A Review of Management Controls at the Texas Department of Mental Health and Mental Retardation

Office of the State Auditor
Lawrence F. Alwin, CPA

September 1995

Report No. 96-001
September 13, 1995

Members of the Legislative Audit Committee:

While the Texas Department of Mental Health and Mental Retardation (Department) has enhanced its service to external customers, the Central Office has not provided sufficient support to the Department's state facilities. In order to ensure that management controls are adequate, the Central Office must help the state facilities implement effective management and administrative processes. As the new Commissioner is affecting change at the Department, special attention should be given to the following areas.

- During the review of ten Department facilities, it was noted that Community Services divisions operate somewhat independently of established processes and control structures. Although the Department plans to eventually move the Community Services divisions to locally run community centers or to have them report directly to Central Office, the Department has not developed or documented a comprehensive plan for the transfer of state-operated community service programs to locally run community centers.

  Basic fiscal controls within some Community Services programs are deficient. At some facilities, inventory and fixed assets are not properly monitored, and record keeping is weak. At one facility, computer equipment and software are being stored for potential future use, and state-owned vehicles are underutilized while employees are being reimbursed for personal vehicle use.

- During the closure of Fort Worth and Travis State Schools, the Department has focused mainly on management controls over client services and human resources. However, there has been inadequate attention given to controls over fiscal assets, including client trust funds, medical records, furniture and equipment, and stock inventory. Weak controls increase the risk of loss or theft of such assets, which were valued in excess of $7.8 million at the time the Department was directed to implement the closures.

The results of this audit are summarized in Report No. 96-001. A summary of audit issues identified at each of the ten Department facilities is presented in Appendix 2 of this report. A supplemental publication of the detail reports for each facility and Central Office administration, with management’s written responses, is available upon request (Report No. 96-002).

Management of the Department concurs with the recommendations in this report. We appreciate the courtesy and cooperation they showed during the course of this audit.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

LFA:ggh
Key Points Of Report

A Review of Management Controls at the
Texas Department of Mental Health and Mental Retardation

September 1995

Overall Conclusion

While the Texas Department of Mental Health and Mental Retardation (Department) has enhanced its service to external customers by focusing on their needs and expectations, Central Office has not provided sufficient support to the Department’s state facilities. In order to ensure that management controls are adequate, Central Office must help the state facilities implement effective management and administrative processes.

Key Facts And Findings

- During our review of ten Department facilities, it was noted that Community Services divisions operate somewhat independently of established processes and control structures. As a result, basic fiscal controls within some Community Services programs have suffered. This is important as the Department has moved more resources toward community services.

- During the closure of Fort Worth and Travis State Schools, the Department has focused mainly on management controls over client services and human resources. However, there has been inadequate attention given to controls over fiscal assets, including client trust funds, medical records, furniture and equipment, and stock inventory. Weak controls increase the risk of loss or theft of such assets, which were valued in excess of $7.8 million at the time the Department was directed to implement the closures.

- Recommendations made by the State Auditor’s Office in 1991 to improve management controls and processes have only been partially addressed. During our current review of the operations at Central Office and ten Department facilities, it was noted that numerous management controls still need strengthening.

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Office of the State Auditor
Lawrence F. Alwin, CPA

This management control audit was conducted in accordance with Government Code, § 321.0133.
Table of Contents

<table>
<thead>
<tr>
<th>Issues and Recommendations</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 1:</td>
<td></td>
</tr>
<tr>
<td>The Control Environment in Community Services</td>
<td></td>
</tr>
<tr>
<td>Divisions Must be Strengthened</td>
<td>1</td>
</tr>
<tr>
<td>Section 2:</td>
<td></td>
</tr>
<tr>
<td>The Closure of State Schools Requires Greater</td>
<td></td>
</tr>
<tr>
<td>Attention to Fiscal Controls</td>
<td>4</td>
</tr>
<tr>
<td>Section 3:</td>
<td></td>
</tr>
<tr>
<td>Planning and Performance Monitoring Should Be</td>
<td></td>
</tr>
<tr>
<td>Formalized at State Facilities</td>
<td>5</td>
</tr>
<tr>
<td>Section 4:</td>
<td></td>
</tr>
<tr>
<td>Effective Information Systems Should Be Established</td>
<td></td>
</tr>
<tr>
<td>to Provide Usable and Reliable Data</td>
<td>7</td>
</tr>
<tr>
<td>Section 5:</td>
<td></td>
</tr>
<tr>
<td>Policies and Procedures Should Be Consistently and</td>
<td></td>
</tr>
<tr>
<td>Effectively Implemented</td>
<td>9</td>
</tr>
<tr>
<td>Fiscal Controls Should Be Strengthened</td>
<td>9</td>
</tr>
<tr>
<td>Coordination and Control of Information Resource Activities</td>
<td></td>
</tr>
<tr>
<td>Should Be Improved</td>
<td>11</td>
</tr>
<tr>
<td>Human Resource Management Controls Are Adequate</td>
<td></td>
</tr>
<tr>
<td>But Enhancements Are Needed</td>
<td>13</td>
</tr>
<tr>
<td>Appendices</td>
<td></td>
</tr>
<tr>
<td>1 - Objective, Scope, and Methodology</td>
<td>16</td>
</tr>
<tr>
<td>2 - Summary of Audit Issues at State Facilities</td>
<td>17</td>
</tr>
</tbody>
</table>
The Texas Department of Mental Health and Mental Retardation (Department) has taken steps to establish a foundation of management controls, but the Department has not monitored the implementation and effectiveness of those controls at the Department's state facilities. The Department began implementing a management philosophy of Continuous Quality Improvement in 1990. While this effort has enhanced performance with a primary focus on external customers' needs and expectations, it has not had the same effect on internal customers. This is most evident in the relationship between Central Office and the Department's state facilities. In October 1994, the Greater Austin Quality Council commented on this relationship:\(^1\)

\[\ldots\text{The agency's approach indicates a strong customer focus for citizens who receive the services of the agency, but also indicates that integration of the customer focus concept has not been fully deployed or integrated within the agency itself.}\ldots\]

\[\ldots\text{It appears that line staff in the Central Office have little understanding of the concept of internal customers and suppliers or of their role and contribution to the process of producing a service/product to external customers}\ldots\]

In 1991, the State Auditor's Office presented several recommendations to improve management controls and processes. They focused on the Department's planning process, performance measurement, implementation of policies and procedures, management information systems, and human resource management. Those recommendations have only been partially addressed. During our current review of the operations at Central Office and ten Department facilities, it was noted that numerous management controls still need strengthening. (See Appendix 2 for more information on the ten Department facilities.) Furthermore, it was noted that improvements can best be affected by Central Office, given that the facilities are internal customers of Central Office. While this does not diminish facility management's responsibilities, Central Office is in the position to lead the way.

