

State
Auditor's
Office

Lawrence F. Alwin, CPA

**A Review of the Department of Mental Health and Mental
Retardation's Fiscal Year 2000 Budget Shortfall**

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Members of the Legislative Audit Committee:

The Department of Mental Health and Mental Retardation's (Department) authorized expenditures for fiscal year 2000 exceed available revenues by approximately \$30.3 million. The Department has not consistently reported and accounted for Appropriated Receipts during the appropriation and budgeting process. As a result, legislators based their decisions on inaccurate information, which led to a budget shortfall of \$30.3 million for fiscal year 2000.

In addition, the Department's fiscal year 2000 budget included \$10.4 million in carry forward funds from fiscal year 1999, but the Department does not have clear legislative authority to carry forward these funds. The Department should confer with the Legislative Budget Board and the Comptroller of Public Accounts to clarify appropriation authority related to carry forward funds.

The Department is committed to taking appropriate corrective action to address the budget shortfall and related issues. We appreciate the Department's courtesy and cooperation during the course of this audit. We conducted this audit in response to a request from Representative Robert Junell, House Appropriations Committee Chairman. The attached report provides more detail. If you have any questions, please contact Jon Nelson, Project Manager, at 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Members of Mental Health and Mental Retardation Board
Department of Mental Health and Mental Retardation
Ms. Karen Hale, Commissioner
Mr. Bill Campbell, Chief Financial Officer
Mr. Tom Martinec, Director of Internal Audit
Mr. Don Gilbert, Commissioner, Health and Human Services Commission
Comptroller of Public Accounts
Mr. T.C. Mallett, Director, Fiscal Management Division
Mr. Ken Welch, Manager, Fund Accounting Division

SAO Report No. 00-002

Overall Conclusion

The Department of Mental Health and Mental Retardation's (Department) authorized expenditures for fiscal year 2000 exceed available revenues by approximately \$30.3 million. In addition, the Department's fiscal year 2000 budget includes \$10.4 million in carry forward funds from fiscal year 1999, but the Department does not have clear legislative authority to carry forward these funds.

Section 1:

Accurately Report and Account for Appropriated Receipts

The Department has not consistently reported and accounted for Appropriated Receipts during the appropriation and budgeting process. As a result, legislators based their decisions on inaccurate information, which led to a budget shortfall of \$30.3 million for fiscal year 2000.

What Are Appropriated Receipts?

Receipts such as fees, reimbursements, and other revenue received for authorized services and appropriated to the agency to recover the cost of providing that service.

Department's appropriation of General Revenue by approximately \$34.8 million because the Department's Appropriated Receipts of \$64.9 million appeared to cover its expenditures.

However, the Department's request for \$65.7 million included errors. It included a \$16.2 million data entry error that was intended to be a request for master lease purchasing authority for furnishings and equipment to be funded with General Revenue and \$15.0 million in new Medicaid funds that were incorrectly categorized as Appropriated Receipts by the Department. The Department estimated that it would collect \$34.6 million of Appropriated Receipts. The other \$30.3 million was not supported, leaving the Department's Appropriated Receipts too low to cover its authorized expenditures.

Table 1

Department Budget Shortfall for Fiscal Year 2000	
	In Millions
Appropriated Receipts Authorized by Legislature	\$ 64.9
Appropriated Receipts the Department Estimates It Can Collect	\$ (34.6)
Budget Shortfall	\$ 30.3

In addition, the \$65.7 million that the Department requested through ABEST seemed reasonable to decision makers when compared to the prior three years'

Appropriated Receipts as reported in the *Fiscal Year 2000 - 2001 Legislative Appropriations Request* (LAR). However, prior amounts for Appropriated Receipts

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included funds that the Department carried forward from previous years. Including carry forward funds in the Appropriated Receipts made it seem that the Department collected more for services than it actually did. Section 2 explains in detail the problems associated with carrying funds forward.

Recommendation:

When preparing the LAR and entering it into ABEST, the Department should ensure that procedures are properly followed and that funds are correctly classified. Appropriated Receipts should be addressed according to the definition in the LAR instructions, which defines them as “receipts such as fees, reimbursements, and other revenue received for authorized services and appropriated to the agency to recover the cost of providing that service.” The Department should identify Appropriated Receipts individually by citing the specific appropriation authority. Carry forward funds should be fully and clearly disclosed in the LAR in the schedule of Rider Appropriations and Unexpended Balances.

Management’s Response:

The Department agrees that it is essential the LAR be prepared in accordance with all instructions and that all funds be correctly classified. The Department will seek LBB guidance in advance if questions arise on any aspect of LAR preparation including classification of funds. The Department will also strengthen quality assurance provisions relating to LAR preparation in striving to eliminate errors.

The Department recognizes that one element of quality assuring the LAR is to complete the preparation process with more time left for quality assurance. Timelines will be developed with this in mind. The Department will systematically doublecheck its ABEST submittals and the hard copy of its LAR in an effort to detect any errors. The Department has also taken steps to strengthen the resources in its budget office. Additionally, the Department’s Financial Division and Internal Audit Division are working to identify and implement measures that will strengthen department financial performance including its budget and LAR related functions.

