

Department of Mental Health and Mental Retardation

**For the Years Ended
June 30, 1996, and June 30, 1995**

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March 6, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
and
The Honorable Ben Dishman, Acting Commissioner
Department of Mental Health and Mental Retardation
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Mental Health and Mental Retardation for the years ended June 30, 1996, and June 30, 1995.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Mental Health and Mental Retardation's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Mental Health and Mental Retardation is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Mental Health and Mental Retardation's management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/081

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Mental Health and Mental Retardation
For the Years Ended June 30, 1996, and June 30, 1995

AUDIT SCOPE

We have audited the Department of Mental Health and Mental Retardation for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of internal audit; restricted funds; licensure of mental health, mental retardation, and alcohol and drug abuse facilities; and major maintenance expenditures classified as other. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The Department's Internal Audit Function Is Not Effective

The department's internal audit function is not an effective management resource to ensure that departmental controls are developed and maintained (page 2).

Controls Over Performance Evaluations Are Not Adequate*

As noted in six previous audits, the department does not comply with personnel policies requiring employee performance evaluations (page 4).

Improvement Is Needed in Grant Monitoring*

The department did not adequately monitor community mental health centers, subgrantees of the Mental Health Services Block Grant (page 6).

* This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Mental Health and Mental Retardation
For the Years Ended June 30, 1996, and June 30, 1995

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Department of Mental Health and Mental Retardation For the Years Ended June 30, 1996, and June 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Mental Health and Mental Retardation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The department’s mission is to provide services to individuals with mental illness and mental retardation or developmental disabilities. The Mental Health Services Division meets the needs of citizens with a system of prevention and early intervention, treatment, habitation, and residential programs. These services are administered through a network of community mental health centers, specialized community mental health agencies, grant projects, contracted programs, and five regional mental health institutes. The Mental Retardation Services Division provides a comprehensive and integrated system of institutional and community services for mentally retarded persons to assist them in reaching their fullest potential.

AUDIT SCOPE

We have audited the Department of Mental Health and Mental Retardation for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of internal audit; restricted funds; the licensure of mental health, mental retardation, and drug and alcohol treatment facilities; and major maintenance expenditures classified as “other”. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

INTERNAL AUDIT

Our work in the area of internal control consists of determining the effectiveness of the internal audit function. We discussed the internal audit function with key personnel. Our review resulted in one audit finding.

1. The department's internal audit function is ineffective

Finding

The department's internal audit function is not an effective management resource to help ensure that departmental controls are developed and maintained.

The Director and Assistant Director of Internal Audit retired during the audit period and were not replaced. As a result, the 1997 portion of the three-year audit plan was set aside so that internal audit staff could focus on three special projects requested by management, and no audits were performed. The plan specifies that "during 1997, the Internal Audit Section will schedule five (5) Mental Retardation contract agencies for financial and compliance audits." Additionally, the internal audit function has not included audits of the state-managed mental health institutions and developmental centers.

Section 4-3-304, *Tennessee Code Annotated*, requires that each department's internal audit staff perform audits and that those audits be coordinated with the Office of the Comptroller of the Treasury. Management of the department is responsible for establishing and maintaining internal controls. The internal audit function is a key management resource for ensuring that these controls are developed and maintained. The failure to conduct appropriate internal audits could contribute to weaknesses in the department's internal controls.

Recommendation

The Commissioner of Mental Health and Mental Retardation should ensure the internal audit staff perform audits so that the department has appropriate information for developing and maintaining internal controls.

Management's Comment

We concur. As a component of the merger of the Departments of Mental Health and Mental Retardation (DMHMR) and Health (DOH), the internal audit functions will be consolidated. In the interim, the responsibility for coordination of the DMHMR internal audit personnel has been assigned to the Director of Internal Audit, DOH. Routine examinations will be performed to ensure that DOH has appropriate information for developing internal controls.

RESTRICTED FUNDS

Our objectives in reviewing restricted funds controls, procedures, and account balances focused on determining whether

- the auditee upheld its fiduciary duty to properly administer and account for patient funds by ensuring that expenditures were properly supported with patient approvals where necessary;
- specific-purpose account expenditures were made for allowable purposes;
- transactions were properly recorded; and
- the opportunity exists for misuse of patient funds or otherwise disputed cash exchanges with the patients.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over receipting, controlling, safeguarding, and depositing of funds. We reviewed supporting documentation and tested nonstatistical samples of transactions. We also compared a random month's trust fund balances with balances reported in the control account. We noted no significant deficiencies; however, less significant deficiencies were reported to management in a separate letter.

