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

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2000

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, 2000, found:

- amounts reported in the Commonwealth Accounting and Reporting System for the Department were fairly stated;
- 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
- adequate corrective action with respect to audit findings reported in the prior year.

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

- developing an Information Security Plan that is comprehensive and includes updated computer operations policies, updated policies and procedures manuals, and provisions for training all staff on adherence to changes specified by the updated policies and procedures; and
- developing guidelines to ensure that at least five percent of the operating Community Service Boards have independent peer reviews conducted in accordance with the grant requirements.

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AGENCY BACKGROUND

The Department of Mental Health, Mental Retardation, and Substance Abuse Services provides a wide array of mental health, mental retardation, and substance abuse services to individuals and communities throughout the Commonwealth. The Department operates nine mental health facilities, five training centers, one medical center, and a central office. It also funds and monitors the activities of 40 local Community Service Boards (CSBs) throughout the state.

The central office has oversight of the programmatic and administrative activities within state facilities and CSBs. It develops and enforces policy, and provides technical assistance. It also licenses and regulates public and private programs and facilities. The central office includes the following seven divisions:

Division of Finance and Administration

The Division of Finance and Administration directs all financial management and administrative activities of the Department. It also assists the Commissioner and other senior management.

Office of Information Technology Services

The Office of Information Technology Services manages the Department's information resources, which include multiple database platforms and telemedia capabilities.

Office of Planning and Development

The Office of Planning and Development puts together the Comprehensive State Plan as required by the Code of Virginia and the Department's Strategic Plan. This Office also oversees the Department's emergency preparedness planning, regulatory process, and operating policies and procedures.

Office of Legislation and Public Relations

The Office of Legislation and Public Relations coordinates the Department's response to legislation, legislative initiatives, studies, and inquires. This Office also coordinates media and public relations activities.

Office of Health and Quality Care

The Office of Health and Quality Care has many functions, including research, training, oversight of the Department's facilities, and developing improvements in the quality of care in the facilities. This Office is also responsible for the Performance and Outcome Measurement System, which measures treatment outcomes as described later in this report.

Office of Community Contracting

The Office of Community Contracting negotiates performance contracts with the CSBs and Behavioral Health Authorities (BHA) and assesses their accomplishment of contract objectives and compliance with contract provisions.

Division of Community and Facility Services

The Division of Community and Facility Services directs and oversees the administration of the 15 state facilities and 40 CSBs and verifies that their operations meet the Department's mission, goals, and objectives. The Division also ensures that other divisions provide these entities with the appropriate assistance and cooperation.

The following chart explains the differences between state's mental health facilities, mental retardation facilities, and CSBs.

	Community Service Boards (CSBs)	**Mental Health Facilities**	**Mental Retardation Training Centers**
Number of locations	40	10	5
Type of care provided	Short-term, intensive intervention services	Long-term services	Long-term services
Consumers	• All individuals seeking entry into the system • Anyone in the general public who needs short-term care	Priority populations: • Children with or at risk of developing serious emotional disturbances • Adults with serious mental illnesses	Priority populations: • Children with or at risk of mental retardation or cognitive developmental delay • Adults with mental retardation
Focus	• Assess consumer needs • Access services and support (makes arrangements for needed services) • Manage state-controlled funds for community-based services	Specialized programs for geriatric, child and adolescent, and forensic patients	Residential care and training for the mentally retarded
Types of services provided	• Emergency, local inpatient and outpatient services • Case management • Day support and residential care • Prevention and early intervention services	• Intensive care, inpatient treatment, and training services • Psychiatric, psychological, and psychosocial rehabilitation • Nursing, support, and ancillary services	• Residential care • Training in areas such as language, self-care, independent living, socialization, academic skills, and motor development

The Department currently has two major goals: to improve the quality of care and the conditions at the state facilities and to strengthen community-based resources for the care and treatment of individuals with mental disabilities. Each of these goals is intended to improve the quality of life of those individuals in need of mental health, mental retardation, and substance abuse services. In order to accomplish these two goals, the Department is transforming its role from being a direct provider of services at state facilities to being a purchaser of publicly-funded services from local governments and the private sector.

