

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



- TABLE OF CONTENTS -

AGENCY HIGHLIGHTS

COMPARISON OF FACILITY OPERATIONS:

Mental Health Facilities

Mental Retardation Facilities

INDEPENDENT AUDITOR'S REPORT

AGENCY OFFICIALS

AGENCY HIGHLIGHTS

The Department of Mental Health, Mental Retardation, and Substance Abuse Services (the Department) provides a wide array of services to individuals in state-operated facilities and communities throughout the Commonwealth. The Department has a central office that performs most of its administrative functions and 15 facilities that provide direct services to the Department's consumers. In addition, the Department funds and monitors the activities of 40 local Community Service Boards (CSBs).

Central Office

The central office has oversight responsibility of the programmatic, financial, and administrative activities within state facilities and Community Service Boards (CSBs). It establishes facilities' operating budgets, develops and enforces policy, and provides technical assistance. Central office divisions include administrative and regulatory compliance programs, facility management, health and quality care, financial administration, internal audit, human resources, planning and development, information technology, and legislation and public relations. In fiscal year 2003, the central office spent \$28 million (four percent) of the Department's total expenses.

Community Service Boards

CSBs are the point of entry into the Commonwealth's Mental Health, Mental Retardation, and Substance Abuse Services system. Every consumer seeking services must first have a CSB pre-screening to determine the type and duration of care needs. Once the CSB determines the patient's needs, the patient enters either a community or facility program.

CSBs function as providers of services, client advocates, community educators, program developers, and planners on issues related to mental health, mental retardation, and substance abuse. In comparison to hospitalization, CSBs provide more individualized, flexible, and integrated services. CSBs draw upon community resources and support systems, such as family and friends. In fiscal year 2003, CSBs spent \$223 million (30 percent) of the Department's total expenses.

Facilities

Facilities provide inpatient consumer care. There are nine mental health facilities referred to as "hospitals" that provide acute care and chronic psychiatric services to children, adults, and the elderly. There are five mental retardation facilities referred to as "training centers" that offer residential care and training in areas such as language, self-care, independent living, academic skills, and motor development. Lastly, there is a medical center that cares for severely physically and mentally ill patients and operates a pharmacy.

In fiscal year 2003, total revenue received by all facilities was \$480,579,100 and total expenses were \$489,522,071, resulting in a deficiency of \$8,942,971. However, the Department did not operate at a budgetary deficit. The Department brought forward a cash balance of \$28 million from the prior year. Expenses exceed revenues at most of the mental health facilities because these types of facilities have fewer Medicare- and Medicaid-certified beds than the training centers where revenues exceed expenses. The table below shows excess and deficiency over the past four years.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total revenues	\$476,348,631	\$481,719,772	\$500,734,563	\$480,579,100
Total expenditures	<u>466,018,612</u>	<u>475,824,754</u>	<u>472,618,687</u>	<u>489,522,071</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 10,330,019</u>	<u>\$ 5,895,018</u>	<u>\$ 28,115,876</u>	<u>\$ (8,942,971)</u>
Source: CARS				

The following tables provide a comparison of facility operations including revenues and expenses.

COMPARISON OF FACILITY OPERATIONS
Mental Health Facilities

	Eastern State Hospital	Central State Hospital	Western State Hospital	Commonwealth Center for Children
Average resident census	486	280	252	35
Total resident days	177,208	102,030	91,821	12,864
Revenue:				
Adjusted General Fund appropriations	\$ 44,133,204	\$ 39,684,576	\$ 36,770,366	\$ 5,465,413
Collections (third party reimbursements)	24,997,222	755,073	3,108,968	1,163,008
Collections for General Fund of the Commonwealth	9,668	40,213	1,866	413
Other revenues	20,067	-	1,244	-
Total revenue	69,160,161	40,479,862	39,882,444	6,628,834
Expenses:				
Personal services	52,039,755	33,879,788	36,335,110	6,195,201
Contractual services	3,631,977	8,227,827	2,086,234	358,991
Supplies and materials	7,280,811	785,077	3,752,290	460,475
Transfer payments	64,423	120,775	46,722	8,579
Insurance, rentals, and utilities	2,903,556	1,708,418	1,805,024	281,732
Property, plant, and equipment	391,216	476,473	105,401	104,171
Total expenses	66,311,738	45,198,358	44,130,781	7,409,149
Excess (deficiency) of revenues over expenses	\$ 2,848,423	\$ (4,718,496)	\$ (4,248,337)	\$ (780,315)
Expenses per resident	\$ 136,444	\$ 161,423	\$ 175,122	\$ 211,690
Expenses per resident day	\$ 374	\$ 443	\$ 481	\$ 576
Revenues per resident	\$ 142,305	\$ 144,571	\$ 158,264	\$ 189,395
Revenues per resident day	\$ 390	\$ 397	\$ 434	\$ 515