LICENSURE

Our objectives in reviewing licensures controls and procedures focused on determining whether

- annual inspections were performed and discrepancies were monitored,
- licensees were notified that licensees needed renewal, and
- life safety inspections were performed.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over the licensure of facilities. We reviewed supporting documentation and tested nonstatistical samples of licenses. We noted no significant deficiencies; however, less significant deficiencies were reported to management in a separate letter.

MAJOR MAINTENANCE EXPENDITURES

Our objectives in reviewing the "other" object code within the major maintenance allotment code focused on determining whether expenditures had proper supporting documentation and whether expenditures were coded to the proper allotment code.

We interviewed key department personnel to gain an understanding of the department's procedures for charging expenditures to this allotment code. We also reviewed supporting documentation and tested all expenditure transactions from the "other" object code within major maintenance allotment code. We noted no significant deficiencies.

PERFORMANCE EVALUATIONS

Our work in the area of performance evaluations consisted of

- following up a prior audit finding concerning inadequate review of personnel performance, and
- reviewing employees' files for completed performance evaluations to ensure compliance with personnel policies and procedures.

To follow up a prior finding, we examined a nonstatistical sample of employee files for completed performance evaluations. Testwork revealed ongoing problems. The prior audit finding was repeated.

2. Controls over performance evaluations need strengthening

Finding

As noted in the six previous audits, the department does not comply with state personnel policies requiring periodic employee performance evaluations. The Department of Personnel's *Mechanics of Performance Evaluations* requires that all employees be evaluated at intervals depending on their job classifications, but at least every 12 months. Management concurred with the prior audit recommendations and stated that the department would review its commitment to

comply with the Department of Personnel's policy. However, a review of 33 personnel files disclosed that 19 employees (58%) had not been evaluated in a timely manner.

The Rules of Tennessee Department of Personnel, Chapter 1120-5-.01, "Job Performance Planning and Evaluation," states that the purpose of job performance evaluations is "to promote employee development, enhance employee productivity, serve as a basis for sound personnel decisions, and provide a permanent record of the performance of major duties and responsibilities for employees in the State service." To maintain and improve job performance and to properly consider individuals for merit increases and promotions, the department needs to evaluate employees regularly.

Recommendation

The commissioner should assign specific responsibility to ensure department supervisors follow the Department of Personnel's policies for employees' performance evaluations. Management should then monitor to ensure supervisors are complying with these policies. The commissioner should take action against those supervisors failing to prepare performance evaluations timely.

Management's Comment

We concur. DMHMR will identify the responsibility for monitoring Performance Evaluations and will implement procedures to ensure supervisors are complying with the State of Tennessee policy. The personnel division is in the process of implementing a performance evaluation tracking system. This system will provide information to a central point relative to supervisors who are not complying with State of Tennessee policy. There is also a notification component which will place the supervisor and the reviewer on notice as to the need to complete evaluations in a timely manner.

GRANT MONITORING

Our work in the area of grant monitoring consisted of

- following up a prior audit finding concerning inadequate monitoring of community mental health centers, and
- reviewing procedures for grant monitoring and on-site evaluations.

To follow up a prior finding, we discussed grant monitoring with key personnel to determine if there were procedures governing grant monitoring. Our review determined no on-site evaluations were documented. The prior year's finding was repeated.

3. Grant monitoring should be improved

Finding

As noted in the prior four audits, the Mental Health Services Division in the Department of Mental Health and Mental Retardation did not adequately monitor community mental health centers, subgrantees of the Mental Health Services Block Grant. Although the community mental health centers may receive several grants, the mental Health Services Block Grant has been one of the more significant programs. The department did not regularly visit the mental health centers during the fiscal year to ensure the centers complied with all contractual terms, including established federal rules and regulations relative to the block grant. The *Compliance Supplement for Single Audits of Governments* states that “the state must establish reasonable criteria to evaluate the performance of entities receiving funds from the state’s allotment.”

Management concurred with the prior finding and stated, “After a number of delays, the integrations of mental health services into TennCare is scheduled for implementation on January 1, 1996. A major component of the contract with the Behavioral Health Organizations is outcome evaluation. Rigorous criteria to monitor the quality of care have been developed to ensure compliance with federal regulations.” Effective July 1, 1996, the responsibility for monitoring community mental health centers was transferred to the behavioral health organizations. The department is responsible for ensuring that the behavioral health organizations monitor the community mental health centers. However, the monitoring by the BHOs has not been specific to the Mental Health Services Block Grant.

