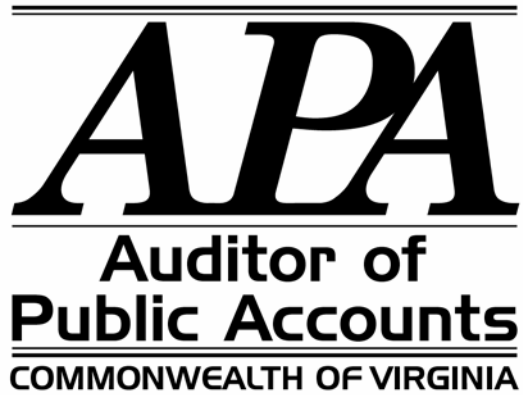
DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION, AND SUBSTANCE ABUSE SERVICES

REPORT ON AUDIT

FOR THE PERIOD

JANUARY 1, 2005 THROUGH JUNE 30, 2005



AUDIT SUMMARY

Our audit of the Department of Mental Health, Mental Retardation, and Substance Abuse Services for the audit period January 1, 2005 through June 30, 2005, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;

- weaknesses in internal control that require management's attention and corrective action; and

- an instance of noncompliance that is required to be reported.

-TABLE OF CONTENTS-

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Update and Implement Risk Assessment and Impact Analysis

The Commonwealth requires a risk assessment and impact analysis once every three years or whenever an agency experiences changes that can directly increase the level of sensitivity and threats to information resources. The Department completed its most recent impact analysis in February 2003, to meet HIPAA requirements, and completed a high-level risk assessment in 2005 that outlined potential risks and vulnerabilities. However, at the time of completion this risk assessment failed to address the safeguards needed to mitigate those risks.

The Department's impact analysis does not represent their current systems environment. The Department should perform a gap analysis of existing controls for the current systems environment. The Department should also reassess the risks that affect their assets and business functions and re-evaluate their safeguards. Finally, management should ensure that an updated impact analysis is completed and implemented.

Create and Enforce Application Change Management Policies and Procedures

The Department does not have adequate application change management policies and procedures. There is no standardized process to document changes, control programming code versions, and moving programming code from development into production. The lack of such procedures increases the risk that proper testing of changes does not occur.

Currently, developers can make changes directly to production applications. This increases the risk of incorrectly altering production data that facilities are using throughout the state. Without proper policies and procedures outlining duties, the Department cannot hold any individual accountable for such alterations.

The possibility of inadequate testing and unapproved changes places the Department at risk of unnecessary delays and costs in the event that the change does not produce the intended results. The Department should develop and enforce application change management policies and procedures that follow industry best practices.

Appoint a Security Office to Establish and Enforce Policies and Procedures

Agencies must appoint an Information Systems Security Officer who is responsible for the development, implementation, oversight, and maintenance of the agency's information security program. The Security Officer should also direct the agency through a business impact analysis and risk assessment and coordinate the development of business continuity plan. In addition, the Security Officer should develop and coordinate security awareness and training programs, update the agency's security program, and establish and enforce the agency's policies and procedures.

Currently, the Security Officer has the additional responsibilities of Applications Manager and Chief Information Officer. The combination of responsibilities may cause a biased view of the application's security. As a result, systems development may be unable to identify all potential security risks in applications.

Furthermore, the Security Officer has not updated the Department's security program to reflect its current systems environment. This makes Department more vulnerable to security threats because information technology assets, risks, and safeguards have not been reassessed and updated. The Department should appoint a dedicated Information Systems Security Officer to ensure the adequacy of and compliance to their policies and procedures.

Follow Best Practices to Ensure Compliance with HIPAA Security Rules

During last year's audit, the Department indicated they would be fully compliant with the Health Insurance Portability and Accountability Act (HIPAA) Security rules by June 30, 2005, two months after the security rules took effect. As evidenced by the findings above, the Department is still incompliant with HIPAA Security Rules, which requires entities with protected health information to follow best practices in securing and managing their information systems. While no instances of releasing private information have been brought to the Department's attention, failure to meet the requirements of the HIPAA Security Rule increases the risk of the Department violating the HIPAA Privacy Rule in the future. Privacy Rule violations can result in individual fines against the Department for amounts up to $100 per violation, with a ceiling of $25,000 in any calendar year.

To ensure compliance with HIPPA Security Rules, the Department should work aggressively to follow best practices with securing and managing their information systems. Not following best practices places their protected health information at a greater risk.

Obtain Assurance on DMHMRSAS Security of Information Assets from VITA

State policy makes the Commissioner responsible for the security and safeguard of all of the Department's databases, information, and information technology assets. Over the past two years, the Commonwealth has moved the information technology infrastructure supporting these databases and information to the Virginia Information Technologies Agency (VITA). As part of this transfer, the Department also transferred many of the staff who had expertise to advise the Commissioner on these matters.

In addition to responsibilities under state policy, the Department must also comply with HIPAA and Homeland Security. HIPAA mandates actions and protections that anyone obtaining and maintaining medical information must take measures to safeguard and secure the data. In addition, Homeland Security requires additional layers of security for data protection.

We believe that the Department cannot solely ensure that their data has the proper level of security to protect it from unauthorized changes, disclosure, or loss. Since VITA has assumed responsibility for the information technology infrastructure, the Commissioner must have VITA provide assurance that their infrastructure would provide the safeguards to protect information and databases required by state policy, HIPAA, and Homeland Security. While the Department and VITA have entered into a detailed memorandum of understanding (MOU) that defines the service level responsibilities in this shared environment, the current MOU does not address the required security levels.

The Commissioner needs to evaluate the Department's capabilities for determining the level of assurance needed from VITA. Since the Department retains ownership and maintains the application systems and databases that gather information, the Commissioner's internal staff has full responsibilities for access controls to these systems. If these systems operate in a shared environment, the provider of the services would need to inform the Commissioner of the adequacy of those controls. This shared environment is similar to the mainframe data-center operation that VITA and its predecessors offered.

However, for the transmission of information to and from the database, the Commissioner must address whether the Department has the expertise to assess this issue. Inherent within this question is whether the Department has the resources to maintain the level of expertise capable of adapting to the changing infrastructure environment. There are two approaches to this issue. The first assumes the Department has the expertise and the resources to understand the changing infrastructure and can, therefore, specifically address all security needs.

The second approach requires that the Department explain the security needs for each of its systems and databases, along with what access controls it currently provides. VITA then must provide the Commissioner assurance that the infrastructure provides the level and depth of security necessary to meet state policy, HIPAA, and Homeland Security.

Under this second approach, VITA and the Commissioner clearly share responsibility for the security of information and databases. It is our opinion that although the Department may currently have the resources to undertake the first approach, the long-term change at VITA dictates that the Commissioner uses the second approach. Additionally, we believe that VITA should annually provide assurance in writing so the Commissioner and the Department can fulfill their responsibilities under the HIPAA and Homeland Security requirements.

AGENCY HIGHLIGHTS

The Department provides a wide array of services to individuals in state-operated facilities and communities throughout the Commonwealth of Virginia. The Department has a central office that performs most of its administrative functions and 16 facilities that provide direct services to the Department's consumers. In addition, the Department indirectly provides services through its funding and monitoring of 40 local Community Service Boards (Boards).

Central Office

The central office has direct responsibility for the programmatic, financial, and administrative operations of the 16 state facilities. It also has responsibility for monitoring and overseeing the programmatic and financial activities of the Boards. In fiscal year 2005, the operations' central office accounted for $32.2 million (4.1 percent) of the Department's total expenses.

The central office provides overall management and direction to the facilities. This includes developing an overall budget, financial management policies, as well as the Medicare and Medicaid cost reports and reimbursement rates. They also provide internal audits, perform architectural and engineering services, administer the majority of capital outlay projects, and manage the information systems. In addition, the central office provides technical assistance on human resource issues to the facilities and licenses all providers of mental health, mental retardation, and substance abuse services throughout the state. Within the central office, the Office of the Inspector General investigates and monitors human rights issues at the facilities.

