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

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999

AUDITOR OF PUBLIC ACCOUNTS

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Mental Health, Mental Retardation, and Substance Abuse Services for the year ended June 30, 1999, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- issues of noncompliance with applicable laws and regulations; and
- corrective action with respect to audit findings reported in the prior year, except the previously reported finding "Risk Assessment and Information Security Plan."

We recommend the Department:

- complete its information security plan by addressing its client server network;
- strengthen controls over PRAIS security;
- ensure FMS/CARS reconciliations are performed on a timely basis; and
- adequately record and reconcile federal funds to both the State Comptroller's system and internal records.

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AGENCY OVERVIEW

The Department of Mental Health, Mental Retardation, and Substance Abuse Services (the Department) consists of nine mental health facilities, five training centers for the mentally retarded, one medical center and a central office. Facilities must meet standards of quality set by the Joint Commission for Accreditation of Healthcare Organizations, the U. S. Health Care Financing Administration and the U.S. Department of Justice.

The Department also funds 40 community services boards and some private programs. Community Services Boards (CSBs) allow local governments to establish and maintain community mental health, mental retardation, and substance abuse programs. CSBs serve as providers of services, client advocates, community educators, program developers, and planners for providing services. The Department provided over $175 million to CSBs in fiscal year 1999. Other CSB funding sources include third party payors, such as Medicare, Medicaid, insurance and others; local government taxes and contributions; workshop fees; and miscellaneous revenues.

Comprehensive Six Year Plan

As required by Section 37.1–48.1 of the Code of Virginia, the Department developed a six-year plan that describes services and support needed by people with mental illnesses, mental retardation, or substance abuse problems across the Commonwealth. The plan also defines resource requirements and proposes strategies to address these needs.

The Department identified two main goals for its future; (1) maintain a cost-effective method of providing services and (2) keep patients as close to their home community as possible. Specifically, the Department will expand its community-based short-term intensive intervention services, as well as, its long-term services and support for patients that meet the eligibility criteria of the severely mentally handicapped. The Department will also establish a managed system of care designed to improve the quality of services for consumers, ensure consistent access to services across the state and enhance accountability to consumers, family members, and state and local officials.

The six-year Comprehensive Plan recognizes that the patient population in the Department's facilities will continue to decline while community based services increase. Over the past decade, the Department's experiences with the service delivery trends from facilities to community based services have reflected what is occurring nationally. This shift has had a significant impact on the Department's finances and plans.

In the following section, we discuss how the Department plans to provide services using the Community Service Boards and measure whether the Boards are providing the appropriate level of care. After this discussion, the report will address the effect that the declining facility populations have had on cost, as well as, the affects of the U.S. Justice Department's review of facilities and the Medicare audit performed last year.

Community Service Boards

Community Service Boards (CSBs) provide publicly funded mental health, mental retardation, and substance abuse services and access to state facility services through pre-admission screening. CSBs also are service providers both directly and through contracts with other providers, as well as, community educators. Under the comprehensive plan, the CSBs will provide a greater role in the delivery of services. With the CSBs' increased role, the Department is seeking a means to increase the amount of services and the accountability for this delivery of services.

The Department first established performance contracts as a way to monitor CSBs performance. In fiscal year 1999, these contracts contained only mutual listing of duties rather than specific obligations. However, for fiscal year 2000, performance contracts include sections that set out the purpose of *purchasing services* that address the type and level of services, anticipate customer bases, expected outcomes or results, and the method of measurement.

The Department negotiates the specific term of the contract with each CSB, time-limited measures performance concerns or issues and tailors services to specific needs of individual in identified populations of the CSB service area. Annually, the Department conducts compliance reviews and has the option to end a contract if the CSB does not fulfill the terms of the contract. Under this arrangement, the Department also has the option to contract with other service providers, if a CSB does not provide a service or does not meet the terms of the contract. The Department has not exercised this option anywhere.