Section 1:
The Control Environment in Community Services Divisions Must Be Strengthened

During our review of ten Department facilities, it was noted that management controls within the Community Services divisions are especially weak. This is important as the Department has moved more resources toward community services. Community Services' operating budget in fiscal year 1995 is over $135 million, which comprised approximately 21 percent of the Department's budget for state facilities. (See Figure 1.) The Department plans to eventually move the Community Services divisions to locally run community centers or to have them report directly to Central Office. With such changes in the reporting structure, effective management controls are now critical.

The Department has not developed or documented a comprehensive plan for the transfer of state-operated community service programs to locally run community centers. In 1993, the Department developed a broad implementation plan for this purpose. This plan called for regional configurations by

\(^1\) Greater Austin Quality Council, Examiners' Report for Texas Department of MHMR, October 11, 1994, pp. 6, 8.
Issues and Recommendations

county to be presented to the Commissioner by August 31, 1994. This work has not been finalized. Transition plans have been developed for a few selected counties, but not for all counties currently served by state-operated Community Services divisions. For example, a transition plan has not yet been developed for the area served by the Community Services division of Travis State School, and this school is scheduled to be closed by August 31, 1997.

It appears that the anticipated organizational changes and the lack of detailed plans have adversely affected management controls. Currently, the Community Services program area for each facility is depicted as just another division of the organizational structure. However, several Community Services program areas operate somewhat independently of established processes and control structures.

Fiscal controls within some Community Services programs are deficient. At one school, the Community Services division is not included in the facility-level budgeting process. Therefore, the budgets that are allocated to the division are not reflective of the actual costs of services. At some facilities, inventory items and fixed assets are not properly monitored, and record-keeping is weak. Other Community Services programs have lax controls over the use of resources. One facility purchased extra automation hardware and software for its Community Services centers; this hardware and software is in storage for potential future use. At that same facility, vehicles purchased for the Community Services program were underutilized while regular reimbursements were distributed to employees of this same program for personal vehicle use during state travel.

Recommendation:

Management should develop and document a comprehensive plan for the transfer of services from state-operated Community Services programs to locally run community centers. This plan should identify all state facility Community Services divisions and configurations for all counties. In the meantime, management should ensure that proper control environments are in place for all functional areas of each facility. Although there are plans to eventually change the reporting relationship of Community Services

Figure 1

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<thead>
<tr>
<th>Figure 1</th>
<th>Fiscal Year 1995 Operating Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental Health and Mental Retardation Services</td>
<td></td>
</tr>
<tr>
<td>at State Hospitals, Schools, and Centers</td>
<td></td>
</tr>
<tr>
<td>Total $644,674,101</td>
<td></td>
</tr>
</tbody>
</table>

- Campus-Based Residential: $395,705,226 (62%)
- Community Services: $135,607,611 (21%)
- Facility Management and Support: $90,062,687 (14%)
- Utilities: $22,286,577 (3%)

Includes services at 8 state hospitals, 13 state schools, 5 state centers, and the Waco Center for Youth; excludes contracted community services.
divisions, that does not diminish facility management’s current responsibilities. The planning and budgeting process at each facility should include the role of the Community Services program. Fiscal controls within Community Services programs should be reviewed and monitored by facility management and Central Office on an ongoing basis.

**Management’s Response:**

The Department agrees with the audit findings and acknowledges that greater control over state-operated Community Services divisions should be established. Through the recent reorganization, the Department has taken the first step toward strengthening this control by moving these Community Services divisions from campus operations into a separate division under State Operations. This separation will provide the Department with a better focus on the management of these large and often diverse operations and allow for the eventual transition of these services to local MHMR community centers. This new Community Services division, in coordination with MH and MR Facility Services, will address the audit recommendations through the following:

- By 11/01/95 a plan will be developed to effect the orderly transition of all Community Services from state facilities' control to the new Central Office Division. The transition plan will delineate community services funds and assets as well as those necessary support functions provided by campus operations. The plan will develop management and supervisory hierarchies for each Community Services program to clearly delineate management and fiscal responsibilities at each level of the community services operations. Finally, the transition plan will establish fiscal issues and budgeting controls/procedures for each Community Services program and the Division as a whole to insure compliance with Department policies. This transition plan will insure minimum disruption to services while this division occurs. Transition of Community Services to the new division will be completed no later than 09/01/96.

- The Department is proceeding to establish four community MHMR centers during the FY 96/97 biennium. The Community Services Department of the new State Operations Division is working with local officials and newly formed Boards to identify specific time frames for establishing these new community MHMR centers. The community center in Anderson-Cherokee will begin operation on September 1, 1995. Three other centers in Central Texas, West Texas and the Texas Hill Country will be in place before September 1, 1997. The Department will also separate existing Community Services Divisions from the campus operations to form state operated community MHMR centers. Once state operated community MHMR centers exist in all counties not served by local Board-operated community MHMR centers, the Department will begin working with local officials regarding conversion of the services to a local entity. Plans will be developed using a process that involves the Department, local community leaders and elected officials. By 12/01/95, State Operations will design an audit instrument that will facilitate the self-evaluation of each Community Services Division, reflecting the audit findings of the State Auditor's Office. State Operations will randomly look behind their self-audits to assure accuracy/appropriateness.
Issues and Recommendations

Section 2:
The Closure of State Schools Requires Greater Attention to Fiscal Controls

During the closure of Fort Worth State School and Travis State School, the Department has focused mainly on management controls over client services and human resources. However, there has been inadequate attention given to controls over fiscal assets, including client trust funds, medical records, furniture and equipment, and stock inventory. Although there were no indications that assets were lost or stolen, weak controls increase the risk of loss or theft of such assets. In addition, data collection systems have not been adequately set up to identify all costs of closure and transfer activities. The lack of comprehensive cost data hinders management’s ability to fully evaluate the effectiveness and efficiency of closure activities.