Recommendation

Management should ensure that all mental health centers are monitored each fiscal year for compliance with their all contractual agreements, including the established federal guidelines relating to the block grant.

Management’s Comment

We concur. DMHMR did not monitor recipients of the Block Grant funding for compliance with all their contractual agreements during FY 95 or FY 96. However, the grant agreements with recipients did stipulate funding by service categories and did not fund any services which were not appropriate given the federal guidelines for the Block Grant. Inpatient services were funded under a Direct Purchase Authority during both of these fiscal years and were paid for with State dollars. No Block Grant funds were utilized for the payment of services prohibited by federal guidelines. Assurances were sent to and received from all recipient funding agencies regarding federal guidelines banning smoking where services were provided to children and youth in order to be in compliance with this regulation.

As of July 1, 1996, monitoring of all grant recipient agencies was initiated by the Division of Mental Health Services. The submission of a budget and program/service plans was required contractually and obtained by DMHMR for approval prior to the payment of any invoice for reimbursement for actual qualifying expenditures against all grants issued by the Division. This activity was not limited to recipients of Block Grant funding. Further, on site monitoring visits occurred during the fiscal year against monitoring tools developed by Division staff which included performance outcome measures. Agencies received reports detailing the conclusions based on the monitoring visits and, where appropriate, were requested to modify the service delivery system to meet the standard expectation of services as designated by DMHMR. This system has since been refined during FY 97-98 and continues to be in place.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Mental Health and Mental Retardation filed its report with the Department of Audit on April 1, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Mental Health and Mental Retardation has corrected the previous audit finding concerning controls over obtaining IRS Forms W-4 and W-9 for the patients/residents participating in the sheltered workshop program.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning strengthening controls over performance evaluations and improving grant monitoring. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1996, the Department of Mental Health and Mental Retardation filed its compliance report and implementation plan on July 3, 1996, and for the year ended June 30, 1995, on June 3, 1995.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Mental Health and Mental Retardation divisions and allotment codes:

Fiscal Year 1996

339.01	Administration
339.05	Mental Health Services Administration
339.08	Community Mental Health Services
339.09	Non-TennCare Mental Health Services
339.10	Lakeshore Mental Health Institution
339.11	Middle Tennessee Mental Health Institution
339.16	Moccasin Bend Mental Health Institution
339.17	Memphis Mental Health Institution
339.21	Mental Retardation Administration
339.22	Developmental Disabilities Services
339.23	Community Mental Retardation Services
339.24	Regional Offices of Community Services
339.26	Clover Bottom Developmental Center
339.27	Greene Valley Developmental Center
339.28	Winston Developmental Center
339.29	Harold W. Jordan Habilitation
339.40	Major Maintenance—Equipment

Executive Order 9 transferred the management and operation of Arlington Developmental Center and the West Tennessee Office of Community Services to the Department of Finance and Administration effective February 7, 1996. In addition, Executive Order 10 transferred the management and operation of Clover Bottom, Greene Valley, and Nat T. Winston Developmental Centers and the Middle and East Tennessee Offices of Community Services (as well as the Central Office Programmatic and Administrative Support within the Division of Mental Retardation) to the Department of Finance and Administration effective October 14, 1996.

Fiscal Year 1995

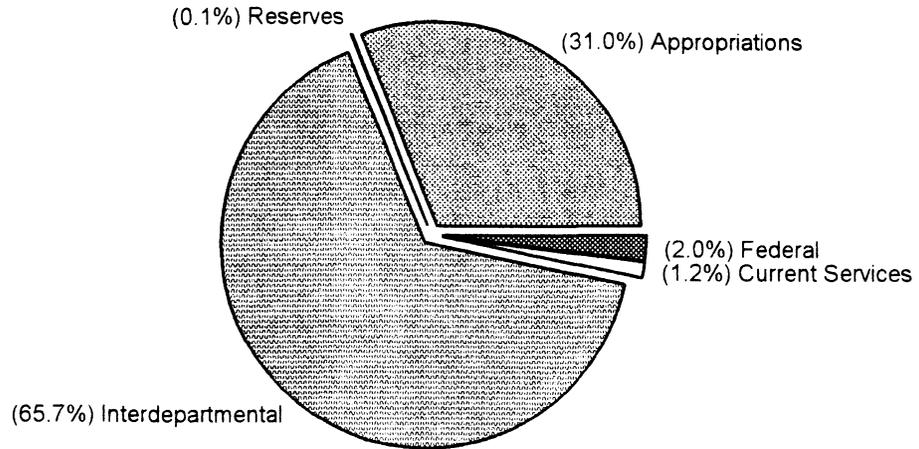
339.01	Administration
339.05	Mental Health Services Administration
339.08	Community Mental Health Services
339.10	Lakeshore Mental Health Institution
339.11	Middle Tennessee Mental Health Institution
339.12	Western Mental Health Institution (continued on next page)