AGENCY HIGHLIGHTS

The Department is one of many state agencies affected by current health care reform initiatives and systems development projects. One important national health care initiative is the Health Insurance Portability and Accountability Act, which is a federal effort to ensure the security of patient medical data.

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 requirements include security regulations, a medical privacy law, and penalties for the misuse and disclosure of medical data. 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. The current date of required compliance with HIPAA is October 2002.

The Department has developed a "HIPAA Team," which is a committee set up to identify the areas within the Department that are most affected by HIPAA and aid in establishing policies and procedures that meet the requirements of the HIPAA regulations. The HIPAA team is comprised of individuals throughout each of the risk-targeted areas within the Department. The established goals of the HIPAA Team are as follows:

- Identifying new requirements that HIPAA will place on the Department and facilities
- Assessing current systems and deciding what adjustments to make
- Developing a workplan for necessary adjustments
- Implementing and monitoring compliance consistent with an established workplan
- Training all staff on new HIPAA processes and procedures

Information Security

Our review of the Department's ability to implement HIPAA revealed inadequate planning by the Information Technology division. The Commonwealth's Department of Technology Planning (formerly the Council on Information Management) establishes standards that define minimum requirements for the

administration of an information technology security program. At a minimum, these standards require an information security plan that includes:

- A business impact analysis that defines the agency's sensitive information systems
- A risk analysis and assessment that identifies the risks to sensitive information systems and the countermeasures required to reduce risks to an acceptable level
- A contingency management plan that provides for the continuation of critical business functions in the event of disruptions or disasters
- Implementation of security safeguards based on the risk assessment
- Security awareness and training programs

INTERNAL CONTROL AND COMPLIANCE FINDING #1

Comply with the Commonwealth of Virginia Information Technology Resource Management Standards

The Department has not corrected last year's audit finding recommending the completion of a formal Information Security Plan as required by the Commonwealth of Virginia Information Technology Resource Management Standard section 2000-01.1, "Information Technology Security." Additionally, policies and procedures for the entire Department are severely outdated. The most recent update of the policies and procedures manual occurred in 1993 and the last update of the Computer Operations Manual was in 1991. As the need to update information technology changes, so does the need to update policies to operate and safeguard this technology.

We recommend the Department develop an Information Security Plan that is comprehensive and includes updated computer operations policies, updated policies and procedures manuals, and provisions for training all staff on adherence to changes as specified by the updated policies and procedures.

By implementing this recommendation, the Department will be better equipped to respond to the requirements of HIPAA.

Information Technology Initiatives

In January 2001, the Department began a multi-phased project of upgrading its Financial Management System (FMS) to FMS II. The Department plans to install FMS II at the central office and each of the 15 facilities by July 2002. In addition, the Office of Information Technology Services will provide FMS II training for staff.

The Office of Information Technology Services has completed a proposal requesting funding for technology that will provide secured access to their internal networked applications through the Internet. This implementation will assist in compliance with HIPAA, as well as current Heath Care Financing Administration Privacy Act policies. The planned virtual private network would allow the secure transmission of data through the Internet. Its immediate use is for transmitting client financial information to and from insurance companies, other health care providers, and Department facilities.

Implementation of the Government Accounting Standards Board Statement 34

The Governmental Accounting Standards Board (GASB) establishes standards for financial accounting and reporting for all state and local governments, as well as state-supported colleges and

universities. GASB Statement 34 issued in June 1999, completely revises the current financial reporting requirements for state and local governments. This statement will require governments to depreciate capital assets and report infrastructure assets on the financial statements. The Commonwealth is required to implement GASB Statement 34 for the fiscal year ended June 30, 2002.