At Fort Worth State School, planning for the transfer of fiscal assets was incomplete. The transfer of clients’ trust funds occurred without the maintenance of proper backup documentation. The transfer of medical records proved to be burdensome due to the volume of records processed. Additionally, the identification of space needed to store these records occurred after the records are received.

As fixed assets are being transferred from Fort Worth State School to other Department facilities, proper tracking is occurring for fixed assets which have inventory control numbers (assets valued more than $500). However, fixed assets not assigned inventory control numbers (assets valued less than $500) are proving hard to track through the transfer process because they are difficult to identify. Fixed assets were valued in excess of $7.8 million at the time the Department was directed to implement the closures.

Inventory controls at both facilities need strengthening. The facilities are not following Department policies and procedures when conducting stock inventories. Monitoring and reconciliations are not occurring in a timely manner, and, in one case, supervision over inventory control procedures has been minimal for approximately two years.

Key functional positions, such as chief accountant, property manager, and information services staff, were eliminated at Travis State School. The key responsibilities of these eliminated positions were shifted to other staff without adequate training or reprioritization of tasks. Position and functional responsibilities should be clearly conveyed to staff to prevent breakdowns in key tasks and duties.

Recommendation:

As the Department proceeds with the closure of Fort Worth State School and Travis State School, additional attention should be given to controls over fiscal assets. Adequate controls should be in place for assets remaining at the facility and for those transferred to other sites. This will be important for any future closures that may occur. Closure activity plans should identify resources to be used, tasks to be performed, and individuals who will perform the tasks. Staff should have the necessary skills to effectively carry out their duties. Priorities should be clearly defined and communicated. Activities should be monitored to ensure adequate controls are in place and to ensure compliance with Department policies and procedures. A comprehensive data collection system should be developed to capture all costs of closure activities.
Management’s Response:

Travis State School has implemented corrective and preventive actions in response to the State Auditor’s review of Travis State School. Those actions included modification of procedures, additional help in the areas of property control, and MIS controls. Fort Worth State School implemented the modifications suggested regarding the timeliness of documentation on transfers of equipment for these last three months of operation in which much equipment has been moved. Security of property there has been very tight. Travis State School has begun a comprehensive review of all active policies to ensure consistency with TDMHMR policies and proper implementation.

The Department has had a system in place for two years to capture the additional staffing costs of closure. A responsibility code is used that identifies staffing costs related to closure at other Department facilities; and similar coding at the closure facilities can also identify staff there who have been given their notice that their job is ending and are still present for all or part of their “window period.” A final cost analysis will be completed during the first quarter of next fiscal year.

Section 3:
Planning and Performance Monitoring Should Be Formalized At State Facilities

Planning activities within the state facilities are often unstructured and piecemeal. Formal strategic plans are not required from each of the facilities. Strategic planning from a system-wide perspective is strong in the development stage. In fact, a major initiative identified in the Department’s Strategic Plan for fiscal years 1995-1999 is to develop and implement effective management systems. However, the implementation of the strategic plan is not well-coordinated with the state facilities. Of the facility plans which do exist, some do not complement or link to the existing overall Department strategic plan. Most plans are relatively short-term in nature, ranging from six months to two years. Effective planning activities are important in order for each facility and the entire Department to accomplish its mission.

In order to meet performance reporting requirements, all of the state facilities reviewed had some performance measures which capture information regarding services rendered and clients served. However, several facilities do not have performance measures which capture the quality of the services provided or the impact of facility activities. It was also noted that several facilities do not continually assess the status of their performance measures or verify the accuracy of the information. Without an effective performance evaluation system, management will be unable to assess the effectiveness of service delivery, determine progress in achieving established goals and objectives, and take corrective action to enhance performance.

Recommendations:

A strategic planning process within the state facilities should be formalized, with a long-term strategic plan resulting for each facility. This would provide each facility with its own “road map” to follow. All facility plans should complement the existing Department-wide strategic plan. Elements which should be present in all plans are missions, goals, objectives, strategies, resources, timeframes, and performance measures. This will allow the facilities to assess alignment issues and monitor activities in a structured fashion so as to measure goal and objective.
accomplishment and, thus, the effectiveness of performance. Planning activities, such as plan modifications and plan assessments, should occur regularly.

Facility management should develop comprehensive performance measures which include quality-based measures. Quality- or outcome-based performance measures will allow management to capture and report the impact of a facility’s programs. Facility management should also establish an auditing process to ensure that all performance data collected and reported is accurate and reliable. A performance assessment process should be established for all program and service areas, inclusive of support areas. The performance assessment process should encompass benchmarking techniques in the establishment of targets or goals to be achieved. Management should ensure that such performance assessments occur regularly and are implemented throughout the facility. Management should also use the information generated from the assessment activities to adjust strategies and fine-tune goals and objectives.

Central Office management should establish a process of monitoring strategic planning and performance measurement at state facilities. In addition, performance standards should be established within Central Office to measure its performance as a supplier to the state facilities.

**Management’s Response:**

The Department agrees with this recommendation. Strategic planning is an authority function and as such defines the role of state facilities within the TXMHMR service delivery system.

Within the context of the agency's strategic plan, each facility will initiate long range planning. This effort will be supported by Central Office, which will establish a template for the plan and provide training and technical assistance. In addition, the Department, through its asset management function, will establish profiles of all the agency's real property assets.

Within that context, each facility will develop an annual operating plan. Although the operating plan will be within the parameters defined by the strategic plan, it will be shaped by the needs of the local community. Each state facility operating plan will contain performance indicators as established by Central Office, targets for each performance indicator, a reliable and accurate data collection method for each indicator, a monitoring system for each performance measure, resource allocation for each performance measure, new initiatives for the year, and benchmarking and best practice activity for the year.

Performance measures in the operating plans will be outcome-based and will reflect sound business practices. They will be developed jointly by facility leadership and Central Office. Improvement plans with target dates for all areas where performance is less than satisfactory. The operating plans will be reviewed quarterly by Central Office operations and modified as necessary.

