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

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2001

APA

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, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of laws and regulations; and
- corrective action for prior year audit findings, except where noted otherwise.

We recommend that the Department improve its internal controls and comply with applicable laws and regulations by:

- developing guidelines to ensure that at least five percent of the operating Community Service Boards have independent peer reviews conducted in accordance with federal requirements;
- improving the existing monitoring activities of Community Service Boards; and
- properly administering contracts and the Small Purchase Charge Card program.

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AGENCY HIGHLIGHTS

Budget Cut Proposal

The Department submitted its budget reduction plan for the remainder of fiscal year 2002 and for the 2003-2004 biennium. The Department's proposed reduction for fiscal year 2002 is $8.7 million. Of the $8.7 million, approximately $1.8 million will be in personnel, mostly by elimination of vacant positions. Management and administrative efficiencies at the CSB level account for roughly $5.1 million. In fiscal year 2003-2004, the Department will cut an additional $6.2 million (or four percent) from its budget.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) provides the first comprehensive federal protection for health information. This set of federal regulations creates standards for the preparation and communication of health information and controls the privacy of patient information. HIPAA encompasses system security, privacy, and electronic transaction requirements each with a different compliance deadline. The security regulations require that each entity have an information security program that includes policies, procedures, technical and physical controls, education, and an information security officer. The privacy law requires security policies and procedures, a privacy officer, complaint handling procedures, de-identified data, and verification of the information requestor's identity and authority. Electronic transaction standards require one electronic format for health claims; health plan eligibility and premium payments; payment for services, and other items. The current date of required compliance with HIPAA is as follows:

Requirements	Deadline
Security	Pending HHS approval
Privacy	April 2003
Electronic Transaction Code Sets	October 2003 (if an extension is filed by October 2002)

In an effort to comply with HIPAA by the required deadlines, the Department intends to replace its billing and reimbursement system known as Patient/Resident Automated Information System (PRAIS) with a proprietary system. In fiscal year 2002, the Department issued a request for proposal and performed site visits of the top two vendors. The Department is in the process of making a final decision on the selection of the vendors and will subsequently award the contract.

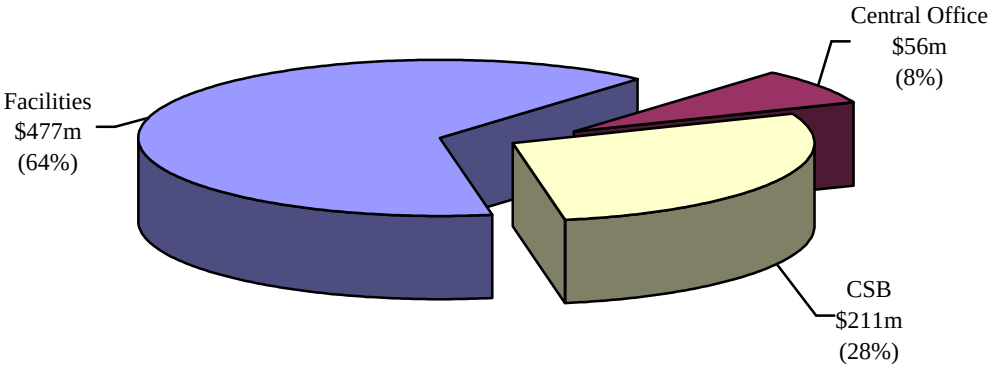
Financial Management System II Implementation

During fiscal year 2001, the Department began upgrading its accounting system, the Financial Management System (FMS 80), to a new version that provides improved processing and reporting. The upgraded version, known as FMS II, allows access via the Intranet, uses inventory and purchase order software, and consolidates the financial management applications for some facilities resulting in the availability of additional processing resources, decreased support requirements, and other savings. The regional site project has a scheduled implementation date of all modules by June 30, 2002; however, there is the possibility that one facility will not have complete inventory and cost ledger capability. If the implementation of these two modules extends past June 30, the Department's project team will implement without vendor assistance using knowledge gained through previous implementations at other regional sites. If this becomes necessary, the project team should complete implementation of the remaining modules by July 30, 2002.

