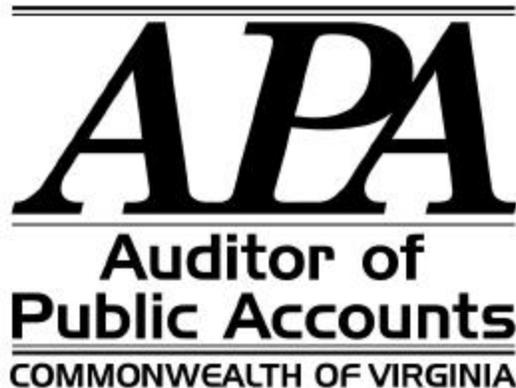


**DEPARTMENT OF MENTAL HEALTH,
MENTAL RETARDATION, AND
SUBSTANCE ABUSE SERVICES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Department of Mental Health, Mental Retardation, and Substance Abuse Services for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in the Department's accounting records;
- one internal control matter that we consider a reportable condition; however, we do not consider this matter to be a material weakness;
- no instance of noncompliance with applicable laws and regulations that are required to be reported; and
- corrective action for all prior year audit findings.

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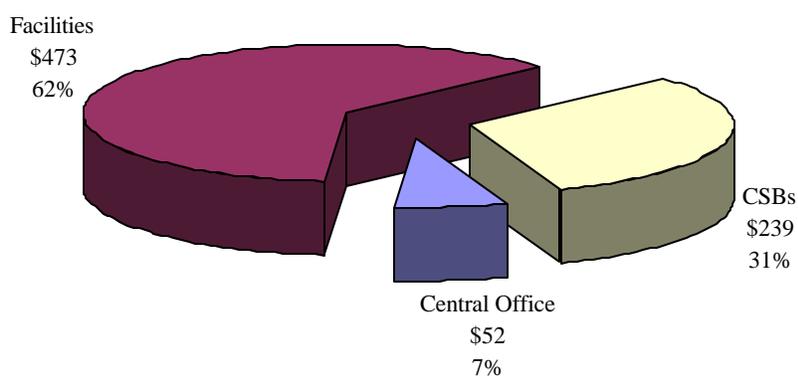
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AGENCY BACKGROUND AND OPERATIONS

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). The Department employs about 9,000 individuals. In fiscal year 2002, the Department expended \$764 million. The following graph shows the allocation of these expenses which includes \$8.9 million in capital outlay expenses.

Expenses - FY 2002 *



Source: FMS 300 Report, June 30, 2002
* in millions

Central Office

The central office has oversight responsibility of the programmatic, financial, and administrative activities within state facilities and 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.

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.

Some CSB services include the following:

- Day support services
- Intensive and supervised/supportive residential services
- Outpatient and case management
- Prevention and early intervention services
- Local inpatient
- Emergency services

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 patients that have severe physical and mental illness, that also operates a pharmacy.

As noted in the table entitled “Comparison of Facility Operations”, per diem expenditures range from \$287 to \$832 with an average per diem of \$509 for all facilities. Hiram Davis Medical Center accounts for the highest per diem cost due to the severe nature of its patient census and the pharmacy services that it provides to other state facilities. Although the Department operates within its appropriation, 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.

In fiscal year 2002, total revenue received by all facilities was \$500,734,563 and total expenditures were \$472,618,687, resulting in an excess of \$28,115,876. The Department rarely has this kind of excess in a given fiscal year, however, in late fiscal year 2002, it received \$24.7 million representing the federal portion of Medicaid cost settlements and retroactive rate adjustments for fiscal year 2001. The table below shows excess and deficiency over the past four years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total revenues	\$438,096,741	\$476,348,631	\$481,719,772	\$500,734,563
Total expenditures	<u>440,881,057</u>	<u>466,018,612</u>	<u>475,824,754</u>	<u>472,618,687</u>
Excess (deficiency) of revenue over expenditures	<u>\$ (2,784,316)</u>	<u>\$ 10,330,019</u>	<u>\$ 5,895,018</u>	<u>\$ 28,115,876</u>

Source: FMS 300 and CARS

COMPARASION OF FACILITY OPERATIONS

Mental Health Facilities

	Eastern State Hospital	Central State Hospital	Western State Hospital
Average patient census *	500	297	254
Average patient days	182,359	108,234	92,629
Revenue:			
Adjusted General Fund appropriations	\$ 39,897,476	\$ 37,118,505	\$ 35,198,653
Collections (third-party reimbursements) *	28,753,579	615,708	2,929,074
Total revenue	68,651,055	37,734,213	38,127,727
Expenditures:			
Personal services	52,186,374	34,981,689	36,186,382
Contractual services	4,151,057	9,367,260	3,531,276
Supplies and materials	6,395,607	720,862	3,820,347
Transfer payments	48,610	57,072	33,941
Insurance, rentals, and utilities	2,445,663	985,238	780,737
Property, plant, and equipment	558,673	319,914	139,809
Total expenditures	65,785,984	46,432,035	44,492,492
Excess (deficiency) of revenue over expenditures	\$ 2,865,071	\$ (8,697,822)	\$ (6,364,765)
Expenditures per patient	\$ 131,572	\$ 156,337	\$ 175,167
Expenditures per day	\$ 361	\$ 429	\$ 480
Revenues per patient	\$ 137,302	\$ 127,051	\$ 150,109
Revenues per day	\$ 376	\$ 349	\$ 412