Comprehensive summary data for all operations will be prepared annually. Operating plans for FY '96 will be completed by 12/01/95. Subsequent plans will be completed by the end of September of each year.

The operating plan will be a component of the governing body administrative structure in place for state hospitals and currently being modified for state school use. The governing body for each facility includes the facility CEO and select executive staff and Central...
Office staff. Each governing body is responsible for the following:

- Directly supervising implementation of Texas MHMR Board policies, promoting improvement of performance, and providing organizational management and planning.

- Adopting facility-level governing bylaws in accordance with the facility’s legal accountability and responsibility to consumers. These documents will set forth a format for communication among the facility, the governing body, and the Texas MHMR Board.

- Establishing methods for ensuring statutory and regulatory requirements are met.

- Developing mechanisms for resolving conflict, solving problems, and acting upon new opportunities.

- Establishing processes and formats for monitoring and reviewing all important facility systems and functions.

In addition to each facility operating plan, Central Office operations will also prepare an operating plan each year beginning 12/01/95. This plan will be consistent with the agency’s strategic plan and will provide direction for the facility operating plan.

Section 4: Effective Information Systems Should Be Established To Provide Usable And Reliable Data

Key information needs are not fully met. The State Auditor’s Office reported in 1991 on the lack of a comprehensive management information system for executive management. Existing data is still not effectively rolled up for management’s use nor do the existing systems capture all of the data needed by management, such as information to track performance and cost of services. Furthermore, existing data may not be complete or accurate.

As already noted, there is considerable variation in performance measurement among state facilities. In addition, the Department does not have a comprehensive cost accounting system to calculate the cost of services provided. This is in spite of legislation that mandated the development of such a system. While management is aware of the need to have such a system, appropriate action has not been taken. Currently, management relies primarily on the average cost per person and the average cost per bed-day to monitor costs. However, there is no identification of the cost for significant activities to provide a specific service to a client. Without that information, management cannot fully evaluate the effectiveness and efficiency of current services or the impact of changes to the operations.

Management must have useful, accurate, and timely information to effectively plan, coordinate, monitor, and make decisions. That includes information systems to report performance measures of services provided and to track costs of those services. With these systems, the Department will be able to meet the needs of management, the Legislature, and other governing bodies, such as the Joint Commission on Accreditation of Healthcare Organizations.

Recommendation:

Management should clearly define their information needs. Management should
implement a monitoring mechanism to ensure that consistent performance data is captured completely and accurately. Management should implement a cost accounting system that identifies and quantifies the cost of significant activities to provide specific services to clients.

**Management's Response:**

The Department agrees with these audit findings. One of the challenges of the Department is management of a vast amount of data which may be necessarily collected in a variety of formats, dependent on its intended use, ranging from Medicaid compliance, patient treatment plans, and lawsuit mandates to fiscal accounting and legislative requirements. The Department's total information needs will be evaluated throughout FY '96, and plans will be developed by Central Office Management Information Services to meet those needs. Central to this issue is the ability to dissect out, in an accurate and timely fashion, the varied and often dissimilar cost elements of a host of individualized treatment programs offered at each Department facility.

With regard specifically to State Operations with the recent reorganization, a variety of support functions necessary to facilities were moved under State Operations. One support section, titled QSO/Management Data will address the findings and audit recommendations in this area. This section will:

- Serve as a focus point and liaison with Information Services regarding the data needs of State Operations. By combining program monitoring and quality assurance functions with computer programming expertise, this section will be able to assist facilities in better describing the data needs and computer services needing to be delivered by Information Services. Conversely, this section can assist Information Services by channeling and coordinating the variety of computer support requests from facilities which in past have been handled on a facility by facility basis.
- This section, working with Information Services, will serve to identify Facility Operation's critical information needs, eliminate unnecessary data elements, adding data collection as necessary, and provide much needed analysis of already existing data.
- Through its quality assurance functions, this section will provide on-site audits and reviews of facility data gathering activities to assure the accuracy of the information received from facilities.
- State Operations, through this section, will assist the agency's Information Services Division and Financial Services Division in implementing a cost accounting system designed to capture specific cost elements of various service delivery components.
- State Operations will be integrating into facility services applicable managed care techniques, such as bench marking and establishing best practice standards, as they are developed by the Department. This section will create, in conjunction with Information Services, new data streams as they are needed and will respond to any new data requirements as they are identified by Facility Management and State Operations Management. This activity will begin 09/01/95 and continue through the fiscal year.
Issues and Recommendations

Section 5:  
**Policies And Procedures Should Be Consistently And Effectively Implemented**

In our review of Department facilities, high-level policies and procedures generated by Central Office are in place. However, they are not consistently and effectively implemented in the facilities. There is no system to continually assess the facilities’ processes and systems, either by Central Office or by facility management. Some of the policies and procedures from Central Office are outdated or not specific enough to provide effective guidance to the facilities. There are cases where the management of some facilities have established specific operational-level policies and procedures; however, there are many cases where there is little or no documentation regarding facility-level processes and procedures. Additionally, there are facility-level procedures which were found to be outdated. Examples of deficient policies and procedures were noted in fiscal management, information resource activities, and human resource management.

Section 5-A:  
**Fiscal Controls Should Be Strengthened**

Basic fiscal controls are not adequately in place at the state facilities and Central Office to manage fixed assets, inventory, contracting, and cash/revenue. Policies and procedures are outlined in the Fiscal Manual which is disseminated to all facilities. However, the policies and procedures are not always followed, some of the policies and procedures are inadequate, and others are outdated. The current manual was developed in 1992. In addition, there is no monitoring to ensure that these policies and procedures are followed consistently and effectively. Weak controls increase the risk of loss, waste, or abuse of fiscal assets. The following weaknesses were noted:

- Fixed assets worth $550 million are not fully safeguarded in state facilities.
- A discrepancy of $6 million in fixed assets exists between the Department’s internal accounting system and the State Property Accounting system.
- Real property records at the Department do not agree with those at the General Land Office.
- Inventory procedures are not fully observed by state facilities. Consumable inventories for the Department are over $10 million.
- Controls over drug inventory at state facilities are weak, resulting in discrepancies between inventory records and accounting records. Prescription drugs cost the Department $14 million annually.
- Performance monitoring of contracts for $14.7 million of professional services is inadequate.
- There are no controls to ensure that conflicts of interest do not exist in professional services contracts.
- Procedures are not adequate for negotiating contracts in compliance with Historically Underutilized Business guidelines.
- Duties are not adequately segregated at Central Office with the management of $5.5 million in clients’ investment accounts.
Issues and Recommendations

• Client funds at state facilities are not always kept in interest-bearing accounts.