The Department prepares financial statements as part of their Annual Report and supplies information to the Department of Accounts for preparation of the Commonwealth's Comprehensive Annual Financial Report. As a part of the implementation of GASB 34, roads around and through certain facilities will need to be inventoried and valued so as to be included in the financial statements. The Department must continue to work with the Virginia Department of Transportation (VDOT) to inventory all roads, determine whether the Department or VDOT has responsibility for the road, and value each road.

COMMUNITY-BASED INITIATIVES

In addition to healthcare reform initiatives, the Department is also addressing recent legislative mandates affecting the Commonwealth's CSBs. As noted earlier, the Department is transforming its role from being a direct service provider at state facilities to being a purchaser of publicly funded services in the community, which includes CSBs. Initiatives related to CSBs include three programs related to this change: performance contracts, federal funding, and waivers.

Community Service Boards

Community Service Boards (CSBs) serve the 135 cities/counties in the Commonwealth as providers of services, client advocates, community educators, program developers, and planners on issues related to the provisions of services. The following represents the three types of CSBs.

	Operating CSBs	**Administrative Policy CSBs**	**Policy Advisory CSBs**
Number of Locations	28 CSBs and 1 Behavioral Health Authority (BHA)	10	1
Role	• Provides services • May be a separate public body	• Does not provide services and is a local government agency • Has decision-making responsibilities	• Serves as an advisory board to a local government department • Does not provide services • Has no operational powers or duties • Does not have decision-making responsibilities
Staffing	• Employs its own staff • Its staff or contractors perform services	• Does not employ its own staff • City/county employees or contractors perform services	Board is made up of 1/3 (family) consumers and one non-governmental service provider

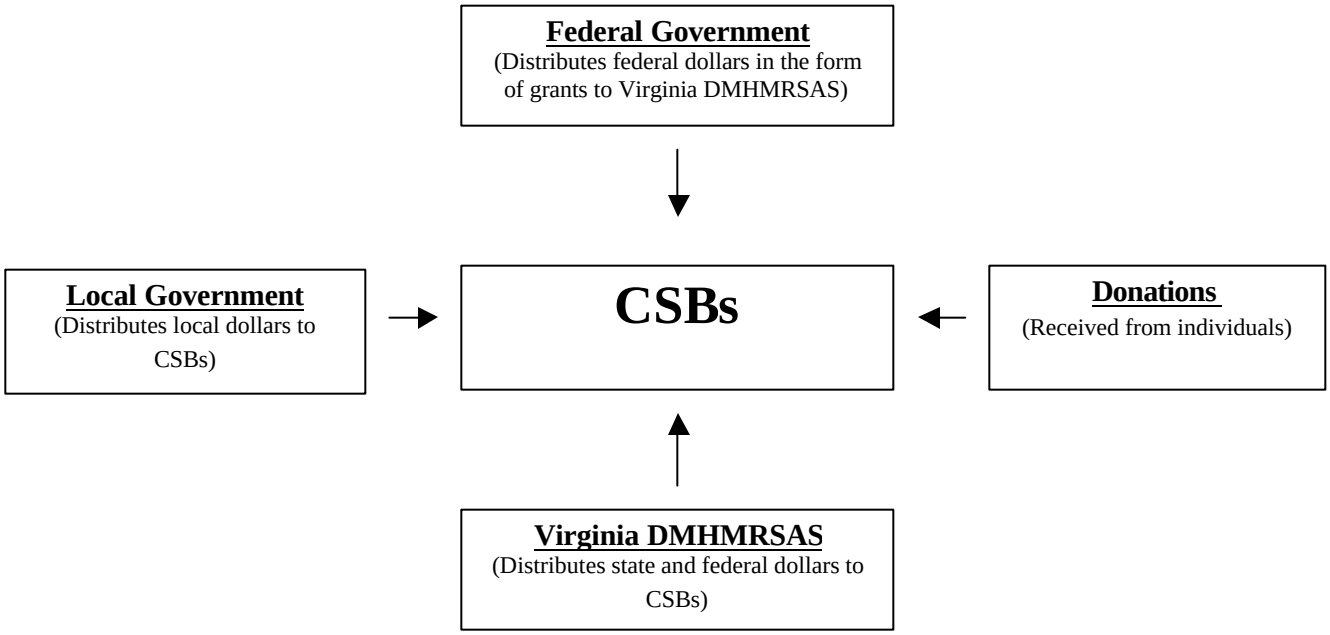
Note: *CSBs operate under Chapter 10 of Title 37.1 of the Code of Virginia,, while a BHA operates under Chapter 15 of the same title. Any city or county with a population of 200,000 or greater can set up a BHA. While three localities in Virginia can establish a BHA, only the City of Richmond has a BHA. A BHA has a few more powers than an operating CSB, such as the ability to make loans and provide assistance to corporations, partnerships, and associations in carrying out any activity authorized by Chapter 15 and the ability to purchase real or personal property.*