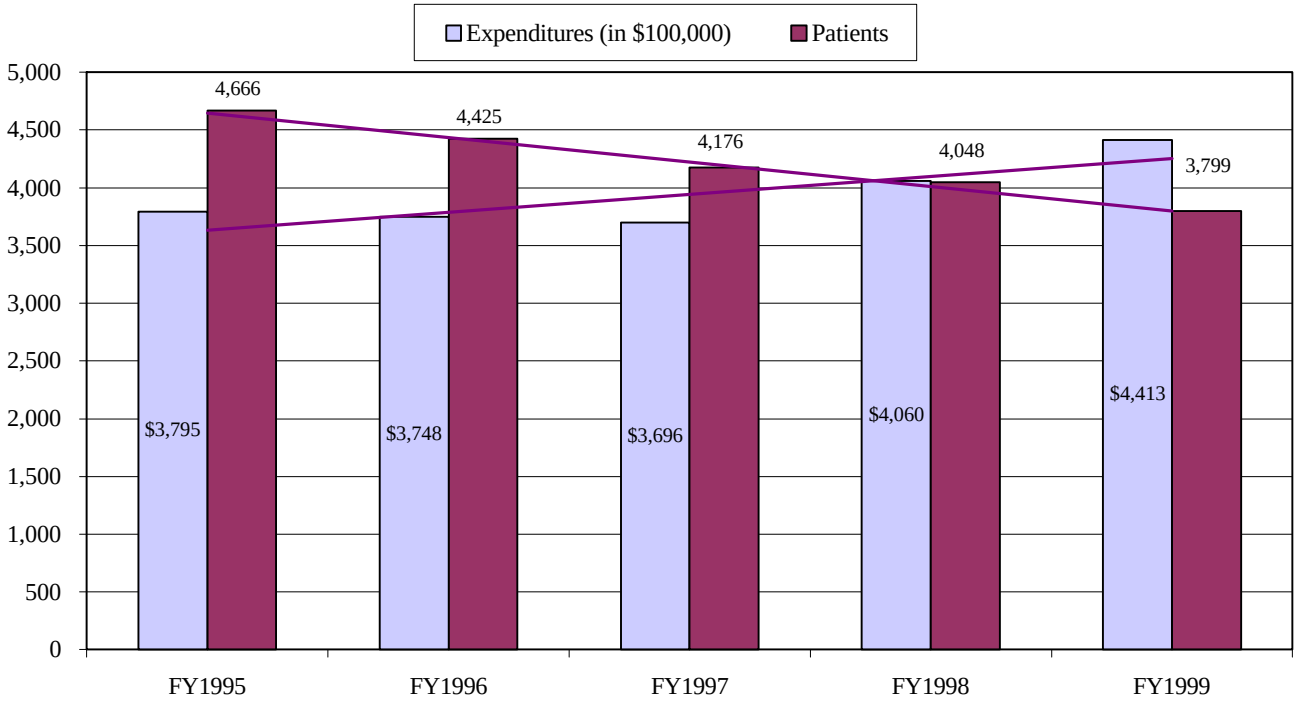
To help ensure compliance with performance contracts, the Department plans to implement a system for measuring provider performance and consumer outcomes. The Performance and Outcomes Measurement System (POMS) will assess provider and system performance on several dimensions, including service access, quality and appropriateness of care, consumer outcomes, critical incidents, and consumer and family member satisfaction with services and supports provided to consumers in priority populations. For example, service access may measure the number of days between facility and CSB care. Monthly, the Department will export information from POMS for review and oversight. POMS also will have the ability to prompt users of impending deadlines to ensure the CSB meets time restrictions. The Department plans to begin implementation of POMS on July 1, 2000.

Declining Patient Census and Increasing Patient Costs

The Comprehensive Plan recognizes the need to provide facility-based care in a cost-effective manner. While the plan anticipates a continued decline in facility population, this decline coupled with other costs makes the Department's task to address competing and conflicting demands difficult. Declining patient populations have created a need to control facility costs when at the same the Department must respond to U.S. Department of Justice reviews conducted under the Civil Rights for Institutionalized Persons Act (CRIPA). In several instances, these reviews have required the Department to increase spending at certain facilities. This increased spending has caused the Department to exceed the Medicaid reimbursement limits.

As the chart on the following page shows, the per-patient cost of service continues to increase while patient populations decline. Without the effects of the CRIPA reviews, this trend would also occur, but the increase would be less. Since a significant portion of the individual facility's cost represents fixed costs and costs to maintain a minimum level of service; unless the Department addresses the utilization of facilities, this trend will continue.

Total Facility Expenditures Versus Total Patients Per Fiscal Year



As discussed later, the Department also must address restrictions on reimbursements from outside payors, including Medicare and Medicaid. Both of these payors have restrictions on the amount they will pay for patient services. The restrictions typically limit payments to reasonable costs. The current per-patient cost trends could lead to limits on the amount of the Department's reimbursement.