• The amount of funds at a single state facility can exceed $250,000.

• Duties over cash receipts are not always adequately segregated, cash receipts are not always deposited within three days, and cash is not always properly reconciled to the accounting records.

• Petty Cash and Travel Advance funds are not adequately safeguarded.

Recommendation:

Steps should be taken to improve the implementation and effectiveness of fiscal controls at the state facilities. Management should ensure that operational-level procedures for key fiscal functions at state facilities are documented, reviewed, and approved for consistency of steps and the existence of control points. Standardization of procedures should be emphasized where appropriate. Central Office management should establish a process of monitoring key control systems. Management should ensure that policies and procedures are actively revised when operating conditions change. While the Internal Audit Division can and should provide meaningful feedback in these areas, management should establish additional complementary processes. Training and communication should be ongoing.

Management's Response:

The Department concurs with the audit recommendation and will address the audit findings by:

• State Operations will review the Fiscal Manual in light of the audit findings and make policy and procedure revisions as necessary. This process will begin by 11/01/95.

• Following revision of the Fiscal Manual, training will be provided to all relevant staff to assure understanding of and compliance with the Department's fiscal policies and procedures.

• A standing work group comprised of senior management staff will be created with the responsibility for periodic review and update of Facility Operations' fiscal policies and procedures. The Director of State Operations will appoint this work group by 10/01/95. They will begin their review process no later than 11/01/95.

• A peer review process will be established for key fiscal and support functions to insure compliance with Department policies and procedures and to establish best practice standards for each area. The Director of State Operations will develop and promulgate this process by 12/01/95.

• Each facility will be required to review for accuracy their fixed assets, real property, and inventory. The Director of State Operations will receive, review and recommend actions for each facility as indicated by 12/01/95.

• Pharmacy procedures and software will be reviewed and revised as necessary to enhance inventory control. Reviews will be completed by 11/01/95 and any revisions will be made on or before that date. If revisions require more time, an implementation plan with completion dates will be provided to the Director of State Operations by 11/01/95.

• By 09/01/95, the Director of State Operations will instruct all facility CEOs...
that all client funds handled by state facilities will be required to be kept in interest bearing accounts.

- The Director of State Operations will appoint an internal control work group that will develop a control self-assessment protocol for facility staff use. Comprehensive internal control audits will be completed on a biennial basis. These audits will include identification and dissemination of best practices from within and outside the agency. Central Office State Operations will conduct random audits to verify each facility’s self-assessment and compliance. The protocol will be developed by 12/01/95 and implementation will begin immediately.

Section 5-B: Coordination And Control Of Information Resource Activities Should Be Improved

Coordination of information resource activities among facilities and Central Office is not effective in the areas of planning, system development, and security. Central Office information resource planning process only addresses systems maintained within Central Office. State facilities independently determine what automated resources will be purchased, developed, and implemented. Information resource policies and procedures are not required at state facilities. This has resulted in duplicative and manually intensive processes and systems. In addition, controls at facilities and Central Office are weak in the areas of system development, security, backup and recovery, and disaster recovery planning. Such practices do not ensure the best use of the Department’s annual expenditures of more than $12 million for information resource activities.

Information is not shared among significant automated systems at the Department, resulting in information being entered more than once into different systems. For example, the Pharmacy and Laboratory systems do not obtain client information from the Client Assignment and Registration (CARE) system. Conversely, the Pharmacy and Laboratory systems do not provide information to other systems. The implementation of distributed data processing technology through the Texas Evaluation and Assessment Management (TEAM) project has reduced the duplicate entry of some information, but it has not taken full effect.

State facilities have developed their own automated systems when information needs are not met. For example, the current timekeeping system used by the Department is not meeting the needs of the state facilities. Several facilities have developed automated timekeeping systems on personal computers. In addition to the duplication of effort, we noted that one facility’s timekeeping system does not calculate overtime correctly. Other facilities’ timekeeping systems cannot keep track of the dates that state compensatory time is accrued and used. Central Office has proposed to develop a new automated timekeeping system with implementation scheduled by early 1996 for Central Office and at least one facility.

Finally, the lack of coordination of information resource activities has resulted in control weaknesses at state facilities. These weaknesses increase the risk of excessive costs and other forms of waste and abuse.

- insufficient analysis of software purchases and system development
- minimal or no documentation of systems developed by state facilities
Issues and Recommendations

- inappropriate access to production programs and data by programmers
- too many employees with local area network supervisory rights
- inadequate password security procedures
- inadequate storage of backup tapes
- no comprehensive disaster recovery plans

Recommendation:

The Department should coordinate its information resource activities to reduce duplicative systems and poor controls. Management should ensure that policies and procedures for all information resource activities at state facilities are documented, reviewed, and approved for consistency of steps and the existence of control points. Standardization of procedures should be emphasized where appropriate, such as system development, security, backup and recovery, and disaster recovery planning. Central Office management should establish a process of monitoring the implementation of policies and procedures and should ensure that policies and procedures are actively revised when operating conditions change.

Management's Response:

The Department agrees with the audit findings and acknowledges that these recommendations span concerns at Central Office and at the state facilities.

For facility information resource activities, the Central Office Information Services will assist the State Operations Division QSO/Management Data unit to develop standards which will correct control weaknesses at state facilities. The QSO/Management Data unit will promulgate standards for state facility information resources activities which will:

- Require consistent, documented analysis of all information resources purchases.
- Ensure that policies and procedures for all information resource activities at state facilities are documented, reviewed and approved.
- Implement a systems development methodology to control systems development, documentation, security access, backup and recovery procedures, and disaster recovery.