The central office bills and collects third party reimbursements, such as Medicaid and Medicare, through its field reimbursement offices located at various facilities. During fiscal year 2004, the central office implemented a new billing system, AVATAR, to meet HIPAA coding requirements for electronic health care transactions. Due to system implementation issues, electronic claims processing was not fully available until April 2005. A majority of the reimbursement offices delayed their billings until they could process their claims electronically, while other offices manually billed their claims. The backlog of bills contributed to a 19 percent increase in the percentage of past due receivables between June 30, 2003 and June 30, 2004, as reflected in the table below. While total receivables have decreased since the system became fully operational, past due receivables have remained high because a number of Medicaid claims were rejected by edit checks at the Department of Medical Assistance Services (DMAS). The Department is currently working with DMAS and reviewing individual accounts to clear these receivables. Management expects past due receivables to return to a normal level before the end of fiscal year 2006.

Department's Total Gross Receivable

Receivables	June 30, 2003	June 30, 2004	June 30, 2005	December 31,2005
Current (up to 60 days)	$52,164,582	$35,200,610	$36,596,813	$30,028,099
Past due (over 61 days)	4,157,419	12,600,615	10,402,870	11,276,386
Total	$56,322,001	$47,801,225	$46,999,683	$41,304,485
Percentage past due	7%	26%	22%	27%

Community Service Boards

Community Service Boards (Boards) are the single point of entry into the Commonwealth's Mental Health, Mental Retardation, and Substance Abuse Services system and provide access to state mental health and mental retardation facilities. The Boards provide pre-admission screening and discharge planning services for consumers entering or leaving state facilities. Individuals who seek services from a Board receive an intake evaluation to determine the type and duration of services needed.

The Boards function as providers of services (directly or contractually), advisors to their local government, client advocates, community educators, and planners on issues related to mental health, mental retardation, and substance abuse. As opposed to hospitalization, the Boards provide services more by drawing on community resources and support systems, such as the family and friends of patients. The Department transferred $245 million (30.8 percent of total budget) to the Boards in fiscal year 2005.

The Department's 2004 audit raised the concerns that the agency's policies did not facilitate the recovery of prescription medication costs from the Boards. The agency's policies were to only bill the Boards for pharmacy costs if a client meets one of the following criteria; the prescription is not for an atypical anti-psychotic drug, the client has never been a patient in a Commonwealth mental health or mental retardation facility, or the client is not Medicaid eligible. If the client was Medicaid eligible, the pharmacy was responsible for initiating Medicaid billing; however, it was the Boards' responsibility to provide the necessary information, which Medicaid required, to the pharmacy. By not requiring reimbursement for the a-typical prescriptions, the Boards did not have an incentive to control drug costs for those clients. Hiram Davis Medical Center (HDMC), through its Community Resource Pharmacy (formerly After Care Pharmacy), provided the Boards with $25 million of drugs in fiscal year 2005, mostly a-typical anti-psychotic medications.

In response to last year's concerns and anticipation of Medicare Part D, the Department established a Pharmacy and Therapeutics Committee. Based on the Committee's recommendations, the Department started billing the Boards for the cost of a-typical anti-psychotic drugs for non-eligible clients and collaborating with the Department of Medical Assistance Services to identify all Medicaid eligible clients who utilize the pharmacy. Medicaid eligible clients that are in the communities are now encouraged to use private sector pharmacies, however they can still bill Medicaid if the patient continues to use the Department's pharmacy.

In addition, the Department started using the State Eligibility Verification System to determine if any clients currently receiving medication from the pharmacy are eligible for Medicare. They then provide this information to the Boards so they can assist the client with enrollment in Medicare Part D and divert them to a private sector pharmacy. A possible indirect benefit to these initiatives is that the state could identify previously unknown Medicaid eligible patients. The additional patients identified as Medicaid or Medicare eligible will shift the financial burden of providing medication to these patients to the federal government.

Despite these changes, the pharmacy will continue to serve medically indigent patients at no cost to the patient or the Boards. Furthermore, the pharmacy will always provide the first month's fill of the prescription to ensure they meet the client's medication needs during the eligibility determination process. The Department anticipates that efficient control of the eligibility process will reduce budgetary shortfalls in the future by forcing the Boards to utilize the pharmacy for indigent patients only.