The Department will clearly identify all sources of appropriated receipts as explicitly as possible. The Department will identify carry forward funds in the LAR schedule of Rider Appropriations and Unexpended Balances and in any other places in budget documents where carry forward funds are present. The Department seeks to eliminate any potential for confusion or inaccuracy regarding carry forward funds or appropriated receipts. Accordingly, the Department’s more recent budget documents have already more explicitly identified carry forward funds as well as other key components of appropriated receipts.

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Section 2:

Clarify Authority to Carry Funds Forward From Biennium to Biennium

The Department has carried funds forward from one biennium to the next since fiscal year 1995 without clear legislative authority. In addition, the Department has not consistently disclosed carry forward funds in the appropriation and budgeting process. It appears that the funds have been used to pay for services that recur each year, such as services for citizens, rather than one-time expenditures. By using carry forward funds for recurring services, the Department has become dependent on them.

While we were not able to pinpoint the goods and services the Department purchased with carry forward funds in any year, we were able to determine which of the Department's goals the funds went toward in fiscal year 1999. (See Table 2.) The Department used most of the carry forward funds for community mental retardation services, which are services of a recurring nature.

Approximately \$36.7 million was carried forward from fiscal year 1998 to fiscal year 1999. In addition, the Department's fiscal year 2000 budget includes \$10.4 million in carry forward funds from fiscal year 1999, but the Department does not have clear

legislative authority to carry forward these funds.

Table 2

Use of Carry Forward Funds for Fiscal Year 1999 by Goal		
Agency Goal	Amount and Percentage of Carry Forward Funds	
Mental Retardation Community	\$ 22,630,334	61.6%
State Schools	5,000,000	13.6%
State Hospitals	4,338,135	11.8%
Mental Health Community	3,358,580	9.2%
Central Office	1,383,113	3.8%
Total	\$ 36,710,162	

Source: Department of Mental Health and Mental Retardation

The Department has authority to carry forward unspent state funds from one year to the next within a biennium, but not from one biennium to the next. According to the General Appropriations Act, Article II, Rider 3, the Department can carry funds received from federal agencies from biennium to biennium. However, the language of Rider 3 referencing "funds received from ... federal agencies" is subject to different interpretations. The

Department stated that carry forward funds were mostly federal Medicaid funds and available to be carried forward. Yet, because Medicaid is funded on a reimbursement basis, the funds should be treated as state funds upon receipt.

Recommendation:

The Department should confer with the Legislative Budget Board to clarify authority under Rider 3 and with the Legislative Budget Board and the Comptroller of Public Accounts to clarify the classification of funds received by the Department.

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Management's Response:

The Department has intended and does intend to be in full compliance with pertinent rider provisions in any situation where funds are carried forward. Consequently, the Department welcomes and will implement the recommendation by conferring with the Legislative Budget Board and the Governor's Office of Budget and Planning to clarify carry forward authority under Rider 3 and with the LBB and the Comptrollers regarding classification of funds.

Regarding Rider 3, which addresses the reappropriation of federal funds, the Department historically carried forward Medicaid dollars under the rider based on the fact that Medicaid dollars are received from a federal agency and given that Rider 3 broadly states that:

All funds received by the department from counties, cities, federal agencies and from any other local source and all balances from such sources as of August 31, 1999 are hereby reappropriated for the biennium ending August 31, 2001 for the purpose of carrying out the provisions of the Act.

The Department had construed Rider 3 as covering all funds received from the federal government including reimbursement funds such as Medicaid. The Department also notes that Rider 2, dealing with appropriations of federal funds, actually lists reimbursements as a type of federal funds covered by the rider.

The Department will also confer with the LBB to clarify the authority and applicability of Sections 9-8.02 and 9-8.03 of Article IX of the General Appropriations Act (relating to federal funds and reimbursements), especially in light of the interpretation that MHMR Rider 3 does not provide a clear basis to carry funds forward into FY 2000.

In conclusion, the Department appreciates the diligent work of the state auditor's office in evaluating a complex set of issues and in developing recommendations that will result in improved performance by the Department. We also appreciate the highly professional manner in which the audit staff conducted this assignment.

State Auditor's Follow-Up Comment:

The Department did not use provisions of Article IX of the General Appropriations Act to carry forward previously mentioned funds. However, Article IX may provide a partial solution regarding carry forward funds in the fiscal year 2000 budget. Sections 9-8.02 and 9-8.03 address a situation in which an agency has accounts receivable at the end of a year from the federal government that will be received in the next year. The amount received is a reimbursement for previously incurred expenses and may be credited to the agency's current appropriations and used in the current year as if it were appropriated to the agency in the year received. We agree that the Department should confer with the Legislative Budget Board to clarify authority under Article IX.

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Objective, Scope, and Methodology

The objective of this audit was to determine the size and cause of a budget shortfall estimated by the Department to be \$30 million for fiscal year 2000. Our analysis focused on federal funds and appropriated receipts. We reviewed the Department's accounting and budgeting records and interviewed management and staff of the Department, the Legislative Budget Board, and the Comptroller of Public Accounts. We did not review all revenue and expenditure projections. Neither did we review proposed adjustments or solutions made by the Department to address the budget shortfall. The audit was conducted in accordance with generally accepted government auditing standards.

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