

An Audit Report on

# Local Mental Health and Mental Retardation Authorities' Progress in Complying with the Intent of Rider 68

January 2005

Report No. 05-021



# Local Mental Health and Mental Retardation Authorities' Progress in Complying with the Intent of Rider 68

## Overall Conclusion

All 41 local mental health and mental retardation authorities (local authorities) reported to us that they have made progress toward maximizing funds available to provide services as intended by Rider 68. For the seven local authorities we visited, we verified that they had actually planned or implemented the actions intended to increase efficiencies that they reported. Where possible, we verified that these practices were increasing efficiency and identified those that might benefit other local authorities, such as renegotiating utility rates. The seven reported that together they provided a total of 233,355 more service hours (or 4.2 percent) in fiscal year 2004 than in fiscal year 2003.

Additionally, local authorities reported that they significantly decreased the use of Mental Retardation Community Services (Strategy C.1.1) funds to supplement the rate-based payments they received as providers of intermediate care facilities for the mentally retarded and home community services. However, 2 of the 41 local authorities supplemented the rate-based payments they received with a total of \$555,000 from their fiscal year 2004 Strategy C.1.1 appropriation. One used \$500,000 (or 10.9 percent) of its appropriation to supplement; the other used \$55,000 (or 0.78 percent). This supplementation is not consistent with the legislative intent established in Rider 68.

In fiscal year 2004, appropriations to the local authorities totaled \$402.9 million. The seven local authorities we visited accounted for \$172 million of this amount.

### Rider 68 Summary

As established in Rider 68 of the General Appropriations Act (78th Legislature, Regular Session, page II-100), it is the Legislature's intent that local authorities comply with the following requirements:

- Maximize the dollars available to provide services by minimizing overhead and administrative costs and achieving purchasing efficiencies.
- Maximize third-party billing opportunities.
- Do not expend General Revenue funds appropriated for Mental Retardation Community Services to supplement rate-based payments they receive.

The rider also states that the State Auditor's Office will report to the Legislature on local authorities' progress in achieving such efficiencies and opportunities for achieving further efficiencies.



# Detailed Results

## Chapter 1

### **Local Authorities Made an Effort to Maximize the Funds Available for Services**

---

In an effort to decrease their costs and provide additional funds for client services as specified in Rider 68 of the General Appropriations Act (78th Legislature, Regular Session, page II-100), local mental health and mental retardation authorities (local authorities) reported that they have done the following:

- Decreased their overhead and administrative costs
- Instituted purchasing efficiencies
- Developed procedures to identify opportunities for third-party billing

In addition, the Department of Mental Health and Mental Retardation's<sup>1</sup> contract with local authorities included requirements that aligned with the intent of Rider 68.

Our audit includes results from a survey we sent to all 41 local authorities. The survey focused on local authorities' progress toward complying with the intent of Rider 68. We also asked local authorities to submit documentation supporting their survey answers. We performed a limited review of this documentation. All 41 local authorities replied to our survey.

We also visited seven local authorities to verify that they had actually planned or implemented the actions intended to increase efficiencies that they reported. Where possible, we verified that these practices were increasing efficiency and identified those that might benefit other local authorities.

#### Chapter 1-A

### **Local Authorities Report a Decrease in Overhead and Administrative Costs Paid for by General Revenue**

Local authorities report decreasing their overhead and administrative costs in fiscal year 2004 as specified in Rider 68. Because salaries and benefits make up the largest portion of overhead and administrative expenditures, local authorities primarily achieved this efficiency by reducing their workforce. For the seven local authorities at which we conducted fieldwork, salaries and benefits decreased by \$41.8 million (19.9 percent) between fiscal years 2003 and 2004. In fiscal year 2003, local authorities were not required to report other categories of administrative and overhead costs separately; therefore, we were unable to determine whether there were decreases in any non-workforce-related overhead and administrative costs.

---

<sup>1</sup> On September 1, 2004, the Department of Mental Health and Mental Retardation was abolished, and its functions were split between the newly formed Departments of State Health Services and Aging and Disability Services.

The Department of Mental Health and Mental Retardation's fiscal year 2004 contracts with local authorities required that they use no more than 10 percent of General Revenue funds for overhead and administrative costs in order to increase General Revenue available for client services. This cap caused local authorities to either reduce their administrative costs or use funds from other sources to cover these costs. Of the seven local authorities we visited, only one exceeded the 10 percent cap in fiscal year 2004. However, this local authority had excess revenue from other sources that could be used to cover these costs. It indicated that it planned to correct its allocations to comply with the cap.