The quality assurance audits planned by State Operations will ensure that facility policies and procedures for information resource activities are actively maintained. Standards will be established and promulgated by 03/01/96.

The Director of State Operations will direct the Quality Systems Oversight/Management and Data Director to conduct a comprehensive inventory of current systems, programs and staff support for Information Services. The inventory will be completed by 02/01/96.

The Director of State Operations will direct the Quality Systems Oversight/Management and Data Director to evaluate the efficiency of multiple Information Services Divisions throughout State Operations, with the goal of consolidating services when appropriate at state or regional levels. The evaluation will be completed no later than 08/31/96.

At the Central Office level, Information Services will strengthen its strategic planning function. Information Services management will work with the strategic planners to update the TXMHR Strategic Plan for Information
Resources. This plan will focus on two critical areas:

- Integration planning for existing systems to address duplicative systems and cross-system information needs.

- Identification of mission-critical systems which require consistent, focused systems development. State facilities will be prohibited from developing mission-critical systems independently.

State facility information resource activities will be included in the TXMHMR Strategic Plan for Information Resources and the agency's biennial operating plans for information resources to ensure a full and accurate accounting of all expenditures for information resource activities. Current activities will be incorporated in the plan by 11/01/95 and ongoing updates will occur as necessary.

Section 5-C: Human Resource Management Controls Are Adequate But Enhancements Are Needed

Well-documented human resource policies and procedures are developed by Central Office. In addition, most facilities have more detailed local procedures which are given to employees. With over 28,000 state employees, the Department's controls over human resource management are very important. However, we noted the following areas where management should improve human resource management functions:

- Several state facilities are attempting to evaluate employees' use of sick leave as a component of their job performance, which may be contrary to state and federal regulations. The Department has policies which contain limits on acceptable sick leave hours, performance appraisal standards which address the use of sick leave, and examples in the Positive Performance Program training manual regarding the use of sick leave. Sick leave has been determined to be an entitlement for employees. The Family and Medical Leave Act and the Americans with Disabilities Act specifically discuss the consequences of discriminating against an employee for using leave or exercising their rights under either of these regulations.

- Some facilities had numerous delinquent employee performance appraisals. A performance appraisal system is a valuable communication and planning tool. It should be used to provide timely feedback to employees about their job performance.

- The Department has not fulfilled its responsibilities according to the Fair Labor Standards Act (FLSA). The FLSA requires employers to designate job positions as exempt or nonexempt to determine overtime eligibility. Central Office distributed a list to all state facilities of recommended FLSA designations dated May 1993, but it has not been updated since then. Thus, changes to the State Classification Plan that occurred for the 1994-1995 biennium are not reflected. The list also does not characterize the type of exemption, i.e., administrative, executive, or professional. An agency cannot make a determination that a position is exempt without reviewing the definition of these three types of exemptions and determining which category the position falls into. Finally, several of the FLSA designations made by Central Office are questionable.

- Staffing needs are reviewed on a routine
Issues and Recommendations

basis, and procedures exist for the recruitment and selection of employees. However, three areas are in need of improvement: 1) state facilities do not always have sufficient documentation of the employee selection process, 2) at some facilities, training for supervisors regarding interviewing techniques and applicable employment regulations have not been offered on a regular basis, 3) information collected during physical examinations after an employment offer does not appear to be based on essential functions of most jobs.

Recommendations:

Central Office management should establish a process of monitoring the implementation of human resource policies and procedures in the state facilities. Management should ensure that policies and procedures are actively revised when operating conditions change. More specifically:

• The use of sick leave by employees should not be a standard of performance. Management can, of course, discipline employees who do not notify management in a timely manner that they need or would like to take leave. Sick leave policies should not include “acceptable levels” of sick leave time taken off nor should “pattern absences” always be construed as sick leave abuse. The Positive Performance Training Manual should be revised so that the attendance and punctuality definitions and examples do not discuss excessive excused absences. Additional training should be provided to supervisors at the facility level relating to employees’ leave entitlements.

• Managers and supervisors should be held accountable for completing employees’ performance appraisals on time. This can be built into the supervisors’ own performance appraisal standards.

• Central Office should provide an up-to-date list of Fair Labor Standards Act (FLSA) designations to the state facilities. In addition:

  - The list should be updated every biennium to reflect changes that are made to the State Classification Plan.

  - The list should include the full range of job classes that any state facility might use during the biennium.

  - FLSA exemptions should designate the type of exemption, i.e., administrative, executive, or professional, as defined in the regulations.

  - Thorough analysis should be done of each job position to determine FLSA status. The list should be reviewed by human resource professionals and legal staff. Central Office should provide the facilities with explicit explanations of FLSA regulations and how they should make their designations based on Central Office’s recommendations.

• The recruitment and selection process should be thoroughly documented. Human Resources should serve as a reviewer of these documents to ensure that processes are consistent and decisions are appropriately justified.

Each facility should offer regularly scheduled interview-related training to all supervisors. This training should be given to all employees who have recently assumed supervisory duties and when new employment regulations are passed which impact interviewing requirements.
Issues and Recommendations

Central Office should work with the facilities to reevaluate its practice of requiring post-employment offer physicals for all employees to ensure that the information requested is important in determining whether an employee will be able to perform the essential functions of the job. Consideration should be given to whether the information gained outweighs the risk of potential discrimination grievances or lawsuits.

Management’s Response:

The Department agrees with this recommendation.

- State Operations and Central Office Human Resources will establish a random on-site audit of Human Resources policies and procedures. Activity related to the audit finding will be incorporated in each facility's operating plan as appropriate. Audits will begin no later than 12/01/95.

- The Director of State Operations will direct facilities to discontinue the use of sick leave as a performance standard. Abuse of sick leave will be redefined and facility supervisory staff training on employee leave entitlements. The directive, including revised definitions and expectations for supervisory training, will be promulgated no later than 11/01/95.

- The Director of State Operations will direct all facility CEOs to insure timely employee performance appraisals occur in each facility. The governing body process and random Human Resource audits will be used to monitor this requirement. Specific expectations will be promulgated by 10/01/95.

