



# A Legislative Summary Document Regarding Department of Mental Health and Mental Retardation

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## State Auditor's Observations

The Department of Mental Health and Mental Retardation (MHMR) has established procedures that should ensure that the financial information in its Legislative Appropriations Request (LAR) is reasonably accurate.

While MHMR has reasonable methods for determining forecasts for performance measures relating to its most significant goal, methods for estimating some of the lesser measures may not be reliable.

MHMR does not adequately establish and monitor community service contracts to ensure that client services result in appropriate outcomes and that funds are properly managed.

MHMR has weaknesses in fund balance management and in controls over travel advance and petty cash.

We were unable to certify without qualifications any of the ten fiscal year 2000 performance measures we tested.

Prepared for the 78th Legislature  
by the State Auditor's Office

January 2003

SAO No. 03-323

*This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.*

# Department of Mental Health and Mental Retardation

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## Financial Profile

### Revenue Projections

Generally, the Department of Mental Health and Mental Retardation (MHMR) bases revenue budgets on past actual amounts and annualized estimates, although specific methods differ according to the nature of the revenue source. MHMR starts with the prior year budget and then adjusts these initial estimates for expected changes in federal matching assistance payments, changes in master lease purchase program requirements, one-time funding requests, and the restoration of unfunded cost increases that reduced salaries.

An exception to this methodology is for the Medicaid Waiver Services strategy. According to MHMR, it expanded service levels for this strategy in fiscal year 2002. However, the expansion of service levels was not in effect for the whole year, so some 2002 appropriations in this strategy were lapsed.

### Reconciliations to USAS and ABEST

MHMR's process for reconciling its internal accounting system to the Uniform Statewide Accounting System (USAS) includes daily and weekly reconciliations and the generation of daily deposit reports and weekly cash balance reports. The reconcilers also prepare monthly unmatched item reports for the various MHMR facilities. These reports list the entries from the internal system and USAS that have not been matched.

MHMR reconciles USAS to the Automated Budget and Evaluation System for Texas (ABEST) each quarter. As MHMR's accounting system does not report information by method of finance, MHMR relies on its budget analysts to assign Legislative Budget Board (LBB) method of finance codes to the USAS information before entering it to ABEST.

### Expenditures by Category

The table below shows MHMR's expenditures by Comptroller of Public Accounts category as reported by MHMR in USAS for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how MHMR has spent its funds. We obtained explanations from MHMR for fluctuations across years that appeared unusual.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Public Assistance Payments (Note A)	\$ 1,367,150,161	\$ 1,379,950,201	\$ 1,510,887,455
Salaries and Wages <sup>a</sup>	513,028,449	475,238,802	513,362,374
Supplies and Materials	63,425,067	61,803,214	63,171,602
Interfund Transfers/Other (Note B)	44,661,392	20,535,924	34,832,592
Employee Benefits (Note C)	37,177,129	125,305,598	147,681,351
Professional Services and Fees	24,734,908	22,217,216	25,850,057
Other Expenditures	19,536,011	19,400,229	14,647,082
Communications and Utilities (Note D)	19,495,642	24,367,896	18,520,189
Repairs and Maintenance	12,819,357	11,330,762	5,535,818
Rentals and Leases	4,528,348	3,468,040	3,319,033
Capital Outlay	4,458,142	4,579,689	2,544,876
Cost of Goods Sold	3,094,018	1,484,102	1,440,735

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Travel	2,495,529	1,888,505	2,053,209
Claims and Judgments	610,366	384,517	700,035
Printing and Reproduction	166,402	91,226	113,266
Intergovernmental Payments	0	0	2,000
Interest/Prompt Payment Penalties	13,226	18,051	27,128
<b>Total Expenditures</b>	<b>\$ 2,117,394,147</b>	<b>\$ 2,152,063,972</b>	<b>\$ 2,344,688,802</b>
<small><sup>a</sup> The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.</small>			
<small>Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.</small>			

Note A – An object code in this category is used as a mechanism to transfer state hospital funds to the Health and Human Services Commission (HHSC), which uses those funds to draw down matching federal funds under the Disproportionate Share program. Once HHSC receives the federal funds, this amount is given back to MHMR. The required method of recording this as a transfer out and a subsequent receipt back (rather than netting the receipt against this same object code) makes it look like MHMR is spending more on Public Assistance Payments than it actually is.