AGENCY BACKGROUND

The Department provides a wide array of services to individuals and communities throughout the Commonwealth. The Department operates 15 facilities across the state and a central office in Richmond, Virginia. It also funds and monitors the activities of 40 local Community Service Boards (CSBs). In fiscal year 2001, the Department expended $744 million. The following graph shows the allocation of expenses, which includes $16 million in capital outlay expenditures.

Expenses - FY 2001



Source: FMS 300 Report 6/30/01

COMMUNITY SERVICE BOARDS

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 draw upon community resources and natural support systems, such as family, friends, and work to alleviate the effects of mental disabilities and substance abuse. Some services provided by CSBs include:

- Day support services
- Residential services
- Outpatient and case management
- Prevention and early intervention services
- Local inpatient
- Emergency services

CSBs are the single point of entry into the publicly-funded Mental Health, Mental Retardation, and Substance Abuse Services system. Among other things, this means that every consumer seeking admission to a state facility must first have a pre-screening by a CSB to determine the type of care needed.

Local governments establish the CSBs and appoint the board members. The Department monitors, licenses, regulates, consults, and partially funds the CSBs.

Performance Contracts and Performance Outcome Measurement

Performance contracts are an accountability mechanism established in the Code of Virginia. The contracts require the Department to monitor performance activity of the CSB. If a CSB does not meet the terms in the contract, the Department may delay disbursement of state funds or terminate all or a portion of the contract and procure services with private vendors.

INTERNAL CONTROL AND COMPLIANCE FINDING

Monitor Funding and Performance of Community Service Boards

Funding

Sections 37.1-198D and 37.1-248.1D of the Code of Virginia states that no CSB or behavioral health authority shall be eligible to receive state-controlled funds for mental health, mental retardation or substance abuse services after September 15 of each year unless its performance contract has been approved by the local governing body and by the Department.

According to the Department's policy, the Commissioner's signature on the performance contract authorizes the release of funds to the CSBs. Based on our review of the performance contracts, the Office of Community Contracting (OCC) released payment after September 15, 2001, to 5 of the 40 CSBs without prior approval of the Commissioner.

Performance

Section 37.1-199 of the Code of Virginia states that from time to time during the fiscal year, the Department shall review the performance reports of the CSBs and the utilization management and review reports on their operations. It further states that the Department may withdraw funds if a CSB:

- is not being administered in accordance with its approved performance contract;
- does not need the funds based on its performance reports or utilization management and review reports;
- is not in compliance with operational standards for community services that are promulgated by the State Board; or
- does not meet provider performance, consumer outcome, consumer satisfaction or consumer and family member involvement measures in its performance contract.

The Department's OCC is responsible for implementing such reviews. However, the OCC has not established procedures to determine if CSBs are meeting any of the criteria noted above. Only one individual within the OCC provided documentation of quarterly performance reviews performed on 12 of the 40 CSBs.

We recommend the Department comply with sections 37.1-198 through 199 and 37.1-248.1 of the Code of Virginia.

The Department developed the Performance and Outcome Measurement System (POMS) to improve the quality of services to individuals with mental disabilities and substance abuse. POMS hold CSBs accountable for meeting performance indicators by collecting, managing, analyzing, and reporting performance and consumer outcome. However, effective fiscal year 2003, the General Assembly postponed funding of POMS to evaluate its effectiveness. In response, the Department discontinued POMS data collection. The Department continues to use other mechanisms of reporting performance and outcome measures.

Federal Funding

The Department disbursed approximately $60 million of federal grants to CSBs during fiscal year 2001. Nearly 62 percent of those funds come from the Substance Abuse Prevention and Treatment Block Grant. The Block Grant is the primary grant the federal government uses to fund state substance abuse prevention and treatment programs nationally.

The Department distributed $37,225,140 of this grant to CSBs throughout the Commonwealth. According to federal requirements, the Department must ensure that independent peer reviews, which assess the quality, appropriateness, and efficacy of treatment services are performed. The Department must also ensure the independence and reliability of the peer review process.

INTERNAL CONTROL AND COMPLIANCE FINDING

Develop Independent Peer Review Monitoring

The Department did not comply with the independent peer review requirement as set forth in the Substance Abuse Prevention and Treatment Block Grant. The grant requires that the Department develop procedures for the implementation of peer reviews, provide for these peer reviews on at least five percent of the CSBs that provide treatment services, and ensure that the five percent is a representative sample of the state's CSBs.