In fiscal year 2006, the Department started the process of physically separating the HDMC pharmacy into two pharmacies. Both pharmacies are still located within HDMC. One will continue to service the Petersburg complex, while the other will only provide prescriptions to the Boards. Although having two pharmacies will increase overhead and administrative costs, management believes that they will be able to better control their costs associated with providing medication for the Boards to offset the additional expense.

Facilities

Sixteen facilities provide inpatient consumer care to over 3,000 individuals. Ten mental health facilities, referred to as "hospitals," provide acute care and chronic psychiatric services to children, adults, and the elderly. There are also five mental retardation facilities, referred to as "training centers," that offer residential care and training in such areas as language, self-care, independent living, academic skills, and motor development. Finally, the Virginia Center for Behavioral Rehabilitation houses convicted sex offenders who are civilly committed at the end of their prison sentence when the Department of Corrections (DOC) deems them sexually violent predators.

The following tables summarize the individual hospitals and training centers' revenues, expenses, and populations for fiscal year 2005.

COMPARISON OF FACILITY OPERATIONS
Fiscal Year 2005
Mental Health Facilities

	Central State Hospital	Eastern State Hospital	Southwestern Virginia Mental Health Institute
Average resident census	244	409	143
Total resident days	89,060	149,285	52,195
Revenue:			
Adjusted General Fund appropriations	$ 40,836,113	$ 40,246,864	$ 21,379,236
Collections (third party reimbursements)	510,972	23,743,849	7,491,700
Collections for the General Fund of the Commonwealth	14,402	6,065	955
Other revenues	-	23,168	-
Total revenue	41,361,487	64,019,946	28,871,891
Expenses:			
Personal services	35,222,399	51,644,547	23,537,510
Contractual services	5,189,170	2,274,524	1,950,627
Supplies and materials	1,077,075	7,034,322	3,383,246
Transfer payments	104,222	52,528	959
Insurance, rentals, and utilities	1,052,115	2,823,849	688,781
Property, plant, and equipment	526,054	540,474	81,252
Total expenses	$ 43,171,035	$ 64,370,244	$ 29,642,376
Excess (deficiency) of revenues over expenses	$ (1,809,548)	$ (350,298)	$ (770,485)
Expenses per resident	$ 176,930	$ 157,384	$ 207,289
Expenses per resident day	$ 485	$ 431	$ 568
Revenues per resident	$ 169,514	$ 156,528	$ 201,901
Revenues per resident day	$ 464	$ 429	$ 553

Western State Hospital	Commonwealth Center for Children	Catawba Hospital	Northern Virginia Mental Health Institute	Southern Virginia Mental Health Institute
243	29	100	123	69
88,695	10,585	36,500	44,895	25,185
$ 41,384,821	$ 5,924,081	$ 7,560,896	$ 22,853,995	$ 9,458,572
3,087,737	1,459,397	9,000,462	1,112,644	1,449,625
2,114	45	43,396	-	-
65,042	-	1,012	-	157
44,539,714	7,383,523	16,605,766	23,966,639	10,908,353
36,625,067	6,836,287	14,295,441	18,657,207	8,557,986
2,723,123	349,761	1,265,552	2,636,920	979,678
4,225,829	360,465	1,623,444	1,999,668	909,925
9,457	621	20,676	12,287	8,307
1,555,484	385,364	609,592	597,274	331,462
459,442	63,417	174,786	123,078	54,962
$ 45,598,402	$ 7,995,914	$ 17,989,491	$ 24,026,433	$ 10,842,320
$ (1,058,688)	$ (612,391)	$ (1,383,725)	$ (59,794)	$ 66,033
$ 187,648	$ 275,721	$ 179,895	$ 195,337	$ 157,135
$ 514	$ 755	$ 493	$ 535	$ 431
$ 183,291	$ 254,604	$ 166,058	$ 194,851	$ 158,092
$ 502	$ 698	$ 455	$ 534	$ 433