Note B – Interfund transfers may include transactions and adjustments made by the Comptroller of Public Accounts, as well as transfers between funds within MHMR and transfers out to other State agencies. A primary source of the higher-than-usual interfund transfers in 2000 was the allocation of retirement costs for federal programs, for which there was no allocation in 2001 or 2002. Similarly, in 2002 an assessment from the State Office of Risk Management was in excess of \$12 million, whereas in 2000 and 2001 no such assessment was recorded.

Note C – The fluctuation in employee benefits occurred because of a change in process. In previous years, the Employees Retirement System (ERS) paid for the State’s portion of certain employee benefits for all agencies. In fiscal year 2000, agencies using the Uniform Statewide Payroll System (USPS) received the funding and paid the employee benefits directly. Because MHMR did not use USPS, ERS still paid the benefits in fiscal year 2000. The process changed in fiscal year 2001, and all agencies received the funding and paid the employee benefits directly.

Note D – According to MHMR, expenditures for communications and utilities increased in 2001 because of increased costs of natural gas being passed on to MHMR from its vendors. The increased natural gas costs began in late fiscal year 2000 and continued until late fiscal year 2001. The increased natural gas costs also caused an increase in the cost of electricity. The reduction in expenditures from fiscal year 2001 to fiscal year 2002 is due to deregulation in the electric industry. Also, cooler temperatures in the summer of 2002 reduced electricity consumption.

## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### ***An Audit Report on State Entity Management of Travel Advance and Petty Cash Funds***

(Report No. 02-070, August 2002)

Weaknesses in fund balance management at the Department of Mental Health and Mental Retardation (MHMR):

Three of the agencies we audited appear to have petty cash fund balances that they did not use or that were larger than necessary. In the case of MHMR, we

#### Status of Audit Recommendations as of November 30, 2002

No status is reported at this time to allow MHMR sufficient time to address recommendations in this recently released report.

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found that that MHMR's Austin State School maintained a \$5,800 petty cash fund balance, but it spent an average of only \$1,356 of these funds each month during an eight-month period in fiscal year 2002.

Weaknesses in controls over travel advance and petty cash:

MHMR's Austin State School did not ensure that it always used the appropriate Uniform Statewide Accounting System (USAS) transaction codes for petty cash transactions. MHMR also did not have documented travel advance and petty cash policies and procedures specific to the Austin State School.

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## **An Audit of Community Service Contracts at Selected Health and Human Service Agencies**

(Report No. 02-052, June 2002)

The Department of Mental Health and Mental Retardation (MHMR) does not adequately establish and monitor community service contracts to ensure that client services result in appropriate outcomes and that funds are properly managed. As a result, MHMR may be unaware of providers that are providing substandard services and that have weak fiscal operations.

### **Status of Audit Recommendations as of November 30, 2002**

No status is reported at this time to allow MHMR sufficient time to address recommendations in this recently released report.

Key facts and findings are as follows:

- MHMR appropriately identified that it could recoup \$2.4 million at 27 community mental health and mental retardation centers (community MHMR centers) because these centers were not meeting contractual performance targets during the last three quarters of fiscal year 2001. MHMR took no action to recoup these funds. However, MHMR recouped approximately \$700,000 from the first quarter of fiscal year 2001.
- MHMR should strengthen its administration of community MHMR center contracts by establishing contract provisions that adequately address client outcomes. Furthermore, MHMR should improve its contract monitoring to ensure that services result in appropriate outcomes and that funds are spent appropriately.
- MHMR needs to continue to closely monitor the financial health of community MHMR centers involved in the NorthSTAR managed care program.