Fiscal Year 1995 (Cont.)

339.16	Moccasin Bend Mental Health Institution
339.17	Memphis Mental Health Institution
339.21	Mental Retardation Administration
339.22	Developmental Disabilities Services
339.23	Community Mental Retardation Services
339.24	Regional Offices of Community Services
339.25	Arlington Developmental Center
339.26	Clover Bottom Developmental Center
339.27	Greene Valley Developmental Center
339.28	Winston Developmental Center
339.29	Harold W. Jordan Habilitation
339.40	Major Maintenance—Equipment

Revenue by Source

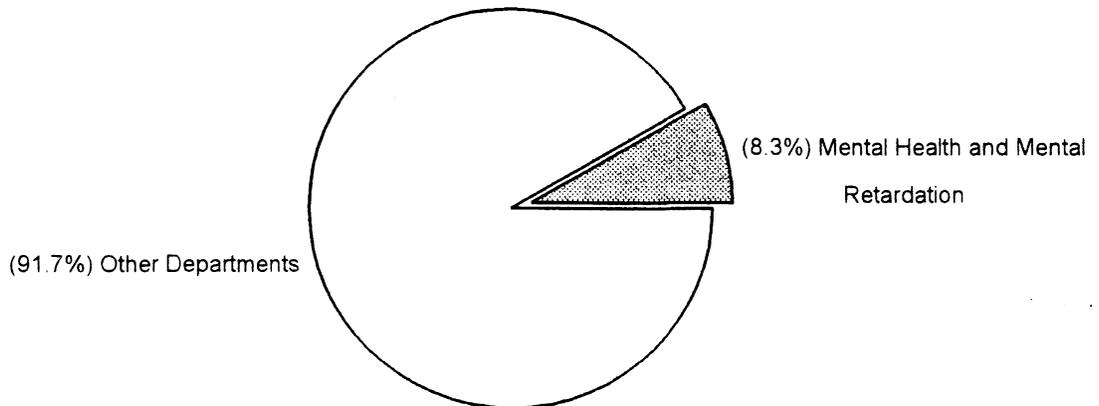
Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Department of Mental Health and Mental Retardation