Source: FMS 300 Report

* Monthly Financial Report as of June 30, 2002

** Cost per patient includes cost of aftercare pharmacy

Common-wealth Center for Children	Southwestern Virginia Mental Health Institute	Northern Virginia Mental Health Institute	Southern Virginia Mental Health Institute	Catawba Hospital	Piedmont Geriatric Hospital	Hiram Davis Medical Center**
36	149	119	77	90	131	70
13,042	54,435	43,549	28,254	32,942	47,733	25,590
\$ 5,477,913 927,044	\$ 17,014,530 6,956,401	\$ 22,309,740 1,873,223	\$ 7,685,173 1,140,476	\$ 4,165,089 7,480,942	\$ 2,042,814 21,062,752	\$ 10,627,468 10,674,602
6,404,957	23,970,931	24,182,963	8,825,649	11,646,031	23,105,566	21,302,070
6,341,520	22,154,816	17,887,812	8,071,301	14,023,240	14,520,996	7,974,039
299,618	2,302,709	4,332,089	706,287	1,051,381	763,355	2,434,180
318,111	2,438,593	1,516,278	739,040	1,342,010	1,792,470	8,748,452
2,578	22,709	162,627	12,913	3,840	12,058	802
217,937	356,052	306,542	248,184	603,304	502,887	206,256
52,360	146,723	65,143	30,454	75,715	247,925	100,927
7,232,124	27,421,602	24,270,491	9,808,179	17,099,490	17,839,691	19,464,656
\$ (827,167)	\$ (3,450,671)	\$ (87,528)	\$ (982,530)	\$ (5,453,459)	\$ 5,265,875	\$ 1,837,414
\$ 200,892	\$ 184,038	\$ 203,954	\$ 127,379	\$ 189,994	\$ 136,181	\$ 278,067
\$ 555	\$ 504	\$ 557	\$ 347	\$ 519	\$ 374	\$ 761
\$ 177,915	\$ 160,879	\$ 203,218	\$ 114,619	\$ 129,400	\$ 176,378	\$ 304,315
\$ 491	\$ 440	\$ 555	\$ 312	\$ 354	\$ 484	\$ 832

COMPARASION OF FACILITY OPERATIONS

Mental Retardation Facilities

	Central Virginia Training Center	Southside Virginia Training Center
Average patient census *	623	404
Average patient days	227,254	147,602
Revenue:		
Adjusted General Fund appropriations	\$ 4,016,433	\$ 9,635,983
Collections (third-party reimbursements) *	80,847,400	65,304,223
Total revenue	84,863,833	74,940,206
Expenditures:		
Personal services	57,592,643	48,928,146
Contractual services	1,820,664	3,632,572
Supplies and materials	6,985,852	4,567,331
Transfer payments	(2,770)	38,106
Insurance, rentals, and utilities	2,717,747	2,421,605
Property, plant, and equipment	765,719	793,858
Total expenditures	69,879,855	60,381,618
Excess (deficiency) of revenue over expenditures	\$ 14,983,978	\$ 14,558,588
Expenditures per patient	\$ 112,167	\$ 149,459
Expenditures per day	\$ 307	\$ 409
Revenues per patient	\$ 136,218	\$ 185,496
Revenues per day	\$ 373	\$ 508

Source: FMS 300 Report

*Monthly Financial Report as of June 30, 2002

**Cost per patient includes cost of aftercare pharmacy

Southwestern Virginia Training Center	Southeastern Virginia Training Center	Northern Virginia Training Center
214	190	188
78,117	69,205	68,480
\$ 928,343	\$ 1,476,178	\$ 2,342,395
21,481,839	19,086,354	31,664,253
22,410,182	20,562,532	34,006,648
15,104,263	14,470,026	23,155,291
474,424	1,188,788	959,510
787,828	1,028,524	2,277,742
97,354	26,701	11,512
590,333	751,231	853,782
102,644	327,975	302,542
17,156,846	17,793,245	27,560,379
\$ 5,253,336	\$ 2,769,287	\$ 6,446,269
\$ 80,172	\$ 93,649	\$ 146,598
\$ 220	\$ 257	\$ 402
\$ 104,720	\$ 108,224	\$ 180,886
\$ 287	\$ 297	\$ 497

BUDGET REDUCTIONS

The Department reduced its budget by \$8.1 million in fiscal year 2002 by eliminating vacant positions and reducing travel, training, and other maintenance costs in its central administrative office, state facilities, and CSBs. Statewide budget cuts for the 2003-2004 biennium total an additional \$7.0 million for the Department's central office. The central office layoffs include 34 employees primarily in the offices of Health and Quality Care, Human Rights, Community Reimbursement, and Community Contracting. The Health and Quality Care Office monitors the quality of services in state facilities and community programs while the Office of Human Rights protects patient rights. The offices of Community Reimbursement and Community Contracting provide assistance to CSBs in generating revenue and monitor CSB performance to ensure compliance with state and federal regulations.