Southwestern Virginia Mental Health Institute	Northern Virginia Mental Health Institute	Southern Virginia Mental Health Institute	Catawba Hospital	Piedmont Geriatric Hospital	Hiram Davis Medical Center **	Total for Mental Health Facilities
146	120	76	93	122	71	1,681
53,470	43,776	27,614	33,931	44,448	26,015	613,177
\$ 16,926,962	\$ 22,487,488	\$ 7,774,512	\$ 4,093,507	\$ 2,372,747	\$ 21,694,774	\$ 201,403,549
6,604,248	921,940	1,187,245	8,769,747	18,370,983	9,674,770	75,553,204
7,003	-	-	24,106	1,196	6,808	91,273
29	2,158	22	6,022	449	-	29,991
23,538,242	23,411,586	8,961,779	12,893,382	20,745,375	31,376,352	277,078,017
21,853,644	17,617,247	7,799,770	13,327,042	14,162,806	8,170,068	211,380,431
1,728,389	4,089,574	699,200	1,241,582	1,560,654	2,091,063	25,715,491
2,643,339	1,811,044	671,624	1,536,950	1,724,972	22,286,529	42,953,111
15,920	97,002	20,262	21,782	22,729	6,272	424,466
1,304,908	874,307	297,399	632,460	492,541	136,306	10,436,651
109,955	28,957	67,465	303,936	217,709	140,584	1,945,867
27,656,155	24,518,131	9,555,720	17,063,752	18,181,411	32,830,822	292,856,017
\$ (4,117,913)	\$ (1,106,545)	\$ (593,941)	\$ (4,170,370)	\$ 2,563,964	\$ (1,454,470)	\$ (15,778,000)
\$ 189,426	\$ 204,318	\$ 125,733	\$ 183,481	\$ 149,028	\$ 462,406	\$ 174,215
\$ 517	\$ 560	\$ 346	\$ 503	\$ 409	\$ 1,262	\$ 478
\$ 161,221	\$ 195,097	\$ 117,918	\$ 138,639	\$ 170,044	\$ 441,920	\$ 164,829
\$ 440	\$ 535	\$ 325	\$ 380	\$ 467	\$ 1,206	\$ 452

COMPARISON OF FACILITY OPERATIONS

Mental Retardation Facilities

	Central Virginia Training Center	Southeastern Virginia Training Center	Northern Virginia Training Center
Average resident census	606	191	185
Total resident days	221,348	69,579	67,521
Revenue:			
Adjusted General Fund appropriation *	\$ 6,456,897	\$ 2,151,968	\$ 3,233,783
Collections (third party reimbursements)	67,631,084	16,836,665	24,596,689
Collections for General Fund of the Commonwealth	5,177	-	136
Other revenues	6,384	-	-
Total revenue	74,099,542	18,988,633	27,830,608
Expenses:			
Personal services	57,549,183	15,507,928	23,495,449
Contractual services	1,720,718	1,077,361	1,542,222
Supplies and materials	7,309,754	1,229,241	2,448,980
Transfer payments	(3,546)	82,489	14,439
Insurance, rentals, and utilities	2,665,860	721,134	714,963
Property, plant, and equipment	234,061	399,826	427,284
Total expenses	69,476,030	19,017,979	28,643,337
Excess (deficiency) of revenue over expenses	\$ 4,623,512	\$ (29,346)	\$ (812,729)
Expenses per resident	\$ 114,647	\$ 99,571	\$ 154,829
Expenses per resident day	\$ 314	\$ 273	\$ 424
Revenues per resident	\$ 122,276	\$ 99,417	\$ 150,436
Revenues per resident day	\$ 335	\$ 273	\$ 412

Source: CARS and Monthly Financial Report as of June 30, 2003

* The appropriation for Central Virginia Training Center includes \$425,432 for capital outlay.

Southside Virginia Training Center	Southwestern Virginia Training Center	Total for Mental Retardation Training Centers
387	212	1,581
141,259	77,403	577,110
\$ 11,045,565	\$ 1,729,845	\$ 24,618,058
53,665,845	16,140,813	178,871,096
-	-	5,313
-	232	6,616
64,711,410	17,870,890	203,501,083
48,359,138	15,328,319	160,240,017
2,791,575	465,487	7,597,363
5,327,950	939,728	17,255,653
67,561	98,236	259,179
3,888,297	800,385	8,790,639
1,195,526	266,506	2,523,203
61,630,047	17,898,661	196,666,054
\$ 3,081,363	\$ (27,771)	\$ 6,835,029
\$ 159,251	\$ 84,428	\$ 124,393
\$ 436	\$ 231	\$ 341
\$ 167,213	\$ 84,297	\$ 128,717
\$ 458	\$ 231	\$ 353



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 7, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice 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 year ended June 30, 2003, in support of the Comprehensive Annual Financial and Statewide Single Audit Reports for the Commonwealth of Virginia.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to evaluate the accuracy of the Department's financial transactions as reported in the Comprehensive Annual Financial and Statewide Single Audit Reports for the Commonwealth of Virginia for the year ended June 30, 2003. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, reviewed the adequacy of the Department's internal control, tested for compliance with applicable laws and regulations, and reviewed corrective actions of audit findings from prior year reports. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Accounts Receivable	Institutional Revenue
Deferred Credit	Individual and Family Services Expenditures
Deferred Revenue	Federal Grants and Contracts

We reviewed and gained an understanding of the overall internal controls, both automated and manual, including controls for administering compliance with applicable laws and regulations, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the following operations:

Patient Billing	Patient/Resident Automated Information System (PRAIS)
Expenditures	Patient Revenue Collection
Financial Reporting	Financial Management System (FMS)

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 tested transactions and controls and performed other audit tests we deemed necessary to determine whether the Department's controls were adequate, had been placed in operation, and were being followed.

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 Results

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses relative to the Comprehensive Annual Financial and Statewide Single Audit Reports for the Commonwealth. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported.

The Department has taken adequate corrective action with respect to all of the previously reported findings.

We discussed this letter with management on February 10, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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

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