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## **A Financial Review of the Department of Mental Health and Mental Retardation**

(Report No. 02-033, April 2002)

The Legislature and other oversight bodies can rely on the financial information generated from the internal accounting system of the Department of Mental Health and Mental Retardation (MHMR). This assurance is based on our testing of MHMR's financial system and processes in place as of August 2001. However, additional financial and client service information is reported to MHMR by community centers (non-state entities). We found the information reported by the community centers to be inconsistent and unreliable. As a result, MHMR does not know how community centers spent

### **Status of Audit Recommendations as of November 30, 2002 (unaudited)**

MHMR has reported the following:

Implemented	1
Partially implemented	1
Has other explanatory information	1
<b>Total recommendations</b>	<b>3</b>

the funds provided to these centers or how many people these centers served. This unreliable information does not affect the overall amount of funding provided to the community centers and is not part of the financial information reported to the Legislature and other oversight bodies. However, it does affect program administration and future budget projections by

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strategy. In fiscal year 2001, the community centers received more than \$475 million of MHMR's \$1.7 billion appropriated budget.

Our review of expenditures revealed that MHMR spent its appropriated funds in accordance with applicable laws and regulations. However, we were unable to confirm the alignment by strategies between expenditures and outcomes because of unreliable performance information and incomplete financial information.

## ***An Audit Report on 19 Agencies' Compliance With Historically Underutilized Business Requirements***

(Report No. 01-035, August 2001)

For fiscal year 2000, the Department of Mental Health and Mental Retardation (MHMR) did not fully comply with historically underutilized business (HUB) requirements in Texas Administrative Code (TAC) and Chapters 111 and 2161 of the Texas Government Code. However, we have determined that the Department made a "good-faith effort" to comply with HUB requirements.

<b>Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000</b>				
<b>Compliance Requirement</b>				<b>Did the Entity Make a "Good-Faith Effort"?<sup>b</sup></b>
<b>Planning</b>	<b>Outreach<sup>a</sup></b>	<b>Reporting</b>	<b>Subcontracting</b>	
No material noncompliance	No material noncompliance	Under-reported the number of bids submitted and contracts awarded, and over-reported the amount of non-treasury funds paid to subcontractors (TAC, Section 111.16)	No material noncompliance	Yes

<sup>a</sup> Most of the agencies had not developed and implemented a mentor protégé program during fiscal year 2000. Of the HUB requirements, the mentor protégé program requirement had the latest effective date (June 2000). The agencies indicated there was not enough time to design and implement the program in the last quarter of the fiscal year.

<sup>b</sup> The State Auditor's Office, in consultation with the General Services Commission, determined that an entity did not make a "good-faith effort" if it had noncompliance in at least three of the four basic HUB areas: planning, outreach, reporting, and subcontracting. (The General Services Commission was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission subsequently assumed most of its responsibilities.)

**Status of Corrective Action:** In December 2002, the Department reported that it had implemented both of the recommendations we made in this audit report. This information has not been audited.

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## ***An Audit Report on Property Reported as Lost or Stolen***

(Report No. 01-032, June 2001)

The results of our statistical testing at four agencies and universities indicate that state property with a total book value of \$12.8 million may be missing (\$2.9 million for the Department of Mental Health and Mental Retardation). While the percentage of missing items at each of the four entities meets limited available standards for acceptable property loss, improvements in property management procedures could reduce the risk of loss or theft of state assets. The percentage of missing test items varied from 1.7 percent at the Department of Human Services to 3.8 percent at both the Department of Mental Health and Mental Retardation and The University of Texas Medical Branch at Galveston.