COMPARISON OF FACILITY OPERATIONS
Fiscal Year 2005
Mental Health Facilities

	Piedmont Geriatric Hospital	Hiram Davis Medical Center	Total for Mental Health Facilities
Average resident census	118	67	1,545
Total resident days	43,070	24,455	563,925
Revenue:			
Adjusted General Fund appropriations	$ 2,548,861	$ 29,915,750	$ 222,109,189
Collections (third party reimbursements)	16,081,451	11,230,236	75,168,073
Collections for the General Fund of the Commonwealth	403	5,323	72,703
Other revenues	22,097	-	111,476
Total revenue	18,652,812	41,151,309	297,461,440
Expenses:			
Personal services	14,776,034	8,908,877	219,061,355
Contractual services	1,266,629	1,380,805	20,016,790
Supplies and materials	1,800,603	30,877,013	53,291,588
Transfer payments	15,677	3,080	227,814
Insurance, rentals, and utilities	540,277	90,886	8,675,084
Property, plant, and equipment	179,208	54,962	2,257,635
Total expenses	$ 18,578,429	$ 41,315,623	$ 303,530,267
Excess (deficiency) of revenues over expenses	$ 74,383	$ (164,314)	$ (6,068,826)
Expenses per resident	$ 157,444	$ 616,651	$ 196,460
Expenses per resident day	$ 431	$ 1,689	$ 538
Revenues per resident	$ 158,075	$ 614,199	$ 192,532
Revenues per resident day	$ 433	$ 1,683	$ 527

COMPARISON OF FACILITY OPERATIONS
Fiscal Year 2005
Mental Retardation Facilities

	Central Virginia Training Center	Southeastern Virginia Training Center	Northern Virginia Training Center
Average daily resident census	564	193	182
Total resident days (Average daily resident census * 365 days)	205,860	70,445	66,430
Revenue:			
Adjusted General Fund appropriations	$ 6,942,352	$ 2,810,112	$ 4,054,237
Collections (third party reimbursements)	66,859,381	20,793,296	30,099,075
Collections for General Fund	6,562		-
Other revenues	5,428	-	94
Total revenue	73,813,723	23,603,408	34,153,407
Expenses:			
Personal services	62,005,968	16,998,725	24,813,937
Contractual services	1,759,223	1,121,615	1,473,602
Supplies and materials	8,455,866	1,176,748	2,590,036
Transfer payments	-	64,426	17,889
Insurance, rentals, and utilities	2,198,559	463,317	706,281
Property, plant, and equipment	223,724	139,492	262,124
Total expenses	$ 74,643,342	$ 19,964,322	$ 29,863,869
Excess (deficiency) of revenue over expenses	$ (829,619)	$ 3,639,087	$ 4,289,538
Expenses per resident	$ 132,346	$ 103,442	$ 164,087
Expenses per resident day	$ 363	$ 283	$ 450
Revenues per resident	$ 130,875	$ 122,297	$ 187,656
Revenues per resident day	$ 359	$ 335	$ 514

Southside Virginia Training Center	Southwestern Virginia Training Center	Total for Mental Retardation Training Centers
371	214	1,524
135,415	78,110	556,260
$ 15,374,604	$ 1,872,934	$ 31,054,239
57,178,837	20,292,560	195,223,150
1,320		7,882
-	6,116	11,639
72,554,761	22,171,610	226,296,909
51,536,253	16,765,087	172,119,970
4,230,322	497,322	9,082,084
6,456,023	957,630	19,636,302
58,289	99,860	240,463
3,163,150	586,039	7,117,346
1,248,633	106,812	1,980,785
$ 66,692,669	$ 19,012,749	$ 210,176,950
$ 5,862,093	$ 3,158,861	$ 16,119,959
$ 179,765	$ 88,845	$ 137,911
$ 493	$ 243	$ 378
$ 195,565	$ 103,606	$ 148,489
$ 536	$ 284	$ 407

The tables show that Per Diem expenses range from $243 to $1,689 with an average Per Diem of $538 for hospitals and $378 for training facilities. Hiram Davis Medical Center accounts for the highest per diem cost due to the severe nature of its patients' conditions and the pharmacy services that it provides to clients outside of its facility.