The Department does not require the CSBs to have a peer review because of cost implications, nor does the Department have procedures to "provide for" peer reviews. Management's response to this finding in fiscal 2000 stated that the Department would begin to track participation in peer reviews through direct contact with the Commission on Accreditation of Rehabilitation Facilities. However, it has not implemented such procedures. Coincidentally, the Chesterfield and New River Valley Community Services Boards requested and received a qualified independent peer review from the Commission in fiscal 2001, which accounted for the required five percent.

Independent peer reviews are important to ensure that CSBs are providing appropriate and adequate treatment to qualified individuals. We recommend the Department provide for independent peer reviews to comply with federal requirements and thus sustain funding.

FACILITY AND CENTRAL OFFICE OPERATIONS

The Department manages 685 contracts for goods and services acquired by the Department's Administrative Services Division (ASD), Architecture and Engineering (A&E) Division, and 12 facility procurement offices. ASD acquires administrative contracts for the central office, provides assistance to facility procurement personnel, and procures "multi-facility" term contracts to support some of the functions

of the facilities. The Department acquires the majority of its physician and nursing services using term contracts, which incorporate a fixed price for a defined period of time.

A&E acquires capital and construction contracts and oversees the facilities' renovation and maintenance projects. In addition, the division manages some statewide administrative contracts that include sanitation, housekeeping, laundry services, and food services.

Facility procurement offices manage approximately 70 percent (or 477) contracts involving facility administration and direct patient care. Local contracts include trash and hazardous waste removal and physician specialist services such as radiology, podiatry, dental, pathology, orthopedic, pharmacy, and physical therapy. In addition, facilities contract for services provided by regional hospitals. For example, Hiram Davis Medical Center procures and administers a contract with Southside Regional Medical Center for inpatient and outpatient services that amounts to approximately $350,000 annually.

Procurement of a contract is only a part of the acquisition of goods and services. After procurement, contract administration is critical in ensuring that the facility receives the quality goods or services for which it actually contracted.

INTERNAL CONTROL AND COMPLIANCE FINDING

Properly Administer Contracts

According to the Agency Procurement and Surplus Property Manual (APSPM), and based on a review of seven procurement offices within the Department, we noted the following areas of non-compliance:

- *Designation of contract administrator* – Four procurement offices failed to designate a contract administrator and three provided insufficient direction to the contract administrators. In addition, one contract administrator lacked proper knowledge of contract scope.

- *Procurement files* – Seven procurement offices lacked adequate documentation in the procurement file as required by the APSPM.

- *Contract modification* – One procurement office modified a contract for additional work after the contractor performed it.

Insufficient designations, inadequate documentation, and improper contract modifications increase the risk that goods and services received are different from the actual purchase.

We recommend the Department's Central Office and all 15 facilities designate, in writing, a contract administrator for all contracts and verify the individual's understanding of his or her administrative responsibilities; maintain complete procurement files as required by the APSPM; and modify a contract only with approval from the Contract Officer and prior to the vendor implementing the modification. In addition, the Department should develop procedures to ensure all procurement offices are aware of and actively follow the APSPM compliance requirements.

The Department uses the Commonwealth's Small Purchase Charge Card Program for purchases of less than $5,000. The Program delegates purchasing authority for small purchases to end users, thus reducing the administrative burden on the procurement departments. The Department issued approximately 373 small purchase charge cards to employees at the Central Office and facilities. The delegation of this authority creates responsibilities for the cardholders, procurement staff, and agency management. Compliance with the directives of the Department of Accounts with regards to the Small Purchase Charge Card Program is essential to ensure success in maintaining fiscal responsibility of the agency.

INTERNAL CONTROL AND COMPLIANCE FINDING

Properly Administer the Small Purchase Charge Card Program

According to the CAPP Manual and review of seven procurement offices within the Department, we identified over ten non-compliance issues at two or more offices.

We recommend the Department update applicable policies, procedures, and forms to comply with current CAPP Manual Policies and that cardholders receive training on such policies. In addition, SPCC policies and procedures should address and enforce the following.

- Periodic review of cardholder usage and limits with appropriate action as deemed necessary (e.g., adjusted limits to reflect usage or revocation of card based on non-usage).

- Timely cardholder reconciliation including a review of purchase logs, supporting documentation such as receipts, tax charged for non-exempt purchases, mandatory sources and spending limits exceeded or split.