General Fund Expenditures

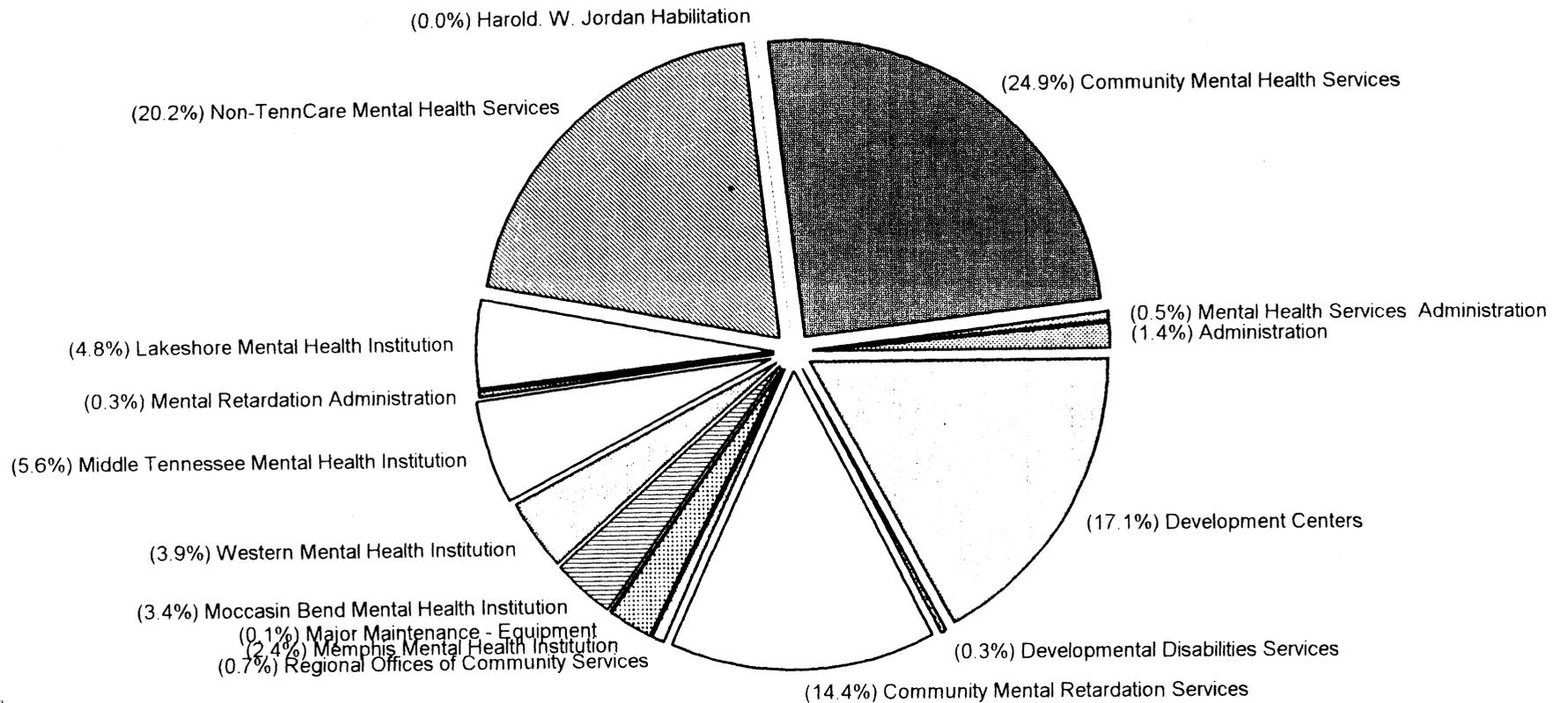
Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Expenditures by Allotment & Division

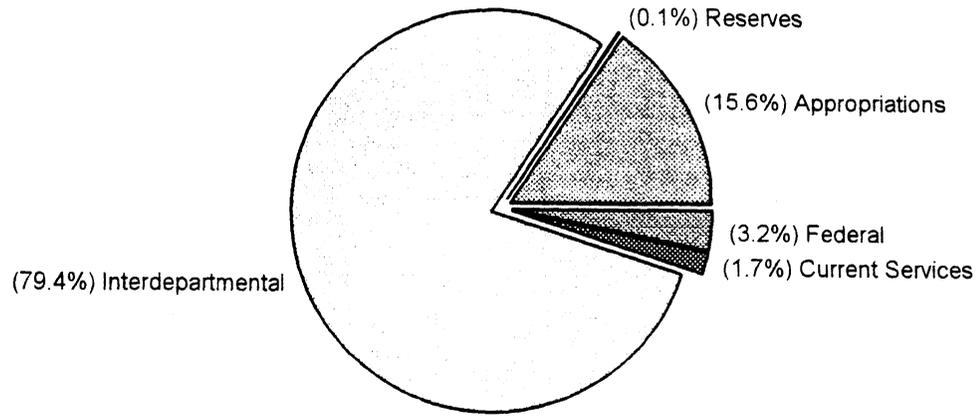
Fiscal Year Ended June 30, 1996 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Revenue by Source

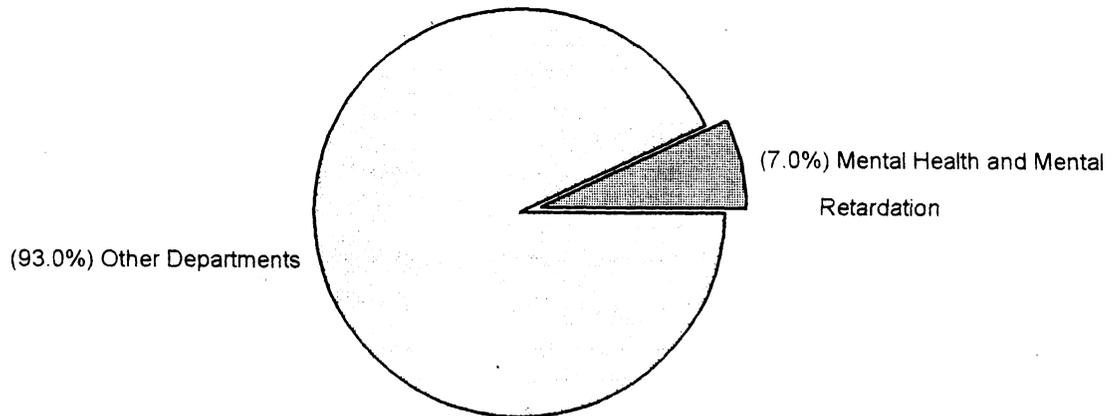
Fiscal Year Ended June 30, 1995 (Unaudited)