The Code of Virginia specifies the legal duties and responsibilities of board members and the CSBs that they direct. These duties include the following:

- Review and evaluate all existing and proposed public and private services funded
- Secure approval of CSB plans and budgets (performance contracts) from local governments and the Department
- Create rules and regulations for the operation of services and facilities
- Enter into contracts for services
- Institute a reimbursement system to maximize collection of fees
- Provide pre-admission screening and pre-discharge planning services for persons requiring:
    - Emergency services
    - Admission to state facilities
    - Release from state facilities

The CSBs are not part of the Department, but rather are established by their participating local governments, which also appoint the board members. However, the Department monitors, licenses, regulates, consults, and partially funds the CSB.

CSBs receive funding from federal, state, and local sources as illustrated in the funding model below. In the first two decades of their existence, CSBs primarily received state, local, and federal grants or other support. They charged and collected fees, which made up only a small part of the CSBs operational funding. In 1990, the CSB system began receiving Medicaid payments. Prior to receiving Medicaid payments, fees comprised $31.5 million (11 percent) of the $279 million total revenue. In 1991, the first year of Medicaid in the community system, fees totaled nearly $57 million (19 percent) of total CSB revenues. In 1998, fees comprised $163 million (37 percent) of the $437 million total revenue. Today, fees represent the largest single source of funding to the CSB system.



CSBs are the single point of entry into the Commonwealth's Mental Health, Mental Retardation, and Substance Abuse services system. This means that every consumer seeking such services must first be pre-screened by a CSB to determine the type and duration of care needed. In fiscal year 2000, CSBs received $500 million to serve approximately 305,000 individuals across the state.

Community Services Performance Contracts

In July 1999, the Department began establishing performance contracts with CSBs for the disbursement of federal and state funds, which would allow communities to measure the results of their funding. The Department establishes relationships with all CSBs through contracts. If a CSB does not meet the terms in the contract, the Department may contract with other entities to provide the services.

In general, the contract requires that the Department allocate funds to the CSB based on prior year figures and the amounts allotted for the purchase of individualized services and special initiatives. The Department disburses payments bi-monthly and withholds funds if the CSB does not meet the conditions of the performance contract.

The contract also requires localities to fund at least ten percent of CSB operations. The Department can grant waivers for localities that cannot meet this requirement. However, based on fiscal year 2000 figures, 40 CSBs received a total of $235 million in state and local match funds, $116 million (49.4 percent) from state funds, and $119 million (50.6 percent) from local funds; therefore, localities are sufficiently meeting this requirement overall.

The contracts additionally require CSBs to collect and report non-financial information on their consumers to the Department annually. Local independent CPA firms perform annual independent audits of CSB fiscal records and the Department is developing plans to audit the non-financial data. The Department performs desk reviews of the CPA audits and analyzes the quarterly performance reports for accuracy, completeness, consistency, and compliance with federal block grant requirements.