- By 11/01/95, the Director of Human Resources, Central Office, will provide a revised list of Fair Labor Standards Act (FLSA) designations regarding exempt and non-exempt employees. Upon receipt, each facility will revise its policies and/or procedures as necessary to insure compliance. The Central Office Human Resources Director will review the list annually and revise as necessary. Before the list is promulgated on 11/01/95 and annually thereafter, the Director of Human Resources will confer with officials in the Department of Labor to insure accurate interpretations of the FLSA.

- The recruitment and selection process will follow existing Human Resources policies and procedures. Central Office Human Resources will conduct random compliance audits beginning 10/01/95.

- Central Office Human Resources and Central Office Operations will ensure interview-related training is provided to all supervisors, including new supervisors. Training will be completed for current supervisors by 01/01/96.

- Central Office is analyzing essential function physical capacity evaluations as part of its new risk management policy to be completed by 09/15/95.

- In FY '96, a performance audit of human resources will be conducted by Internal Audit using existing Human Resources policies and procedures in FY '96 as their audit criteria. Plans of correction will be completed as required.
Appendix 1:

Objective, Scope, And Methodology

The objective of the audit was to make an assessment of management processes and controls within the Texas Department of Mental Health and Mental Retardation. The audit included a follow-up of the 1991 State Auditor's Office management control audit (SAO Report No. 92-007). The scope of the current audit included a review of the operations at Central Office and the following Department facilities:

- Austin State Hospital
- Beaumont State Center
- Denton State School
- Fort Worth State School
- Kerrville State Hospital
- Rio Grande State Center
- San Antonio State Hospital
- San Antonio State School
- Terrell State Hospital
- Travis State School

The ten facilities were selected after a risk analysis of relevant management control issues at all Department facilities. We reviewed financial data, management reports, policy and procedure manuals, and internal audit reports. We interviewed Department managers and staff and conducted conventional audit tests and procedures.

Fieldwork was conducted from April 3, 1995, to July 7, 1995. The audit was conducted in accordance with generally accepted government auditing standards.

The audit work was performed by the following members of the State Auditor's staff:

- Jon Nelson, CISA (Project Manager)
- J.W. "Bill" Addison, CPPB
- David Boedeker, CPA
- Kelli Dan, PHR, CCP
- Kati George
- Ester Jayme
- Kyle Kelly
- Clint Loeser, CPA
- Melody Lopez
- Shenetha Manuel, JD
- Teresa Menchaca, CISA, CDP
- Melinda Nay
- Ron Oaks
- Monday Rufus, CPA
- James Story, CISA, CIA
- Barbara S. Hankins, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Director)
Appendix 2: Summary of Audit Issues at State Facilities

Audits of ten Department facilities were conducted during the course of this management control audit. This appendix contains a summary of audit issues identified and reported to facility management and to the Commissioner. A supplemental publication of the detail reports for each facility, with management’s written responses, is available upon request (Report No. 96-002).

**Human Resources Management Issues**
- Interview questions and selection criteria are not reviewed by Personnel.
- Some personnel procedures do not reflect the impact of key regulations.

**Fiscal Management Issues**
- Cash deposits are out of compliance with deposit regulations.
- Petty cash audits are delinquent.
- Controls over the tracking and disposal of fixed assets are weak.
- Controls over the access to, tracking of, and disposal of inventories are weak.
- Controls over the purchasing and bidding process are weak.
- All contracts are not clearly developed or effectively monitored.

**Austin State Hospital**

**Planning and Performance Management Issues**
- Budget monitoring lacks review and analysis.
- Assistant Superintendent responsibilities are too broad.
- Performance monitoring is not consistent in key business areas.

**Information and Automation Management Issues**
- Overall facility needs are not being met.
- All user groups are not represented on a key information management committee.
- Key information systems are outdated or do not exist.
- The current timekeeping system does not adequately track employee compensatory time.
- A uniform procedure for storage of network system backups does not exist.
- Published information resources security policies do not exist.
- Weaknesses were noted regarding network access.

**Beaumont State Center**

**Planning and Performance Management Issues**
- Strategic plan is not comprehensive.
- Responsibilities are not clearly communicated.
- Performance measures are not complete, comprehensive, or analyzed.
- Assessment systems for key operations are generally weak.
Information and Automation Management Issues

- Minimal policies and procedures exist regarding information services management.
- Adequate resources have not been allocated to the information services function.
- Software purchases and developments are not sufficiently evaluated.
- Documentation of automated systems is minimal.
- The current timekeeping system does not adequately track employee compensatory time.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to automated data are weak.

Denton State School

Planning and Performance Management Issues

- Policies and procedures for Community Services are inadequate.
- Existing performance measures do not adequately capture quality information.

Information and Automation Management Issues

- Information reports are not always evaluated or useful.
- The current timekeeping system does not adequately track employee compensatory time.
- Documentation of developed automated systems is not complete.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to information data are weak.

Human Resources Management Issues

- Documented criteria and questions for applicant interviews do not exist.
- Some personnel processes do not reflect the impact of key regulations.

Fiscal Management Issues

- Verification of contract requirements is weak.
- All contracts are not clearly developed or effectively monitored.
- Lease agreement procedures do not follow established policy.
- Segregation of trust fund and travel fund duties is needed.

- Current trust fund process is ineffective and inefficient.
- Controls over the storage and disposal of fixed assets are weak.
- Controls are not in place to ensure effective fleet management.
- The safety environment is not proactively assessed.
- Building space use is not maximized.

Human Resources Management Issues

- Employee time reports and evaluations are not always timely.
Fiscal Management Issues

- Employee records are not always complete.
- Planning, monitoring, and record-keeping activities for employee training need improvement.

Fiscal Management Issues

- Segregation of travel fund and cashier duties is needed.
- Interest on deposited funds is not always maximized.
- Controls over the tracking and disposal of fixed assets are weak.

Kerrville State Hospital

Planning and Performance Management Issues

- A strategic planning process does not exist.
- Short-term action plans do not reflect allocated resources.
- Performance measures are not complete, comprehensive, or analyzed.

Information and Automation Management Issues

- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to automated data are weak.

Fort Worth State School

Planning and Performance Management Issues

- No issues noted.

Information and Automation Management Issues

- No issues noted.

Human Resources Management Issues

- No issues noted.