Cumulatively, the seven local authorities we visited reported that their total service hours increased by 233,355 hours (4.2 percent) between fiscal years 2003 and 2004. These local authorities reported that their combined expenditures decreased by \$31.4 million (8.4 percent).

We noted other efforts to decrease overhead and administrative costs. These included sale of property and partnering with other local authorities to share staff such as the chief financial officer and the director of financial reporting and cash management. In addition, the local authorities we visited reported efforts to decrease energy expenditures by negotiating lower utility rates, contracting for more energy-efficient copiers, and attempting to increase their facilities' energy efficiency.

#### Chapter 1-B

### **Most Local Authorities Increased Their Purchasing Efficiencies**

Most of the local authorities reported that they increased their purchasing efficiencies. Prescription medication is the largest category of purchases made by local authorities. The Department of Mental Health and Mental Retardation's fiscal year 2004 contract with local authorities required them to provide medication at the lowest possible price. As a result, local authorities more aggressively pursued participation in programs that provide free or discounted rates for client medications. All seven of the local authorities we visited were participating in at least one of the two basic prescription discounts:

- The Patient Assistance Program is a program in which drug manufacturers provide free medications to clients who meet specified income qualifications.
- Drug manufacturers provide samples or coupons for free medications to the physicians at local authorities. The physicians then give these samples or coupons to clients.

One of the local authorities we visited reported that prescription discount programs saved them as much as \$2.1 million during fiscal year 2004. In addition, four of the seven local authorities we visited were pursuing Public Health Service (340B) pricing for medications. This is a federal purchasing program that provides access to reduced-price prescription drugs. Local authorities are not eligible to apply directly for participation in this program but can obtain the 340B drug pricing by partnering with (1) a federally qualified health clinic certified by the U.S. Department of Health and Human Services or (2) certain grantees of federal agencies. Several of the local authorities were trying to partner with qualifying entities that qualify for the 340B pricing.

Some local authorities we visited instituted other purchasing efficiencies such as partnering with other entities to combine purchasing power, implementing formal purchasing policies, opening a warehouse for bulk purchases, using procurement cards, implementing mail-order prescriptions, and changing employees' insurance programs to reduce local authorities' contributions.

Chapter 1-C

### **Processes to Identify Third-Party Billing Opportunities Were Adequate**

All but one of the local authorities at which we conducted fieldwork had adequate processes to identify third-party billing opportunities. However, we were unable to determine whether third-party billing increased from fiscal year 2003 to 2004 because of changes in other factors that affect amounts billed to third parties, such as the number of clients receiving services and the types of services they receive.

The Department of Mental Health and Mental Retardation's fiscal year 2004 contract with local authorities required the local authorities to have a Consumer Benefits Assistance Plan to identify sources for third-party billing. Third-party coverage includes payments from programs such as the Children's Health Insurance Program (CHIP), Medicare, Medicaid, Tri Care (military coverage), or the Veteran's Administration. The seven local authorities we visited identified on a monthly basis those clients enrolled in Medicare or Medicaid whose services were paid for by state funds so that they could bill the programs retroactively for services provided. However, one of the local authorities' monthly reconciliation process needs improvement. In addition, identifying private insurance companies to bill is more difficult because the local authorities must rely on clients to tell them if they have private insurance.

Chapter 2

### ***Most Local Authorities Complied with the Legislature's Intent that They Not Supplement Their Rate-Based Payments with General Revenue Funds***

---

Local authorities reported that they significantly decreased the use of General Revenue funds to supplement the rate-based payments they received from intermediate care facilities for the mentally retarded and home community services programs. This is consistent with the legislative intent established in Rider 68.

One of the seven local authorities we visited supplemented its rate-based payments with approximately \$55,000 of General Revenue funds appropriated under the strategy for Mental Retardation Community Services (Strategy C.1.1). The \$55,000 represents 0.78 percent of this local authority's total appropriation. However, it had approximately \$358,000 in excess revenue as of the end of fiscal year 2004 that it could use instead of Strategy C.1.1 funds to supplement its rate-based payments. Local authorities had until December 31, 2004, to make final adjustments to the system that tracks this information. Another local authority reported in its response to our survey that it supplemented its rate-based payments with \$500,000 in funds from Strategy C.1.1 during fiscal year 2004. This amount represents 10.9 percent of its total appropriation.