Source: Department of Mental Health and Mental Retardation

General Fund Expenditures

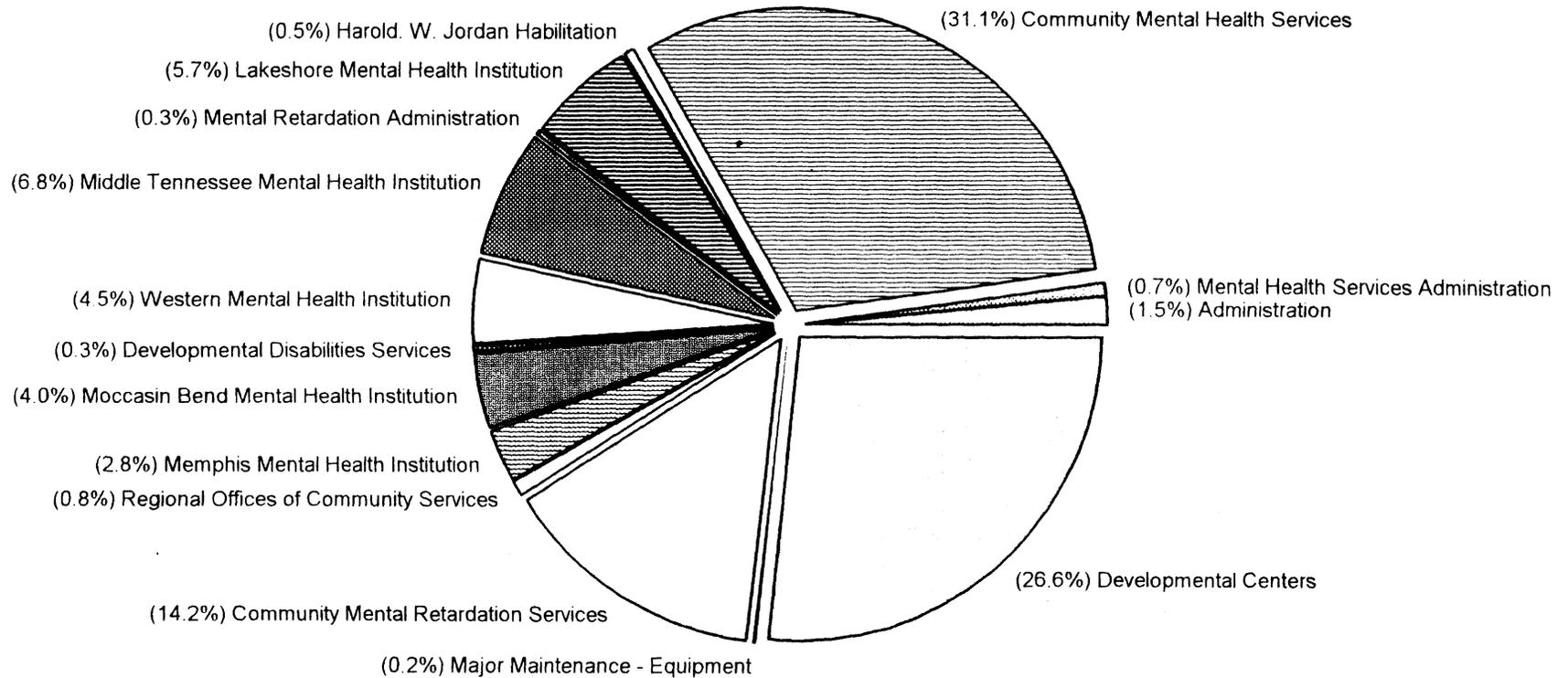
Fiscal Year Ended June 30, 1995 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Expenditures by Allotment & Division

Fiscal Year Ended June 30, 1995 (Unaudited)



Source: Department of Mental Health and Mental Retardation