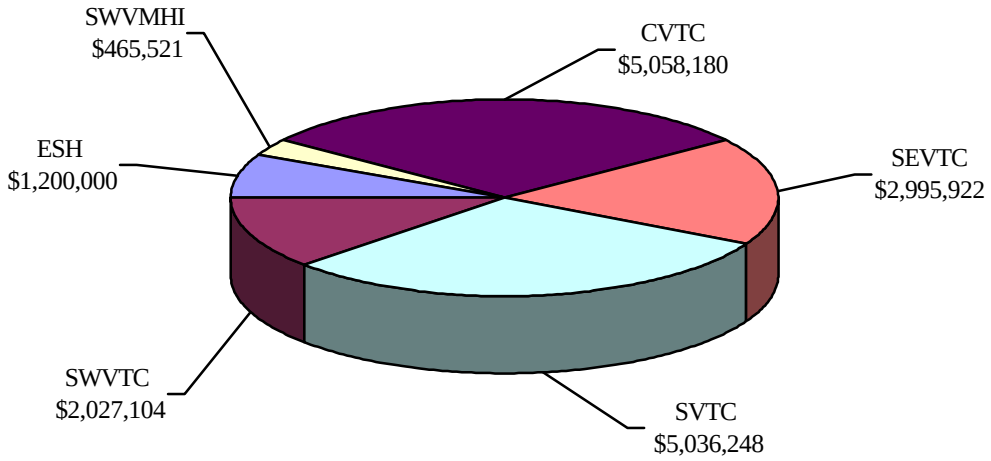
The Department funds most of its facility operations from the amounts it receives from Medicare and Medicaid and other payors. Limitations on reimbursement could also restrict the Department's long term ability to fund salary increases or other operating costs.

U.S. Department of Justice Civil Rights for Institutionalized Persons Act Review

The U.S. Department of Justice has conducted a series of facility reviews under the Civil Rights for Institutionalized Persons Act (CRIPA) and has found that some of the facilities operated by the Department did not comply with the Act. The U.S. Department of Justice and the Department have entered into a series of agreements requiring professional staff increases, a focus on individualized active treatment, and placement of patients back into the community. The majority of these new requirements will require future funding to maintain higher staffing levels. The Department received $21.4 and $11.2 million appropriation increase for fiscal years 1999 and 2000, respectively.

The Department will seek funding to bring Catawba Hospital, the DeJarnette Center, Piedmont Geriatric Hospital, and the Southern Virginia Mental Health Institute in compliance with CRIPA requirements in the 2002-2004 biennium. This funding should provide additional professional staff where ratios presently do not reflect the appropriate levels of supervision, care, or needs for therapeutic intervention. The funding will also provide staff education and training in mental health inpatient services, therapeutic equipment for response to crisis care in emergencies, and other medical equipment for frail and elderly patients and residents. The chart on the following page shows the allocation of CRIPA funding next year.

FY 2001 CRIPA Funding



In addition to the direct patient care matters, the Department created an Office of Health and Quality Care to serve as the focal point for quality improvement including standardizing, improving, and monitoring the quality of services. The Office will also ensure the protection of human rights in state facilities and community programs and ensure that quality improvement activities are coordinated and integrated into the primary functions of the organization.

Reduced Medicare Funding

Like other health care providers, the Department bills Medicaid, Medicare, insurance carriers, and patients for treatment services. In April 1998, Trigon Blue Cross/Blue Shield performed a clinical audit resulting in a repayment of $7.3 million to Medicare during fiscal year 1999. Also, in fiscal year 1999, Trigon Blue Cross/Blue Shield reopened cost settlements for fiscal years 1997 and 1998. This reopening resulted in similar findings and audit sanctions noted in Trigon's initial audit. The Department made repayments on disallowed items amounting to $7 million for 1997 and 1998, but did not incur any additional penalties. The Department and the Office of Attorney General have appealed Medicare findings and have a hearing scheduled for February 16, 2001.

These audits had the following findings:

- Outpatient ancillary services billing included non-covered services, e.g. medications and routine social services.

- Outpatient ancillary services billing included services provided in non-certified areas.

- Billed services included care provided by non-certified clinical staff, e.g. non-licensed social workers and non-certified occupational staff.

Medicaid Reimbursement

The Department of Medical Assistance Services (DMAS) operates the state's Medicaid program and as such sets upper limitations on the amount per patient day that the Department can claim for Medicaid

reimbursement as reasonable cost. When setting the annual Medicaid upper payment limitation, DMAS increases the existing limit by a national specific rate used as a cost inflation factor.

The Department's costs of providing services exceeded the cost recovery limit set by DMAS. This excess occurred, because a significant portion of the institution's costs represents fixed costs and declining populations provide a smaller base for allocating these costs to each patient. In addition, the Department is incurring increased costs to meet the operating requirements set as part of the settlement with the U.S. Department of Justice.

Throughout fiscal year 1999, the Department continued to take the position that Medicaid limits were too low and should provide consideration for the Department's work with the U.S. Department of Justice. In fiscal year 2000, Medicaid agreed with the Department's decision and allowed an increase in the upper payment limitations mainly due to CRIPA requirements. However, declining patient populations within the facilities will require the Department to regularly request increases in the upper payment level or find other cost control alternatives.