<b>Status of Audit Recommendations<sup>1</sup> as of November 30, 2002 (unaudited)</b>	
MHMR has reported the following:	
Implemented	3
<b>Total recommendations</b>	<b>3</b>
<sup>1</sup> From management letter No. 01-467	

## **Performance Management**

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### ***Performance Indicators Used by Management***

To determine whether it is achieving its mission, the Department of Mental Health and Mental Retardation (MHMR) uses Legislative Budget Board (LBB) performance measures to monitor the performance of the state facilities and local mental health and mental retardation authorities.

In addition to data on LBB performance measures, MHMR collects data regarding service providers throughout the state, the services and support provided to consumers throughout the state, and the personal outcomes recognized by these consumers.

MHMR generates state mental health facilities' and state mental retardation facilities' performance indicators from information that facilities report in either the Client Assignment and Registration (CARE) or Medical Records systems. These reports are provided to the governing board twice per year and include summary information about each facility. The reports are also available on MHMR's Web site.

The *Community Services Performance Report* provides a risk analysis of each community MHMR center based on financial data and information on whether or not targeted performance has been met. MHMR produces the report each quarter and distributes it to management, local authorities and the governing board, and to the public via its Web site.

MHMR establishes benchmarks based on historical trends. The Center for Mental Health Services is currently conducting studies to establish national indicators, which will then allow the establishment of national benchmarks. The study should be complete in two or three years.

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### ***Estimating Performance Targets***

MHMR appears to have reasonable methods for forecasting its performance for Goal C—Community MR Services, which represents 45 percent of its total budget. MHMR uses annualized information and staff knowledge of trends and programs to calculate most of its performance measure targets in the LAR. However, MHMR does not have complete data to determine the three measures relating to vocational or supported employment. It uses numbers reported in fiscal year 2002 surveys of randomly selected participants in vocational programs, and then it carries that number forward as the projection for future years. Information for intermediate care facilities comes from Medicaid reports of actual and projected bed days. The General Appropriations Act, 77<sup>th</sup> Legislature, Page II – 104, Rider 68 indicated that MHMR should take inflation into consideration in setting performance targets.

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## Most Recent Performance Measure Certification

*Fiscal Year 1998–Fiscal Year 2003*

The results of *An Audit on Performance Measures at 12 State Entities–Fiscal Year 2001* (Report No. 01-036, August 2001) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2000	A	Community Mental Health Services	Percent of Adult Customers Receiving Mental Health (MH) Community Services Whose Functional Level Stabilized or Increased	Inaccurate
2000	A.1.3	Treatment	Average Monthly Number of Community Customers Receiving New Generation Medications	Inaccurate
2001 Q1	A.1.3	Treatment	Average Monthly Number of Community Customers Receiving New Generation Medications	Inaccurate
2000	A.1.5	Children’s MH Services	Average Monthly Number of Children Receiving Treatment Services	Factors Prevented Certification
2001 Q1	A.1.5	Children’s MH Services	Average Monthly Number of Children Receiving Treatment Services	Factors Prevented Certification
2000	B	MH Specialized Services	Percent of Customers Receiving MH Campus Services Whose Functional Level Stabilized or Increased	Certified with Qualification
2000	B.1.1	State Hospital Services	Average Monthly Number of Psychiatric Facility Customers Receiving Mental Health New Generation Medication Services	Inaccurate
2001 Q1	B.1.1	State Hospital Services	Average Monthly Number of Psychiatric Facility Customers Receiving Mental Health New Generation Medication Services	Inaccurate
2000	B.1.1	State Hospital Services	Average Monthly Cost per Psychiatric Facility Customer Receiving New Generation Medication Services	Inaccurate
2001 Q1	B.1.1	State Hospital Services	Average Monthly Cost per Psychiatric Facility Customer Receiving New Generation Medication Services	Inaccurate
2000	C	Community Mental Retardation (MR) Services	Number of Customers Moved from Mental Retardation Campus to Community	Inaccurate
2000	C.1.4	MR Community Residential	Average Monthly Number of Customers Served in Home and Community Based Services (HCS)	Certified with Qualification
2001 Q1	C.1.4	MR Community Residential	Average Monthly Number of Customers Served in HCS	Certified with Qualification
2000	C.1.4	MR Community Residential	Average Monthly Cost per Customer Served in HCS	Certified with Qualification
2001 Q1	C.1.4	MR Community Residential	Average Monthly Cost per Customer Served in HCS	Inaccurate
2000	D	MR Specialized Services	Average Number of Days MR Campus Residents Recommended for Community Placement Wait for Placement	Inaccurate
<b>Total Measures Certified Without Qualification<sup>a</sup></b>				<b>0/16 (0%)</b>
<b>Data Reliability Percentage (Certified and Certified with Qualification)</b>				<b>4/16 (25%)</b>
<sup>a</sup> The percentage of unqualified certifications is presented because it is used in determining an entity’s eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].				

