expenditures
Direct Programs			
<u>Department of Health and Human Services</u>			
AARA 2009, State Grants to Promote Health Information Technology (HIT) Implementation	93.719	\$ 746,964	\$ 746,964
Total Federal Awards		<u>\$ 746,964</u>	<u>\$ 746,964</u>

Delaware Health Information Network
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

A. General

The accompanying schedule of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

B. Basis of Accounting

The schedule is presented using the accrual basis of accounting and 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 basic financial statements.

Delaware Health Information Network
Schedule of Findings and Questioned Costs
June 30, 2012

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of DHIN as of and for the year ended June 30, 2012.
2. Two material weaknesses disclosed during the audit of the financial statements are reported in the *Report on Internal Control over Financial Reporting and in Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instance of noncompliance material to the financial statements of DHIN, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during our audit.
4. One significant deficiency in internal control over compliance is reported in the *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*.
5. The auditors' report on compliance for the major federal award programs for DHIN expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were:

ARRA 2009, State Grants to Promote HIT Planning and Implementation Projects	93.719
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8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. DHIN did not qualify as a low risk auditee since the entity was audited for the first time since inception.

Delaware Health Information Network
Schedule of Findings and Questioned Costs–Continued
June 30, 2012

B. Findings

1. Current Year Findings – Financial Statement Audit

Finding Number 12-1–Revenue Recognition

Condition

During our audit of DHIN's financial statements, we found that \$190,975 of federal grant revenue attributable to year ended June 30, 2011, was recorded in the year ended June 30, 2012.

Criteria

Revenue is recorded when earned in accordance with the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. DHIN's federal grant revenue is based upon reimbursement of allowable costs; therefore, revenue is earned when allowable costs are incurred.

Cause

DHIN failed to record applicable federal grant revenue in the same period that the related reimbursable costs were incurred.

Effect

As a result of the above-mentioned condition, total revenue was overstated, and beginning unrestricted net assets were understated by \$190,975.

Recommendation

We recommend that DHIN's management, on a monthly basis, review and reconcile transactions related to the federal grant to ensure revenue is recorded when allowable costs are incurred and not when reimbursement for the costs is received.

Views of Responsible Officials and Planned Corrective Actions

With the change in policy recommended by the auditors, DHIN will record revenue from the Cooperative Agreement when expenses have occurred, as opposed to when funds are received.

Delaware Health Information Network
Schedule of Findings and Questioned Costs–Continued
June 30, 2012

B. Findings–Continued

Finding Number 12-2–Expense Recognition

Condition

During our audit of DHIN’s financial statements for the year ended June 30, 2012, we found that unrestricted net assets at July 1, 2011, were understated by \$44,024.

Criteria

Expenses are recorded when incurred in accordance with the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

Cause

DHIN recorded a payroll bonus accrual in the amount of \$44,024 at June 30, 2011 before approval was issued by the board of directors. During the year ended June 30, 2012, the board did not approve the 2011 bonus.

Effect

As a result of the above-mentioned condition, unrestricted net assets at July 1, 2011 were understated by \$44,024.

Recommendation

We recommend that DHIN's management, on a monthly basis, review and reconcile accounts payable to the general ledger to ensure expenses have been recorded only when costs have been incurred.

Views of Responsible Officials and Planned Corrective Actions

DHIN will adjust prior year expenses as necessary for variances between accrued and incurred expenses.

2. Current Year Findings and Questioned Costs – Major Federal Award Programs Audit

Finding Number 12-3–Cash Management

Type

Significant Deficiency, Noncompliance

Delaware Health Information Network
Schedule of Findings and Questioned Costs–Continued
June 30, 2012

B. Findings–Continued

Finding Number 12-3–Cash Management–Continued–

Condition

On several occasions throughout the year ended June 30, 2012, DHIN submitted for cost reimbursement from its granting agency an expense that had only been incurred and not disbursed.

Criteria

OMB Circular A-133 compliance requirements for cash management states that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested.

Cause

Management believed that by incurring the expense they had met the OMB Circular A-133 cash management compliance requirement.

Effect

DHIN was not in compliance with their federal grant award as of June 30, 2012.

Context

A sample of 6 cost reimbursement submittals totaling \$572,726 were selected for audit from a population of 12 totaling \$746,964. The audit found that supporting cost reimbursement invoices totaling \$116,010 had been submitted for cost reimbursement before payment was made to the vendors.

Questioned Costs

N/A

Recommendation

We recommend before costs are submitted for reimbursement management reviews each underlying invoice to determine if payment for that invoice has been disbursed.

Views of Responsible Officials and Planned Corrective Actions

DHIN will wait until funds have been paid, rather than incurred, prior to obtaining reimbursement.

Delaware Health Information Network
Schedule of Findings and Questioned Costs–Continued
June 30, 2012

B. Findings–Continued

3. Resolution of Prior Year Findings and Questioned Costs

No findings or questioned costs relating to DHIN were identified in either the State's Fiscal Year 2011 Comprehensive Annual Financial Report or Single Audit.