Prior to fiscal year 2004, there was no rider expressing the intent of limiting the use of Strategy C.1.1 funds to supplement providers' rate-based payments. Eight local authorities reported that during fiscal year 2003 they supplemented their rate-based payments with \$6 million in General Revenue funds appropriated under Strategy C.1.1. Twenty-one local authorities reported using \$8.5 million in funds from sources other than Strategy C.1.1 to supplement their rate-based payments in fiscal year 2004.

*Chapter 3*

***Some Local Authorities' Practices Could Be Used by Others to Increase Efficiencies***

---

In responses to our survey, local authorities detailed a variety of actions they have taken to address Rider 68. If instituted by other local authorities, these actions could also increase their efficiencies. In the survey, local authorities reported that they:

- Renegotiated rates, such as telephone or electricity service rates.
- Outsourced functions such as pension administration or ground-keeping services.
- Renegotiated employees' insurance premiums, increased employees' share of costs, and modified benefit packages for new employees.
- Increased use of group therapy instead of individual therapy.
- Moved clients from group home settings to less expensive alternatives such as foster care.
- Entered into agreements with local government entities to purchase fuel at their discounted bulk fuel price.
- Implemented a new accounting system to decrease the need for administrative staff.
- Planned to move from areas with high property tax rates to areas with lower property tax rates.
- Sold property in order to retire outstanding bond debt.

In addition, nine local authorities formed the East Texas Behavioral HealthCare Network (ETBHN). Through ETBHN, members plan to improve the quality of service, enhance operating efficiencies, and expand the capacity of behavioral health in the communities of East Texas through greater integration of center clinical and administrative activities while also pursuing additional revenue resources.

The Medicare Drug Discount Card has the potential to save local authorities money by decreasing drug costs. Medicare recipients can qualify for as much as \$600 per year to help pay for prescription drugs. The discount card is a temporary program and will end when Medicare implements a new, comprehensive prescription drug benefit in January 2006.

At the seven local authorities we visited, we verified that they had actually planned or implemented the actions they reported in their survey responses. Where possible, we verified that these practices were increasing efficiency.

# *Other Information*

## *Objectives, Scope, and Methodology*

---

### **Objectives**

Our objectives were to determine:

- The progress made by local mental health and mental retardation authorities during fiscal year 2004 toward increasing dollars available to provide services as intended by Rider 68 of the General Appropriations Act (78th Legislature, Regular Session, page II-100).
- Whether local authorities are pursuing opportunities for achieving further efficiencies, including structural efficiencies, in the local authority service delivery system.
- The amount of appropriated funds under Strategy C.1.1 (Mental Retardation Community Services) that local authorities used to supplement rate-based payments they received as providers of waiver services or intermediate care facilities for the mentally retarded during fiscal year 2004.

### **Scope**

Our scope included fiscal year 2004 and covered all 41 local mental health and mental retardation authorities. In addition, we reviewed selected data from fiscal year 2003 in order to make comparisons and assess progress in achieving the expectations in Rider 68.

### **Methodology**

Our methodology included:

- Surveying all 41 local authorities to determine the actions they were taking to address the intent of Rider 68.
- Visiting seven local authorities to determine the accuracy of their survey responses.
- Interviewing staff at local authorities to determine how they addressed the intent of Rider 68 and how they enter information from their accounting systems into the budget report.
- Reviewing policies and procedures, board minutes, contracts, and agreements at the local authorities.
- Reviewing the Department of Mental Health and Mental Retardation's fiscal year 2004 Performance Contract for local authorities.

## Project Information

Our fieldwork was conducted from September to December 2004. This audit was conducted in accordance with generally accepted government auditing standards. The following members of the State Auditor's staff conducted the audit:

- Ileana Barboza, MBA (Project Manager)
- Mason Alves
- Thomas Crigger, MBA
- Robert G. Kiker
- Anthony T. Patrick, MBA
- John J. Quintanilla, MBA, CIA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Susan A. Riley, CPA (Assistant State Auditor)

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair  
The Honorable Tom Craddick, Speaker of the House, Joint Chair  
The Honorable Steve Ogden, Senate Finance Committee  
The Honorable Thomas “Tommy” Williams, Member, Texas Senate  
The Honorable Jim Pitts, House Appropriations Committee  
The Honorable Brian McCall, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Health and Human Services Commission**

Mr. Albert Hawkins, Executive Commissioner

### **Department of Aging and Disability Services**

Mr. James Hine, Commissioner

### **Department of State Health Services**

Dr. Eduardo Sanchez, Commissioner



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: [www.sao.state.tx.us](http://www.sao.state.tx.us).

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9880 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.