Fiscal Management Issues

- Documentation of transferred client trust funds is inadequate.
- Communication regarding fixed assets to be transferred is not timely.
- Current inventory procedures are not in compliance with established policies.

Human Resources Management Issues

- Long-term planning does not exist for determining staffing needs.

Fiscal Management Issues

- Controls to ensure accurate reporting and safeguarding of inventories are inadequate.
- A formal contract monitoring process does not exist.
• Fixed asset inventory and reconciliation procedures are weak.

Rio Grande State Center

Planning and Performance Management Issues
• A strategic planning process does not exist.
• Documented operational-level policies and procedures are weak or non-existent.

Information and Automation Management Issues
• The current timekeeping system does not adequately track employee compensatory time.
• Duplicate information systems exist, which is inefficient, and equivalent data may not match.
• Critical data are at risk of loss because of inadequate backup and recovery procedures.
• Controls over access to automated data are weak.

Human Resources Management Issues
• Some personnel processes do not reflect the impact of or do not comply with key regulations.
• Personnel activities do not always comply with established policies.
• Employee records are not always complete and may be inaccurate.
• Procedures for investigating and resolving employee grievances are weak.
• Employees in support functions are not receiving needed administrative training.

San Antonio State Hospital

Planning and Performance Management Issues
• A strategic planning process does not exist.
• Short-term action plans lack sufficient detail for monitoring and controlling operations.
• A comprehensive performance evaluation system does not exist.

Fiscal Management Issues
• Lease agreement procedures do not follow established policy.
• All contracts are not clearly developed or effectively monitored.
• Verification of contract requirements is weak.
• Timely billing for and reconciliations of contracted services are weak.
• Cash funds are at risk of loss or theft.
• Some cash deposits are out of compliance with deposit regulations.
• Segregation of travel fund and trust fund duties is needed.
• Controls to ensure accurate reporting and safeguarding of inventories are inadequate.
• Fixed asset inventory and reconciliation procedures are weak.
Information and Automation Management Issues

- Local area network expansions were inadequately planned and researched.
- Information Services staff do not have needed technical expertise.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Automated system development procedures are weak.
- Controls over information systems are inadequate to prevent or detect data manipulation.

Human Resources Management Issues

- Planning does not exist for determining staffing needs.
- Personnel activities do not always comply with established policies.
- Some personnel processes do not reflect the impact of or do not comply with key regulations.
- Technical training is not well coordinated.

Fiscal Management Issues

- The process for timely vendor payments is inadequate.
- A formal contract monitoring process does not exist.
- Cash controls are inadequate to prevent or detect loss or theft.
- Controls to ensure accurate reporting and safeguarding of inventories are inadequate.
- Fixed asset inventory responsibilities need to be segregated.

San Antonio State School

Planning and Performance Management Issues

- A strategic planning process does not exist.
- Short-term action plans lack sufficient detail for monitoring and controlling operations.
- The budgeting process does not effectively link financial resources to goals and objectives.
- A comprehensive performance evaluation system does not exist.

Information and Automation Management Issues

- Planning activities for information systems does not include the Community Services division.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to information systems are weak.
- Existing duplicate and manual information systems are inefficient.

Human Resources Management Issues

- Personnel activities do not always comply with established policies.

Fiscal Management Issues

- Cash and inventory duties are not appropriately segregated.
- Payroll reconciliations are seriously delinquent.
- Cash disbursement procedures are weak.
- The process for timely vendor payments is inadequate.
- A formal contract monitoring process does not exist.
- Controls to ensure safeguarding of fixed assets are inadequate.

Terrell State Hospital
Planning and Performance Management Issues
- The existing structure of Community Services has weakened the overall control environment.
- Key functional areas have outdated, minimal, or no documented operational-level procedures.
- Existing performance measures do not adequately capture quality information.

Information and Automation Management Issues
- Existing manual information systems are inefficient.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to information systems are weak.

Human Resources Management Issues
- Some personnel processes may not fully comply with key regulations.

- Some training processes (e.g., planning, documentation, and assessment) need strengthening.

Fiscal Management Issues
- Mail opening, travel advance, and inventory activities are not adequately segregated.
- Cash deposit, travel fund, trust fund, and purchasing procedures are inefficient.
- Controls over cash are inadequate to prevent potential loss or theft.
- Accountability for patient trust funds and personal effects is weak.
- Controls to prevent loss and theft of Community Services fixed assets are weak.
- Controls to prevent loss and theft of Community Services and Pharmacy inventories are weak.
- Controls are not in place to ensure effective fleet management.
- Purchasing procedures do not always comply with established policies.
- All contracts are not clearly developed or effectively monitored.
- Verification of contract requirements is weak.

Travis State School
Planning and Performance Management Issues
- Closure plans have not fully addressed the Community Services division.
- Closure staffing patterns have neglected assigning responsibility for key fiscal controls.
- Policies and procedures do not adequately reflect processes unique to closure.

Information and Automation Management Issues

- Planning for the development of automated systems lacks coordination.
- The current timekeeping system does not adequately track employee compensatory time.
- Critical data are at risk of loss because of inadequate backup and recovery procedures.
- Controls over access to information systems are weak.

Human Resources Management Issues

- Employee performance evaluations are not timely.

- Some personnel processes may not comply with key regulations.

Fiscal Management Issues

- All revenues are not adequately recorded in the general ledger.
- Reconciliation of a petty cash fund is seriously delinquent.
- Some cash deposits are out of compliance with deposit regulations.
- Controls to prevent loss and theft of inventories are weak.
- Controls to prevent loss and theft of fixed assets are weak.
- Purchasing procedures do not always comply with established policies.
- All contracts are not effectively monitored.
Copies of this report have been distributed to the following:

**Legislative Audit Committee**

Honorable James E. "Pete" Laney, Speaker of the House, Chair  
Honorable Bob Bullock, Lieutenant Governor, Vice Chair  
Senator John Montford, Chair, Senate Finance Committee  
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee  
Representative Robert Junell, Chair, House Appropriations Committee  
Representative Tom Craddick, Chair, House Ways and Means Committee

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Mr. Don Gilbert, Commissioner  
Mr. Tom Martinec, Director of Internal Audit