Overall, personal services account for the facilities' largest expense. In fiscal year 2005, the training facilities and hospitals spent over $391 million, or 76 percent, of their total expenses on personal services. The facilities' largest source of revenue is collections from third party payers, primarily Medicaid. In fiscal year 2005, these collections accounted for 52 percent of the facilities' total available resources, or roughly $270 million.

The central office reimbursement department determines the interim Medicaid per diem rate for the facilities. In fiscal year 2004, the determination of the interim Per Diem rate did not include the adjusted appropriations for December 2003, which caused the reimbursement office to under-bill Medicaid. The determination for the December 2005 interim Per Diem rate has been appropriately calculated using the adjusted appropriations, which should result in more accurate interim rate.

Although the Department operates within its appropriation, expenses exceed revenues at most of the mental health hospitals because of caps on the amount of Medicaid and Medicare revenue mentally ill patients can generate. Mentally ill patients have a lower percentage of Medicaid eligibility as compared to the residents of mental retardation facilities. The 2004 audit of the Department raised the following concern with the agency's budgeting method.

Collected Medicaid and Medicare fees are special revenue and appropriated by facility. However, the central office can transfer the appropriations and accompanying special revenues among the individual facilities to cover those facilities where expenses exceed revenues. Since each facility receives both a General and Special Revenue Fund appropriation and the mental health facilities do not usually generate sufficient revenues to cover expenses, the central office closely monitors the income and revenues of each facility.

When it is apparent that the mental retardation facilities will generate sufficient revenues to cover their expenses, the central office transfers the excess collections to cover the shortfall in the mental health facilities. While this practice allows the Department to operate its facilities within its overall appropriation, it masks the actual funding source of facility operations from policy makers and further distorts the dependence that mental health facilities have on the mental retardation units generating a positive cash flow.

This budgetary method may have long-term critical consequences as the federal government enacts changes to the Medicaid reimbursement policies. Additionally, this practice also tends to show a more even distribution of General Fund appropriations among all facilities, when in reality, the transfer of special fund revenue indicates that the mental retardation units could operate more independently and the mental health facilities should receive this shift in General Fund appropriations. The following table provides a detailed analysis of transfer payments in fiscal year 2005 for each facility.

Fiscal Year 2005 Special Revenue Comparison

State Hospitals	Appropriation	Adjusted Budget	Revenues Collected	Transfers In (Out)	Expenses
Catawba	$ 9,992,307	$ 10,427,625	$ 9,001,474	$ 2,000,000	$10,428,595
Central State	2,428,072	2,330,424	510,972	1,757,261	2,330,424
Commonwealth Center for Children and Adolescents	2,019,682	2,020,686	1,459,397	435,000	2,020,686
Eastern State	21,974,024	24,088,811	23,767,017	1,860,000	24,123,381
Hiram Davis	11,283,142	11,399,943	11,230,236	1,402,739	11,399,942
Northern Virginia	1,172,475	1,172,475	1,112,644	425,000	1,172,474
Piedmont	15,778,184	16,010,045	16,103,549	391,972	16,029,568
Southern Virginia	1,376,236	1,383,570	1,449,781	325,000	1,383,773
Southwestern Virginia	7,818,507	8,241,801	7,491,700	1,960,000	8,241,490
Western State	4,147,852	4,149,464	3,152,779	1,500,000	4,213,581
2005 Total	$77,990,481	$81,224,844	$75,279,549	$12,056,972	$81,343,914
2004 Total	$87,984,164	$89,036,129	$74,023,396	$15,855,000	$89,133,274

Training Centers	Appropriation	Adjusted Budget	Revenues Collected	Transfers In (Out)	Expenses
Central Virginia	$ 66,365,586	$ 68,054,488	$ 66,864,809	$ 1,777,913	$ 68,044,584
Northern Virginia	25,590,971	25,795,968	30,099,170	(4,078,655)	25,795,968
Southside Virginia	50,787,805	51,328,240	57,178,837	(5,547,476)	51,314,060
Southeastern Virginia	16,511,636	17,154,087	20,793,296	(3,832,481)	17,153,958
Southwestern Virginia	16,727,996	17,130,153	20,292,676	(2,732,732)	17,130,153
2005 Total	$175,983,994	$179,462,936	$195,228,788	$(14,413,431)	$179,438,723
2004 Total	$173,619,858	$173,459,336	$192,784,290	$(20,229,629)	$173,430,545

In response to this issue, beginning in fiscal year 2006, the central office has aligned the Special Revenue Fund appropriation for each facility with the facility's ability to collect it. The following table shows those facilities, which had their General Fund and Special Revenue Fund appropriations adjusted in fiscal year 2006. Furthermore, the Governor's budget bill for the 2006-2008 biennium reflects these adjustments.