The quarterly reports include the following information:

- Types, amounts, and costs of services provided
- Costs of regional initiatives
- Number of consumers served in each type of service
- Revenues received by source and amount
- Number of service complaints, grievances, and resolutions

The fourth quarter reports include the above information in addition to the following:

- Aggregate total costs of services and support that consumers received in each identified population group
- Total number of individuals served in each identified population group
- Basic socioeconomic and clinical data about consumers

Performance and Outcome Measurement System

The Department has developed its Performance and Outcome Measurement System (POMS) to collect data related to consumer outcomes and provider performance. The Department can use this information to hold providers accountable for meeting performance indicators and ensure the quality of services.

Currently, the Department has initiated POMS implementation activities only for mental health and substance abuse services, which began on July 1, 2000 (Phase I). There are separate sets of performance and outcome measures and data collection methods for each of the following six program areas:

- Adult mental health
- Child mental health
- State hospital
- Substance abuse
- Substance abuse prevention
- Mental retardation services

The mental health and substance abuse services performance indicators measure access to services, quality, appropriateness of care, and consumer outcomes. The Department plans to use the mental retardation POMS and the substance abuse prevention POMS beginning July 1, 2001.

POMS will assist the Department in evaluating its services and using performance measures. In addition, the federal government is beginning the process of requiring implementation of a national set of performance indicators as a condition of receiving federal block grant money.

Federal Funding

The Department disbursed approximately $57 million of federal grants during fiscal 2000. Roughly 65 percent ($37 million) of those funds came from the Substance Abuse Prevention and Treatment (SAPT) Block Grant. The SAPT Block Grant is the primary grant the federal government uses to fund state substance abuse prevention and treatment programs.

The federal government allocates the SAPT Block Grant funds according to a Congressional formula. Each state then distributes these funds to cities, counties, or service providers within its jurisdictions based on need. The Department distributed $36,187,589 of this grant to CSBs throughout the Commonwealth. After disbursing the funds, the state must provide independent peer reviews, which access the quality, appropriateness, and efficacy of treatment services provided to individuals. Each state must ensure the independence and reliability of the peer review process and that a peer review is not part of the licensing or certification process.

INTERNAL CONTROL AND COMPLIANCE FINDING #2

Develop Independent Peer Review Monitoring

The Department did not comply with the independent peer review requirement as set forth in the SAPT Block Grant. The grant requires that the Department perform independent peer reviews on at least five percent of the CSBs that provide treatment services and that the five percent is a representative sample of the state's CSBs. Only 1 of the 28 operating CSBs (3.6 percent) received an independent peer review for fiscal year 2000, instead of the required 5 percent.

The Hampton/Newport News CSB is the only CSB that received a qualified independent peer review from the Commission on Accreditation of Rehabilitation Facilities (CARF). The Department does not require all CSBs to have a review because of the cost incurred. However, because the Department does not maintain any records on reviews or track which CSBs receive CARF reviews, it is unable to ensure that it meets the independent peer review requirement.

Independent peer reviews are important to ensure that CSBs are providing appropriate and adequate treatment in accordance with the guidelines of the grant. Management should develop guidelines to ensure that at least five percent of the operating CSBs have independent peer reviews conducted in accordance with the grant requirements.

Mental Retardation Waiver Program

The Mental Retardation Waiver is a Medicaid program that transfers mentally retarded patients from state to community services. HCFA limits the number of individuals that can participate in this waiver program in the Commonwealth to approximately 5,600. The Department of Medical Assistance Services (DMAS) preauthorizes individuals for this waiver, while the Department is only responsible for some of the administrative functions, such as tracking the available slots, as well as receiving the billing information from the CSBs. As of July 1999, DMAS took over the utilization and review function of this program. Future plans include DMAS taking over the entire process, however, there is no timeframe for this change.

Commonwealth of Virginia

Auditor of Public Accounts
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Walter J. Kucharski, Auditor

April 8, 2001

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, 2000. 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. 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 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 "Comply with the Commonwealth of Virginia Information Technology Resource Management Standards" and "Develop Independent Peer Review Monitoring" discussed in the sections of the report entitled, "Information Security" and "Federal Funding." We believe that neither 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 two findings and recommendations referenced above.

The Department has completed adequate corrective action with respect to 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 June 14, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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

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