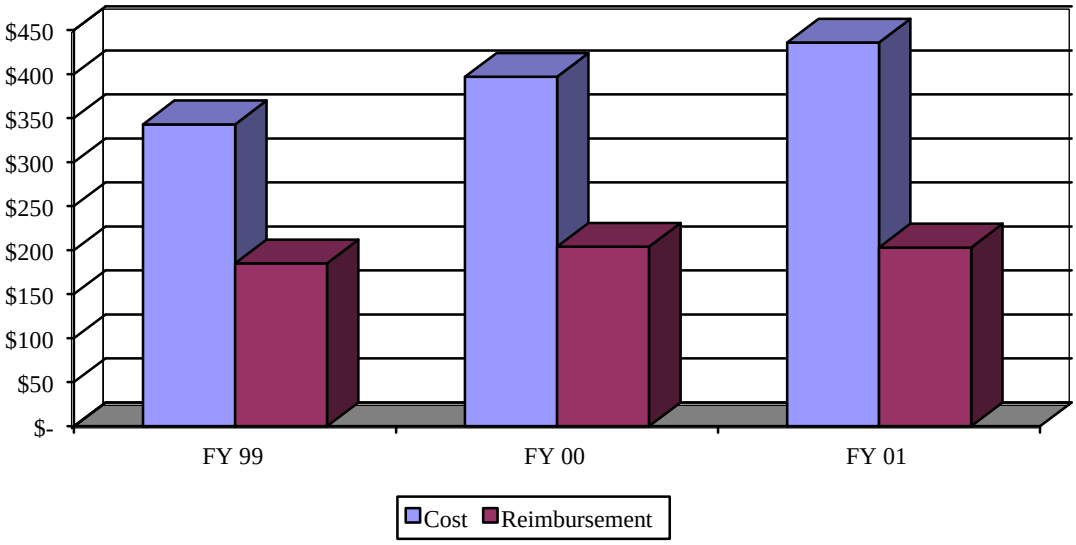
- Supervisory review of purchases to determine appropriateness in comparison to budgeted expenditures. In addition, supervisors should provide feedback to the cardholder if problems are noted.

Cost of Operations and Reimbursement

Downsizing state facilities and increasing community services remains a goal of the Department. However, the Department must continue to meet standards of quality set by the Joint Commission for Accreditation of Healthcare Organizations, the Center for Medicare and Medicaid Services, and the U.S. Department of Justice. To meet these standards, employment levels of direct care staff must remain at acceptable levels due to emphasis on individualized care. The Department must also address restrictions on reimbursements from third-party payors, including Medicare and Medicaid. The Department funds most of its facility operations from amounts it receives from Medicare and Medicaid and other payors. These payors have restrictions on the amount they will reimburse for patient services. The restrictions typically limit payments to "reasonable costs." As a result, the current per-patient reimbursement amounts have fallen short of the costs, increasing the demand for state appropriations.

The following chart shows costs per patient day in comparison to reimbursement per patient day over a three-year period.

Average Total Cost vs. Reimbursement (per patient day)



Note: Chart includes all 15 MHMRSAS facilities

Source: Total Monthly Direct Care Costs; Collection Summary; Year-to-Date Patient Days (FY 99 - 01)

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 13, 2002

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

The Honorable Kevin G. Miller
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, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of financial transactions recorded on the Commonwealth's Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. Additionally, we determined the Department's corrective action relating to findings contained in our prior year report, determined the status and effect of the Community Service Board performance contracts, and reviewed the Department's status in implementing GASB 34 and the Health Insurance Portability and Accountability Act.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Department 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:

Revenues	Payroll
Expenditures	Contract Management
Grant Management	

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered 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 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 applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal controls 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 consider 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. Reportable conditions are the findings and recommendations entitled "Monitor Funding and Performance of Community Service Boards;" "Develop Independent Peer Review Monitoring;" "Properly Administer Contracts;" and "Properly Administer the Small Purchase Charge Card Program" discussed in the sections of the report entitled, "Community Service Boards" and "Facility and Central Office Operations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are also described in the findings and recommendations referenced above.

The Department has implemented corrective action with respect to one of two previously reported findings.

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 30, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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

FISCAL YEAR 2002

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Marlene Butler, Secretary

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Elaine McConnell	Doug Turner

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