COST CONTAINMENT

Since a significant portion of the Department's fixed costs relate to maintenance and use of the buildings at its various facilities, the Commissioner is having Office of Architecture & Engineering Services (A&E) develop a Six Year Capital Budget Plan to address the status and use of all buildings. A&E has hired a consultant to work with them in conducting this review.

As part of the Comprehensive Six Year Plan, the Department plans to continue consolidating patients into a core set of buildings, while winterizing vacant buildings. The Department has estimated that 2,110 of its 3,164 acres, 67 percent, is surplus. In addition, A&E has identified approximately 65 structures for closure or demolition at a cost of approximately $9.5 million. This study will attempt to address ways the Department can better utilize its existing facilities and further reduce its fixed costs.

SYSTEMS

The Department operates a number of systems to provide patient, program and financial information. We reviewed these systems and the Department's plans related to these systems. In fiscal year 1999, the Department dedicated resources to resolving Y2K issues and successfully completed this work in October 1999.

Currently, the Department is planning to upgrade the Financial Management System by 2003. The following represent findings we made during our review.

Information Security Plan and Year 2000 Compliance (Y2K)

The Department completed a risk assessment and information security plan to encompass its HP3000 mainframe; however, the Department has not fully completed its information security plan to address the Client Server Network. This plan is necessary to ensure the Department limits its vulnerability to risks in the client server environment. The Department assembled a working draft of the Client Server Disaster Recovery Plan and plans to have it completed by June 2000.

Patient/Resident Automated Information System (PRAIS) Security

We identified several weaknesses with the Department's PRAIS security. These weaknesses could lead to unauthorized use or alteration of the Department's critical data. Our specific concerns follow:

The Department's Information Technology Services Division does not have program change procedures in place to require proper authorization, segregation of duties, and program change testing before implementation. Without prior authorization, programmers have the ability to alter program code and compromise critical data. In addition, the Division does not test program logic to ensure changes are correct and, therefore, may also compromise critical data.

The Division does not restrict users with ad hoc reporting privileges in PRAIS. With this type of privilege and knowledge of various computer applications, users can gain unauthorized access and subsequently view and/or change patient data, otherwise restricted. This weakness could jeopardize the integrity of the Department's financial data, as well as, patient data.

Many of the security concerns are the result of the Division having only three people to maintain the system. While we realize that the lack of personnel limits the Division's ability to provide security and program change controls, the Department must consider the risks associated with this decision.

OTHER MANAGEMENT ISSUES

Financial Management System (FMS)

We found that three facilities failed to perform monthly reconciliations between FMS and CARS on a timely basis, this resulted in large unexplained variances at year-end. The Department detected the variances before preparing its financial statements. A lack of resources contributed to the breakdown of controls.

In fiscal year 1999, the Budget Analyst position, responsible for performing FMS/CARS reconciliations at Central State Hospital (CSH) and Hiram Davis Medical Center (HDMC) remained vacant for approximately six to eight months. Southside Virginia Training Center (SVTC), also in Petersburg, houses the Financial Services Division and performs the accounting functions for SVTC, CSH and HDMC. While this position remained vacant, the Senior Budget Analyst and Accounting Senior of SVTC shared the responsibilities, including FMS/CARS reconciliations, of all three facilities. Other priorities precluded SVTC staff from performing reconciliations on a timely basis or at all. Therefore, we found variances for all three facilities as high as $8 million.

These facilities continue to experience turnover that results in additional responsibilities for the remaining staff and, the Budget Analyst position currently remains vacant.

The facilities should actively recruit and hire a Budget Analyst Senior for the CSH and HDMC vacant position within 90 days. The financial and facility management should consider including appropriate benefits or plans to retain the person recruited for this position.

Waiver and Grants Management

The Waiver and Grants Management personnel did not retain supporting documentation for reporting federal grant funds used by the Department to administer grants. Personnel responsible for reporting federal

fund expenditures did not perform reconciliations to ensure that variances did not exist between financial reporting systems and drawdowns. Supervisory staff could not adequately explain procedures used to report financial information to the federal government.

The Department should reconcile drawdowns to both the State Comptroller's system and its internal records. The Waiver and Grant Management personnel should retain records supporting drawdowns.

May 8, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Mental Health, Mental Retardation, and Substance Abuse Services** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to review the Department's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective action of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenue
- Payroll
- Expenditures

We obtained an understanding of the relevant internal control components for these internal accounting controls. We considered the materiality and control risk in determining the nature and extent of our audit procedures. 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.

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 laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit 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 generally accepted accounting principles.

We noted certain matters involving internal control and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the sections entitled, "Systems" and "Other Management Issues." We believe none of the reportable conditions in this report are material weaknesses.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported finding "Risk Assessment and Information Security Plan." Accordingly, we included this finding in the section entitled, "Systems." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 24, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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

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