Fiscal 2006 Appropriations

Facility	Original	Adjustments	Adjusted
Eastern State			
General Fund	$42,491,040	$ 1,900,000	$44,391,040
Special Revenue	2,428,072	(1,900,000)	528,072
Western State			
General Fund	$40,716,933	$ 1,000,000	$41,716,933
Special Revenue	4,147,852	(1,000,000)	3,147,852
Commonwealth Center for Children & Adolescents			
General Fund	$ 5,823,500	$ 500,000	$ 6,323,500
Special Revenue	2,019,682	(500,000)	1,519,682
Southeastern Virginia Training Center			
General Fund	$ 2,528,311	$ (900,000)	$ 1,628,311
Special Revenue	16,511,636	900,000	17,411,636
Catawba			
General Fund	$ 7,472,675	$ 1,000,000	$ 8,472,675
Special Revenue	9,992,307	(1,000,000)	8,992,307
Southside Virginia Training Center			
General Fund	$12,924,921	$(2,000,000)	$10,924,921
Special Revenue	50,787,805	2,000,000	52,787,805
Piedmont Geriatric			
General Fund	$ 2,528,882	$(1,000,000)	$ 1,528,882
Special Revenue	15,778,184	1,000,000	16,778,184
Southwestern Virginia Training Center			
General Fund	$ 1,964,298	$ (500,000)	$ 1,464,298
Special Revenue	16,727,996	500,000	17,227,996

The Department opened the Virginia Center for Behavioral Rehabilitation (the Center) in October 2003, to provide a secure environment in which to house convicted sex offenders who are civilly committed to the Department at the end of their incarceration. The Center provides individualized treatment that challenges the patient's deviant and criminal thinking, while reinforcing appropriate behavior. The Center currently houses between 11 and 17 patients and has a maximum capacity of 48. The Center determines whether to release a patient back into the community by evaluating their progress in a five-phase treatment plan and their re-offense risk. Given current regulations, a patient's stay at the facility could be indefinite.

The Center is currently located on the Petersburg complex, where the Department retrofitted two vacant buildings to accommodate treatment and security needs. However, because of its size and age, this facility has capacity limitations. As a result, the Department entered into a contract with GD Burkeville, LLC (Gilbane) for the construction of a 100-bed facility in Burkeville, Virginia for $31,594,178. The company is designing and constructing the infrastructure of the new complex so the Department can add 150 extra beds, if needed, by building additional pods. The table below shows the high Per Diem cost of the current facility caused by a small number of patients and the high number of employees needed to operate the center to achieve appropriate security levels and program effectiveness.

Comparison of Facility Operations 2005

	Behavioral Rehabilitation Facility Agency 794	Virginia Center for Behavioral Rehabilitation
Average resident census		11
Total resident days		4026
Revenue:		
Adjusted General Fund appropriations		$4,157,801
Fund 100-General Fund, other revenue		427
Fund 600-Internal Service Fund, sales of property and commodities		82
Total revenue		$4,158,310
Expenses:		
Personal services		$3,092,663
Contractual services		554,618
Supplies and materials		181,847
Transfer payments		2,647
Insurance, rentals, and utilities		170,967
Property, plant, and equipment		155,050
Total expenses		$4,157,792

On December 6, 2005, the administration announced a $460 million plan for Virginia's Mental Health, Mental Retardation, and Substance Abuse Services system. This plan calls for improvements to both the Department's facilities and the network of community-based services provided by the Boards.

The plan will affect facilities because it includes the redesign and replacement of the state's four largest facilities; Western State Hospital in Staunton, Eastern State Hospital in Williamsburg, Central Virginia Training Center in Lynchburg, and the Southeastern Virginia Training Center in Chesapeake. The improvements have an estimated cost of $290 million.

In addition to the facility replacement plan, the Department has entered into two Energy Performance contracts to finance improvements to the Southwestern Virginia Mental Health Institute and Southside Virginia Training Center in an effort to lower their utility costs. The Department needs to ensure that any future Energy Performance contracts account for the possibility of facility replacements or closures so that the Department is not left with long-term debt or unrealized savings.

The Department currently owns 408 buildings with a total of 6,563,400 square feet. However, due to their condition, 50 buildings or nearly one million square feet of space are unused. The majority of the unoccupied buildings are either uninhabitable, require extensive renovation, or are simply not suited for the facilities' current patient and resident needs. The following table below summarizes each facility's buildings and square feet.

Facility	Total Buildings	Square Feet	Vacant Buildings	Unoccupied Square Feet	Occupied Square Feet	Patient Census	Square Feet Per Patient	Percent Occupied
Catawba	28	278,200	4	26,000	252,200	100	2,522	91
Central State	19	680,800	6	170,800	510,000	244	2,090	75
Commonwealth Center	1	56,000	-	-	56,000	29	1,931	100
Eastern State Hospital	29	816,800	5	200,500	616,300	409	1,506	75
Hiram Davis Medical Center	1	726,300	-	-	726,300	67	10,840	100
Northern Virginia Mental Health Institute	4	108,300	-	-	108,300	123	880	100
Piedmont Geriatric Hospital	34	256,200	6	27,300	228,900	118	1,940	89
Southern Virginia Mental Health Institute	4	71,400	-	-	71,400	69	1,035	100
Southwestern Virginia Mental Health Institute	35	411,400	3	52,400	359,000	143	2,510	87
Western State Hospital	24	708,700	5	175,600	533,100	243	2,193	75
Central Virginia Training Center	97	1,253,100	15	177,800	1,075,300	564	1,906	86
Northern Virginia Training Center	11	227,900	-	-	227,900	182	1,252	100
Southside Virginia Training Center	68	613,800	6	47,000	566,800	371	1,528	92
Southeastern Virginia Training Medical Center	31	178,500	-	-	178,500	193	925	100
Southwestern Virginia Training Center	22	176,000	-	-	176,000	214	822	100
Total	408	6,563,400	50	877,400	5,686,000	3,069	1,853	87

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

February 8, 2006

The Honorable Timothy Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Mental Health, Mental Retardation, and Substance Abuse Services** (the Department) for the period January 1, 2005, through June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Accounts receivable
Institutional revenue
Payroll Expenses
Systems Security

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, reconciliations, cost reports, census reports, payroll records, systems documentation, and contracts, and observed the Department's operations at the central office and selected facilities. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. We also noted matters of noncompliance that are required to be reported under Government Auditing Standards. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on March 1, 2006. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record; its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS:sks
sks:55

COMMONWEALTH of VIRGINIA

DEPARTMENT OF
MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

JAMES S. REINHARD, M.D.
COMMISSIONER

Post Office Box 1797
Richmond, Virginia 23218-1797

Telephone (804) 786-3921
Voice/TDD (804) 371-8977
www.dmhmrsas.state.va.us

March 14, 2006

Mr. Walt Kucharski
Auditor of Public Accounts
James Monroe Building
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

We have reviewed the Auditor of Public Accounts report covering the audit of the Department of Mental Health, Mental Retardation and Substance Abuse Services for the fiscal year ended June 30, 2005. We agree with your recommendations and are in the process of correcting the areas noted in the report.

If you have any questions or need further information from us, please do not hesitate to contact me.

Sincerely,

Joy Yeh

Joy Yeh, Assistant Commissioner
Finance and Administration

JY/kg

DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION,

AND SUBSTANCE ABUSE SERVICES

James Reinhard, M.D., Commissioner

BOARD MEMBERS

Victoria Cochran, Chair

Daniel Karnes, Vice Chair

Linda Bartlett
Cheryl Ivey Green
Hunt Gunter
Elaine McConnell
Kay Smith
David B. Trinkle, M.D.
Ruth Jarvis