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Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevented Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

## Quality Assurance Team Reviews

Conducted by the Legislative Budget Board and State Auditor's Office

### Completed Projects

*Quality Assurance Team Annual Report – January 2003*

The Department of Mental Health and Mental Retardation (MHMR) completed the Human Resources System project at a cost of \$5,701,540 on February 28, 2002. The initial budget was \$5,365,500, and the initial completion date was August 31, 2001.

### Completed Projects

*Quality Assurance Team Annual Report – January 2002*

MHMR completed the Computer-Aided Facilities Management project at a total cost of \$7,079,812.

MHMR completed the Decision Support Technologies project at a total cost of \$3,635,478.

### Canceled Projects

*Quality Assurance Team Annual Report – January 2002*

MHMR canceled the Texas Community Accountability Project at a total cost of \$0.

### Ongoing Projects

*Quality Assurance Team Annual Report – January 2003*

Client Record Systems (CRS) — In September 1997, MHMR began developing an integrated client record for all MHMR in-patient facilities using an off-the-shelf software product. The project is 78 percent complete. Current expenditures are \$4,959,857.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
CRS	Integrate client records	\$13,270,000	\$6,738,264	(\$6,531,736)	08/31/00	08/31/03	36 months

## Disaster Preparedness

We gathered information from MHMR on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating MHMR's plans. Our objective was only to provide the information reported by MHMR.

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MHMR has individual disaster recovery plans for its facilities and policies for reviewing and updating the plans. The plans include procedures for making mission-critical functions operational as soon as possible after a disaster. MHMR's Information Services division has disaster recovery plans for each of its facilities (including the central office) that address hardware configuration, personal computers, and software licensing issues. MHMR also has disaster recovery coverage on its mainframe computer through the West Texas Disaster Recovery and Operations Center.

At the time of our assessment, the central office facility at MHMR had not finalized its customization of the MHMR Emergency Management Plan and was operating under a draft version. The State Office of Risk Management (SORM) recommended, in its March 2002 consultation, that the central office facility finalize and implement its emergency management plan. The central office facility responded to SORM

The Information Systems disaster recovery plans are tested at least every six months, and Information Systems regional managers meet periodically to discuss disaster recovery issues. MHMR is also involved in the recently chartered State Agency Disaster Recovery Workgroup.

## Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Mental Health and Mental Retardation between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

## Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 2,330,989	\$ 1,731,306	\$ 1,944,688
Out-of-State Travel	173,513	153,143	104,456
Foreign Travel	0	593	0
Other Travel Costs	(8,973)	3,463	4,066
<b>Total Travel Expenditures</b>	<b>\$ 2,495,529</b>	<b>\$ 1,888,505</b>	<b>\$ 2,053,209</b>
Limit on Travel Expenditures (Cap)	4,490,923	4,490,923	173,513 <sup>a</sup>
<b>Expenditures in Excess of Cap</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

<sup>a</sup> Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by MHMR and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.