Budget reductions at state facilities amount to \$13.5 million in fiscal years 2003 and 2004. This involves laying off 62 employees, 43 of which are direct care personnel with reduction in medical, psychiatric, nursing, psychology, therapy, and counseling services.

Forty CSBs will have their state funding reduced by ten percent in fiscal years 2003 and 2004. The \$32.5 million reduction will require 268 layoffs. As a result, CSBs anticipate effects on service delivery, case loads, discharge planning, and community placements. In addition, CSBs anticipate a reduction in private hospital bed purchases, thereby, increasing facility lengths of stay.

In addition to these reductions, the Governor's budget redirects \$13 million in fiscal year 2004 of existing state general funds from state mental health facilities to community-based services. The Governor plans to redirect an additional \$22 million in fiscal year 2005. The plan intends for CSBs to acquire community services before the state discharges or transfers the patients. Specifically, it calls for shutting down wards in five mental health hospitals and discharging patients to CSBs. The Department, CSBs, and other stakeholders have proposed the following treatment methods to transition patients from state to community care:

- Community Inpatient Acute Bed Purchases
- Individualized Wrap-Around Services – Discharge Assistance Project
- Community Intensive Care Facilities for Dually-Diagnosed Patients
- Residential Step-Down Units
- Regional Jail Service Teams
- Community Services to Divert Admissions (Crisis Stabilization, PACT teams, etc.)
- Regionally-Managed Acute/Detox Services on Facility Grounds

As the CSBs develop and acquire these treatment methods, facilities will continue to provide services to patients identified for discharge, keeping costs of care constant. Facilities could encounter operating shortfalls if the Department transfers these funds before successfully discharging the patients into the community.

The shift in resources from state mental health facilities to CSBs will not close any facilities, but will affect its employees. The Department is considering several employee transition strategies that include transferring employees to CSBs or to other facilities within 50 miles of their home and supporting employees who request voluntary retirement. The Department may also temporarily place employees at a CSB or private provider, but they would continue to function as state employees. These employees would provide services in the community, but would return to state facilities when vacancies for which they qualify occur. Layoffs at state facilities also remain an option.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT

The Health Insurance Portability and Accountability Act (HIPAA) provides standards for the billing and payment of health claims and medical information and 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 following are current dates of required compliance with HIPAA.

- Privacy: April 2003
- Electronic Transaction Code Sets: October 2003, if extension filed by October 2002
- Security: Pending Health and Human Services approval

In an effort to comply with the electronic code set requirements, the Department purchased a new proprietary billing system for \$2.2 million. The central office and 15 facilities will convert to the new system in four phases with completion scheduled for September 30, 2003. In addition, the Department drafted and distributed HIPAA privacy and security policies and procedures with a finalized version of privacy expected by March 1, 2003. The Department will update its security policies and procedures when HHS establishes official security requirements and deadlines.

INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Internal Controls Over Payroll

We identified the following issues related to payroll:

- CIPPS access – Three facilities failed to delete CIPPS access on a timely basis.
- Employee timesheets – One facility did not properly approve salary and wage timesheets.
- Leave liability – One facility understated its leave liability.
- Annual leave – Annual leave hours exceeded those authorized by the Department of Human Resource Management, Policy 4.10, at one facility.

The internal control weaknesses identified above increase the risk of 1) unauthorized access to sensitive payroll data; 2) unauthorized employee compensation; and 3) improper reporting of leave balances to the Department of Accounts.

We recommend the facilities improve internal controls by developing and implementing procedures that include the following:

- Regular reviews of CIPPS logon ids to ensure that individuals with access are authorized users.
- Timely submission of CIPPS user access change forms to the Department of Accounts.
- Verification and approval of overtime and wage hours before processing payroll.
- Maintenance of proper documentation to support leave balances reported to the Department of Accounts.
- Reviews of employees leave balances to ensure that they do not exceed Department of Human Resource Management authorized amounts.

January 28, 2003

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, 2002. 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 recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions 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	Fixed Assets
Expenditures	Payroll
Accounts Receivable	

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 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 applicable 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 and in the Department's accounting records. 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 and the Department's accounting records.

We noted a matter involving internal controls and operation that we consider a reportable condition. 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. We believe that this reportable condition is not a material weakness.

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

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

We discussed this report with management on March 4, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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kva: