

Department of Mental Health and Mental Retardation

**For the Years Ended
June 30, 1998, and June 30, 1997**

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John G. Morgan
Comptroller

December 20, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Elizabeth Rukeyser, Commissioner
Department of Mental Health and Mental Retardation
Cordell Hull Building, Third floor
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, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 policies, procedures, laws, and regulations significant to the audit. Management of the Department of Mental Health and Mental Retardation is responsible for establishing and maintaining internal control 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.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
99/072

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, 1998, and June 30, 1997

AUDIT SCOPE

We have audited the Department of Mental Health and Mental Retardation for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of management of the department, revenue, expenditures, TennCare, trust funds, maintenance benefits, administrative leave, signature authorization procedures, performance evaluations, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The Department of Health and the Department of Mental Health and Mental Retardation Have Effectively Merged in the Absence of Legislative Authority

In the absence of legislative authority, the Department of Health and the Department of Mental Health and Mental Retardation have effectively merged departmental functions (page 4).

Payments to Treatment Facilities for Transferred Conservatorships Were Made Without Proper Support

Payments made to subsequent treatment facilities on behalf of former residents of Lakeshore Mental Health Institute are not supported by invoices (page 9).

Policies Governing Residents' Cash Were Not Followed at Western Mental Health Institute

Staff at Western Mental Health Institute did not follow restricted fund policy governing residents' cash (page 10).

Signature Authorization Procedures Are Not Adequate

The department has not accurately completed signature authorization forms. The department is required to submit a signature authorization form covering each of its allotment codes. The form documents the signatures of the employees authorized to sign for the department head and budget/fiscal officer (page 12).

Controls Over Performance Evaluations Need Strengthening

As noted in seven previous audits, the department has not complied with personnel policies requiring employee performance evaluations (page 13).**

** 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

Comptroller of the Treasury, Division of State Audit
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Audit Report
Department of Mental Health and Mental Retardation
For the Years Ended June 30, 1998, and June 30, 1997

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Department of Mental Health and Mental Retardation For the Years Ended June 30, 1998, and June 30, 1997

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.

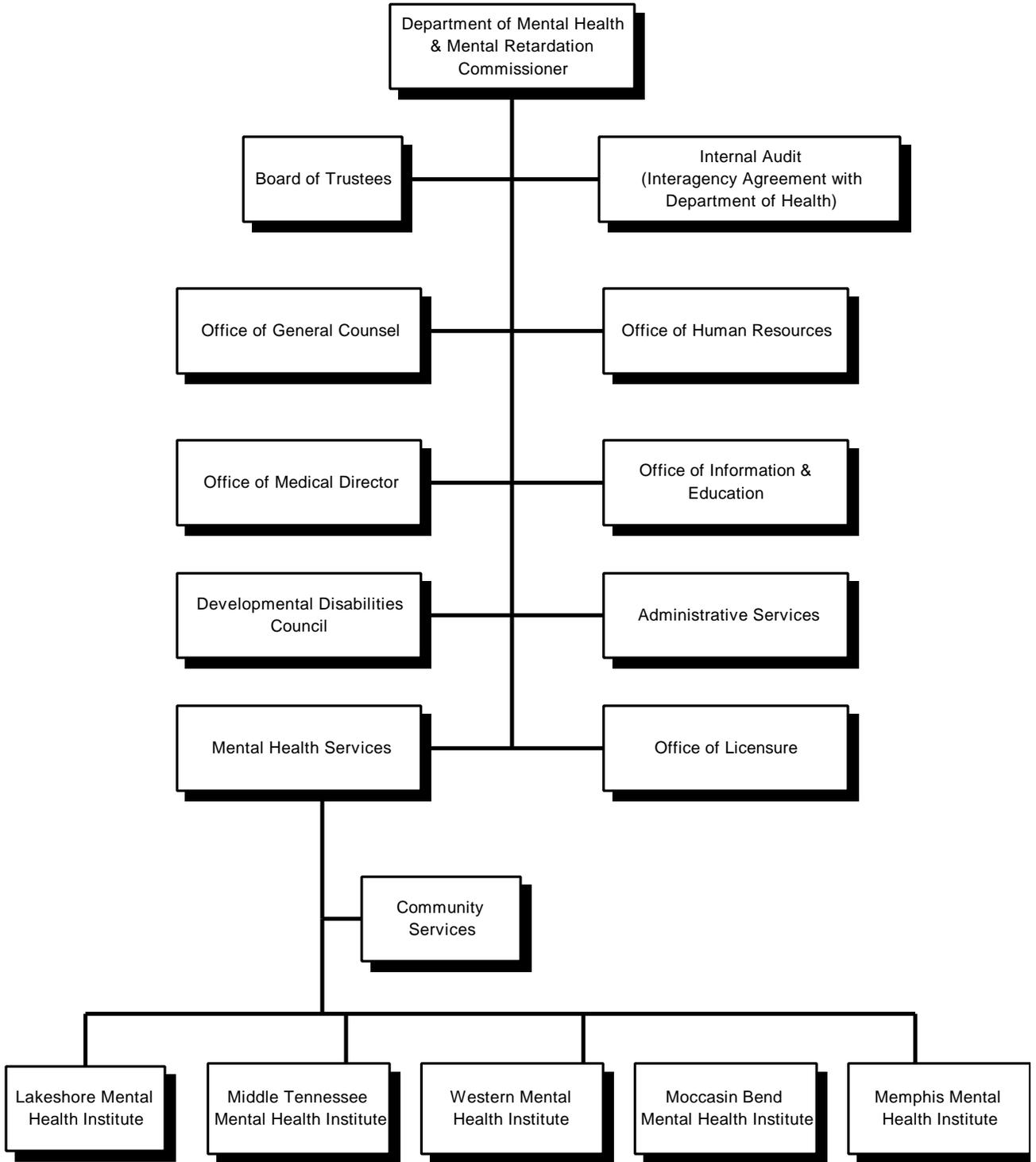
BACKGROUND

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 the citizens with a system of prevention and early intervention, treatment, habilitation, 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.

Executive Order 9 transferred the management and operation of Arlington Development 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 Arlington, Cloverbottom, Greene Valley, and Nat. T. Winston Development Centers and the Middle and East Tennessee Offices of Community Services to the Department of Finance and Administration, effective October 14, 1996. Included in this transfer was the Central Office Programmatic and Administrative Support within the Division of Mental Retardation.

An organization chart of the department is on the following page.

Department of Mental Health and Mental Retardation



AUDIT SCOPE

We have audited the Department of Mental Health and Mental Retardation for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of management of the department, revenue, expenditures, TennCare, trust funds, maintenance benefits, administrative leave, signature authorization procedures, performance evaluations, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

MANAGEMENT OF THE DEPARTMENT

Our primary objective was to evaluate the control environment of the department. Top management is responsible for establishing an effective control environment, which is the foundation for all other components of internal control: risk assessment; control activities; information and communication; and monitoring. Statement on Auditing Standards Number 78 (SAS 78), "Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55," states,

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

SAS 78 lists the following "control environmental factors":

- integrity and ethical values;
- commitment to competence;
- management's philosophy and operating style;
- organization structure; and
- assignment of authority and responsibility.

We determined whether management had established an effective control environment. Specifically, we determined if management had established an appropriate organizational structure

including sound and clearly drawn lines of authority and responsibility. We also determined if management had set the proper “tone at the top.”

We determined that the Department of Health and the Department of Mental Health and Mental Retardation had effectively merged in the absence of legislative authority. (See finding 1 for more information about the merger of the departments.)

1. The Department of Health and the Department of Mental Health and Mental Retardation have effectively merged in the absence of legislative authority

Finding

In the absence of legislative authority, the Department of Health (Health) and the Department of Mental Health and Mental Retardation (DMHMR) have merged departmental functions, effectively abolishing DMHMR as an independent department. In February 1997, the administration proposed to transfer the functions, duties, responsibilities, and authority of the DMHMR to Health in bills filed in the General Assembly (Senate Bill 1925, House Bill 1827). The bills were considered during the 1998 legislative session and subsequently withdrawn after lengthy discussions and testimony from administration officials and numerous advocacy groups. These bills would have abolished DMHMR.

In response to a legislative inquiry regarding the transfer of responsibilities and functions assigned by statute from DMHMR to Health by an executive order in the absence of legislation, the Attorney General and Reporter issued Opinion No. 98-041 on February 9, 1998. This opinion stated, “The governor does not have the authority to abolish a statutorily created department.”

In early 1998, management of both departments developed a five-year interdepartmental agreement, which effectively combined and/or co-located the staff of the two departments. The contract was signed by both commissioners, and approved by the Commissioner of the Department of Finance and Administration. In April 1998, the agreement was submitted to the Comptroller of the Treasury for approval because it was a multi-year agreement. The Comptroller’s Office asked the Attorney General and Reporter for an opinion on whether it would be legal for the departments to enter into this interdepartmental agreement. The Attorney General has answered, “The agreement’s proposed ‘co-location’ of staff is not expressly authorized by any statutes we have identified and appears inconsistent with certain statutory requirements. The configuration of attorneys would violate Tenn. Code Ann. 8-6-301(a), which this Office interpreted in Op. Tenn. Atty. Gen. 97-001 (January 6, 1997).” Under the circumstances, the Comptroller has not approved the agreement.

However, as early as January 1997, in anticipation of the merger, management of the departments coordinated activities and consolidated staff in several areas.

Staff were consolidated into seven major functional areas: (1) budget and finance—February 1998; (2) information systems—December 1997; (3) internal audit—March 1997; (4) legal services—January 1997; (5) licensure and regulations—November 1997; (6) personnel—November 1997; and (7) policy, planning, and assurance—March 1998. Staff for five of the functional areas noted above have been physically located together (co-located), and staff for the remaining two areas have been combined. The offices of the Commissioners of Health and DMHMR, however, are located in separate buildings.

Six of the seven functional areas (all except information systems) have a single director who supervises the consolidated staff. The directors of budget and finance, internal audit, licensure and regulations, and personnel are Health employees and report to both the Commissioner of Health and the Commissioner of DMHMR, depending on which department is affected by a particular issue. The director of the combined policy, planning, and assurance staff is a DMHMR employee but reports to the State Health Officer. The general counsels of each department report directly to their respective commissioners. However, Health's general counsel appears to play a facilitating role between the legal staff of the two departments, assisting in interagency communications on legal issues that affect both departments.

Health's Director of Internal Audit uses combined staff not only to perform audit work for his department, but also, under annual contracts, to perform audit work for DMHMR in the mental health area, and the Department of Finance and Administration in the mental retardation area. If the lines of authority and responsibility are not clearly established for each department's internal audit function, the internal audit function may not provide unbiased audits and recommendations to management.

Although the General Assembly did not enact the proposed legislation to merge these two departments, the merger has effectively occurred because of the consolidation of departmental functions and staff.

A department's organizational structure provides the framework within which its activities for achieving department-wide objectives are planned, executed, controlled, and monitored. Without a clear delineation of the departments' internal control systems and organizational structure, management cannot be assured of effective and efficient operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Recommendation

The departmental functions of Health and Mental Health and Mental Retardation should not be merged without legislative authority. The organizational structure and internal control systems for each department should be conducive to the needs of each department in terms of its mission. The departments should establish and maintain a relevant organizational structure which includes consideration of key lines of authority and responsibility and appropriate lines of reporting.

Management's Comment

We do not concur.

The Department of Mental Health and Mental Retardation agrees that the Department of Health and the Department of Mental Health and Mental Retardation must have legislative authority in order to merge functions. The Departments have not effected such a merger.

The functional areas of Budget and Finance, Information Systems, Legal Services, Licensure, and Personnel for both departments are physically located in proximity to each other, the staff of each of the departments have not merged. There are clear reporting lines from the staff to the Commissioner of the Department in which the individual was hired. There is a managerial level person in each department supervising each functional area who reports to the Commissioner in that same department, e.g. there is a Director of Budget and Finance in the Department of Health who reports to the Commissioner of Health and there is an Administrative Services Director, with similar responsibilities, in the Department of MHMR who reports to the Commissioner of DMHMR. Staff of the Department of Health conduct the work of the Department of Health and staff of the Department of Mental Health and Mental Retardation conduct the work of the Department of Mental Health and Mental Retardation. Performance Evaluations of staff are conducted by the supervisory staff in the Department in which the individual was hired. However, managers and staff of the functional areas in both departments sometimes meet with each other to discuss common issues and solutions to problems of common interest—a practice in State government as a whole.

With regard to Policy, Planning and Assurance, the Department agrees that the director is a DMHMR employee who reported to the State Health Officer, that the staff supervised are both Health and DMHMR staff and that certain DMHMR staff were conducting work for the Department of Health. As a result of this review, appropriate actions are being taken to insure DMHMR staff will report to a DMHMR supervisor.

As a result, the Interdepartmental Agreement which has never been fully implemented will be terminated.

Internal Audit is covered by a separate Interdepartmental Agreement, for a function that does not exist in DMHMR. All employees reporting to the Director of Internal Audit are Department of Health employees. The Department of Mental Health and Mental Retardation is contracting with the Department of Health to provide audit services. Appropriate payment will be made by DMHMR to the Department of Health for these services.

Rebuttal

The March 1999 Performance Audit of the Department of Health released by the Division of State Audit describes the extent of actual consolidation between these departments as recent as the reorganization in February 1999.

REVENUE

The objectives of our review of the revenue controls and procedures in the Department of Mental Health and Mental Retardation's central office and the five mental health institutes were to determine whether

- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year,
- physical controls over cash were adequate,
- revenues or fees were billed or charged and recorded at the correct amount, and
- petty cash or change funds were authorized by the Department of Finance and Administration.

We interviewed key personnel to gain an understanding of the department's procedures and controls over revenues. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of revenue transactions, and petty cash funds were counted and verified.

We had no findings related to revenues; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EXPENDITURES

The objectives of our review of the expenditure controls and procedures in the Department of Mental Health and Mental Retardation's central office and five mental health institutes were to determine whether

- recorded expenditures for goods or services were authorized and received,
- expenditures incurred for goods or services were identified and properly recorded,
- payments were made in a timely manner,

- auditee records were reconciled with Department of Finance and Administration reports,
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations, and
- contracts were made in accordance with regulations and contract terms.

We interviewed key personnel to gain an understanding of the department's procedures and controls over expenditures. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of expenditure transactions.

We had no findings related to expenditures.

TENNCARE

The objectives of our review of the TennCare controls and procedures in the Department of Mental Health and Mental Retardation were to determine whether

- the department has adequate procedures in place to ensure its responsibilities were performed in accordance with the TennCare Partners Program agreement;
- individuals suffering from severe, persistent mental illness were properly classified; and
- individuals classified as "forensic" were assigned to a behavioral health organization.

We interviewed key personnel to gain an understanding of the department's procedures and controls over TennCare. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on a sample of individuals suffering from severe, persistent mental illness and individuals classified as forensic.

We had no findings related to TennCare; however other minor weaknesses came to our attention which have been reported to management in a separate letter.

TRUST FUNDS

The objectives of our review of the trust fund controls and procedures in the Department of Mental Health and Mental Retardation were to

- document controls over specific purpose funds, including trust funds;

- determine if the auditee upheld its fiduciary duty to properly administer and account for patient funds by ensuring expenditures were properly supported and approved and revenues were properly credited to the trust fund accounts;
- determine if the specific purpose subsidiary accounts were reconciled to the control account and determine the propriety of any reconciling items;
- review bank reconciliations for propriety;
- determine procedures used to compute patient payroll; and
- review the procedures and process of allocating interest to the various specific purpose accounts.

We interviewed key personnel to gain an understanding of the department's procedures and controls over trust fund transactions. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on samples of trust fund transactions.

We determined that payments to treatment facilities were not adequately supported at the Lakeshore Mental Health Institute and the procedures over cash boxes at Western Mental Health Institute were not followed, as discussed in findings 2 and 3.

In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

2. Payments to treatment facilities for transferred conservatorships were made without proper support

Finding

Management of Lakeshore Mental Health Institute (LMHI) has not upheld its fiduciary responsibility for residents' trust funds when residents have left the state institution and transferred to a community group home or other treatment facility. Specifically, Lakeshore MHI's fiscal management has not obtained proper supporting documentation from the group homes/treatment facilities before a resident's funds are forwarded to the facility to support the resident's care.

Normally when a Lakeshore resident transfers to a group home or other treatment facility, fiscal management transfers any funds a resident has on deposit at the institution to that facility. However, if Lakeshore Mental Health Institute has been made the legal conservator for the resident, the institute appropriately continues to pay bills for the patient until the conservatorship has been formally transferred to another party (the group home/treatment facility).

Testwork revealed that conservatorship payments were made to treatment facilities based solely on a telephone call from the facility. For example, when a telephone request from a

treatment facility is received at LMHI, the resident's LMHI social worker is contacted and asked to fill out a request for payment on behalf of the former resident. The social worker and a representative of the fiscal office approve the request and a check is prepared and forwarded to the treatment facility.

Without obtaining proper supporting documentation including court orders for expenditures of former patients' funds, Lakeshore Mental Health Institute staff have not exercised appropriate fiduciary responsibility and may authorize inappropriate trust fund expenditures.

Recommendation

The Lakeshore Mental Health Institute Superintendent should require all expenditures made from the resident trust fund accounts to be supported with an invoice or receipt.

Management's Comment

We concur. All disbursements from the Resident Trust Fund will be supported by the appropriate documentation.

3. Policies governing residents' cash were not followed at Western Mental Health Institute

Finding

Western Mental Health Institute provides residents opportunities to manage their own spending money for purchases of food items and other small discretionary items available from vending machines or the institute's canteen. The WMHI's Restricted Fund Policy governs these activities and specifically requires a locked cash box to secure spending money for residents who may need assistance in managing their funds. Within the locked cash box, each resident's money is to be placed in an envelope that is labeled by name and amount. The envelope would also reflect additions and withdrawals of the resident's money. The policy also requires that balances in the envelopes not exceed \$20.00 per week.

Testwork revealed that WMHI staff were not maintaining the envelopes as required by policy. The auditors observed that envelopes were not appropriately labeled as to the amount of cash on hand, and in some cases the envelopes contained more than the allowable weekly amount of \$20.00. Because cash is highly susceptible to misappropriation, good internal control over residents' cash is essential to ensure that residents' funds are protected.

Recommendation

Although no material cash balances were involved, the Superintendent should be sensitive to the fiduciary responsibility and ensure that all staff are aware of the restricted fund policy and that the policy is enforced.

Management's Comment

We concur. Employees will be instructed regarding the policies and procedures governing accounting for residents' personal funds. Policies will be strictly enforced.

MAINTENANCE BENEFITS

The objectives of our review of the controls and procedures over maintenance benefits provided to employees were to determine whether

- maintenance benefits were provided to employees under the proper authority,
- maintenance benefits were restricted to the employees allowed under state policy,
- the required forms were completed by applicable employees, and
- a complete list of employees receiving maintenance benefits and the amount of their benefits were provided to the Department of Finance and Administration in a timely manner.

We interviewed key personnel to gain an understanding of the department's procedures and controls over maintenance benefits. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on maintenance benefits provided to employees.

We had no findings related to maintenance benefits; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

ADMINISTRATIVE LEAVE

Our work in the area of administrative leave consisted of

- obtaining explanations for employees placed on administrative leave with pay during the audit period, and
- determining if employees were on administrative leave for an excessive amount time.

We interviewed key personnel to obtain explanations for employees placed on administrative leave with pay. We also reviewed supporting documentation for the explanations provided.

We had no findings related to administrative leave; however, a weakness came to our attention which has been reported to management in a separate letter.

SIGNATURE AUTHORIZATION PROCEDURES

Signature authorization procedures were examined during the audit of the 1998 Comprehensive Annual Financial Report (CAFR). During this examination, testwork was performed on signature authorization forms submitted to the Department of Finance and Administration by the Department of Mental Health and Mental Retardation. This testwork revealed that signature authorization procedures for the Department of Mental Health and Mental Retardation are not adequate.

4. Signature authorization procedures are not adequate

Finding

The department has not properly completed signature authorization forms. Signature authorization forms are required to be prepared by each state department and filed with the Department of Finance and Administration, Division of Accounts. These forms are used by the Division of Accounts to ensure that each department's accounting transactions are properly approved at the department level. The forms document the signatures of employees authorized to sign for the department head and budget/fiscal officer, and the forms require the approval of the fiscal officer and department head, thereby reflecting the necessary degree of control.

A review of the department's signature authorization forms on file at the Division of Accounts disclosed errors regarding the department head listed for the Mental Health Institutes. The superintendent of each facility signed as the department head. However, each department has only one department head, and that person's signature or name as signed by an authorized individual must be affixed to all documents requiring the department head's approval.

Furthermore, the signature authorization forms for the state's developmental centers showed the Department of Mental Health and Mental Retardation officials as the department head

and budget/fiscal officer. However, the developmental centers were moved by executive order from the Department of Mental Health and Mental Retardation to the Department of Finance and Administration on February 17, 1996, (Executive Order 9-Arlington) and October 14, 1996, (Executive Order 10-all others). In addition, the Department of Mental Health and Mental Retardation has altered the form from the regular format to include two department heads and two fiscal officers.

Recommendation

The Commissioner should ensure that properly completed signature authorizations forms are submitted to the Division of Accounts at least annually.

Management's Comment

We concur. Revised Signature Authorization Forms have been completed and forwarded to the Division of Accounts. Authorized signatures will be updated as required, but not less than annually.

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 the prior finding, we examined a sample of employee files for completed performance evaluations. Testwork revealed ongoing problems.

5. Controls over performance evaluations need strengthening

Finding

As noted in the last seven audits, the department has continued to not comply with state personnel policies requiring periodic employee performance evaluations. The Department of Personnel's rules require that each career service employee's performance be evaluated at least every 12 months. Management concurred with the prior audit recommendations and stated the

personnel division is in the process of implementing a performance evaluation tracking system. However, this system was not implemented until February of 1999.

A review of 24 personnel files with evaluations due during the period July 1, 1996, to June 30, 1998, disclosed that 17 employees (71%) had not been evaluated in a timely manner. Seven of these had not had performance evaluations in over four years, and three had not had an evaluation in over nine years.

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. As a part of the Department's Strategic Plan, the Office of Human Resources has facilitated improved participation in the Employee Performance Evaluation Program. By July 1, 2000, the Department's objective is to achieve a 25% increase in overdue evaluations. In order to achieve this goal, the Office of Human Resources has been closely monitoring these overdue evaluations, on a monthly basis.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to annually evaluate its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the Department of Mental Health and Mental Retardation's compliance with the Financial Integrity Act were to determine whether

- the department’s reports were filed in compliance with the Financial Integrity Act of 1983,
- documentation to support the department’s evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act reports were submitted on time, and support for the reports was adequate.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
“RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Federal Financial Assistance and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and controls concerning Policy 20. We had no findings related to Policy 20.

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 October 1, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Mental Health and Mental Retardation has corrected previous audit findings concerning the department's ineffective internal audit function and grant monitoring.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning strengthening controls over performance evaluations. This finding has not been resolved and is repeated in the applicable section 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. The Department of Mental Health and Mental Retardation filed its compliance report and implementation plan on June 30, 1998, and on July 1, 1997.

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.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

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

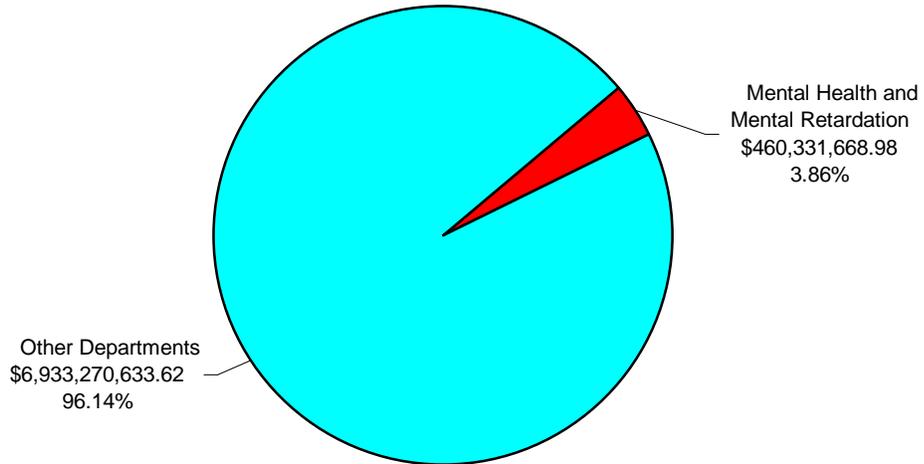
DIVISIONS AND ALLOTMENT CODES

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

- 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 Institute
- 339.11 Middle Tennessee Mental Health Institute
- 339.12 Western Mental Health Institute
- 339.16 Moccasin Bend Mental Health Institute
- 339.17 Memphis Mental Health Institute
- 339.21 Mental Retardation Administration
- 339.22 Development/Disabilities Services
- 339.23 Community Mental Retardation Services
- 339.40 Major Maintenance

General Fund Expenditures

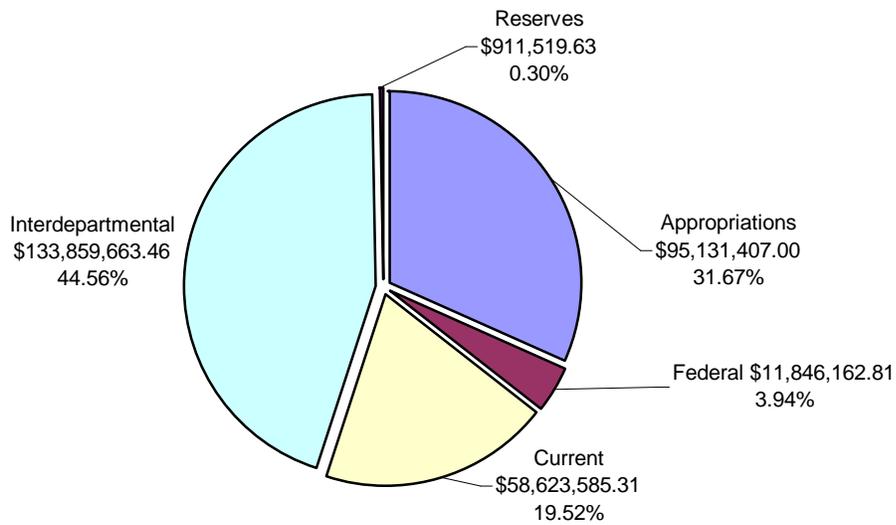
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Funding Sources

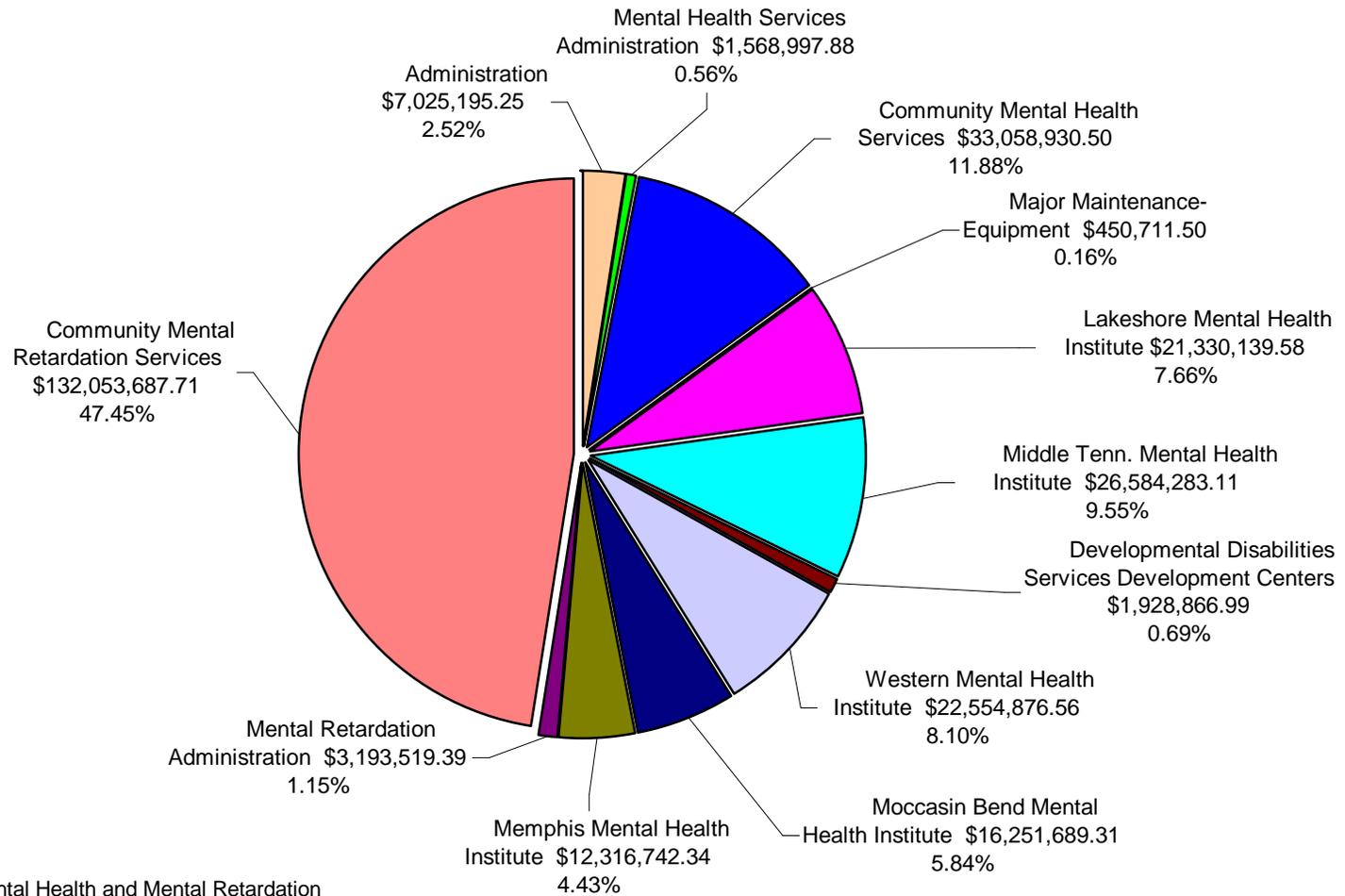
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Department of Mental Health and Mental Retardation Expenditures by Allotment & Division

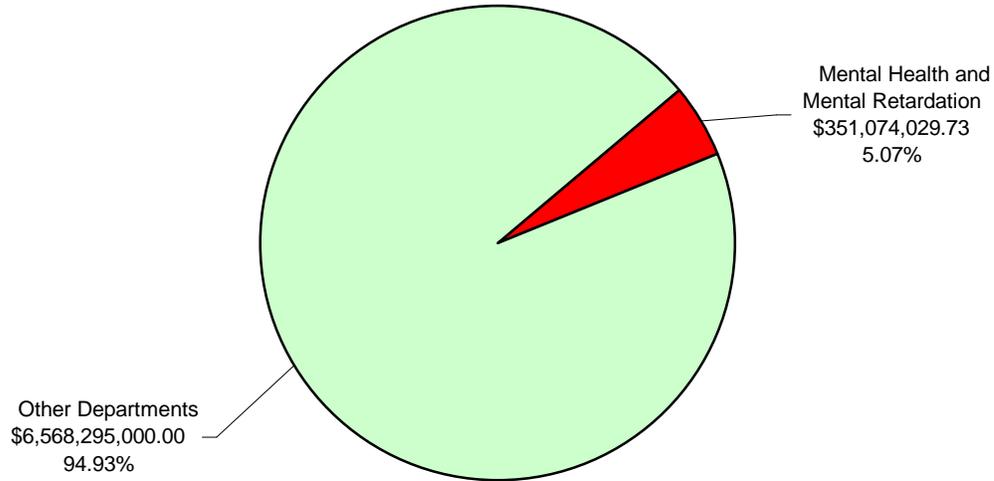
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Mental Health and Mental Retardation

General Fund Expenditures

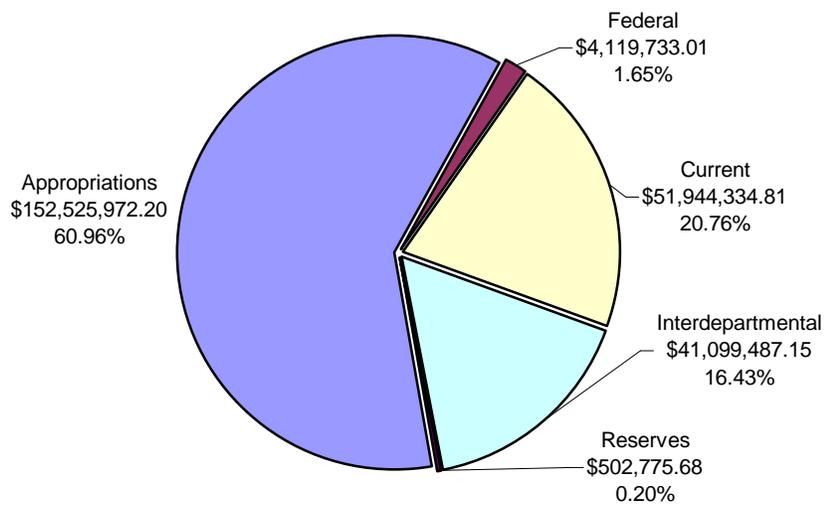
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Funding Sources

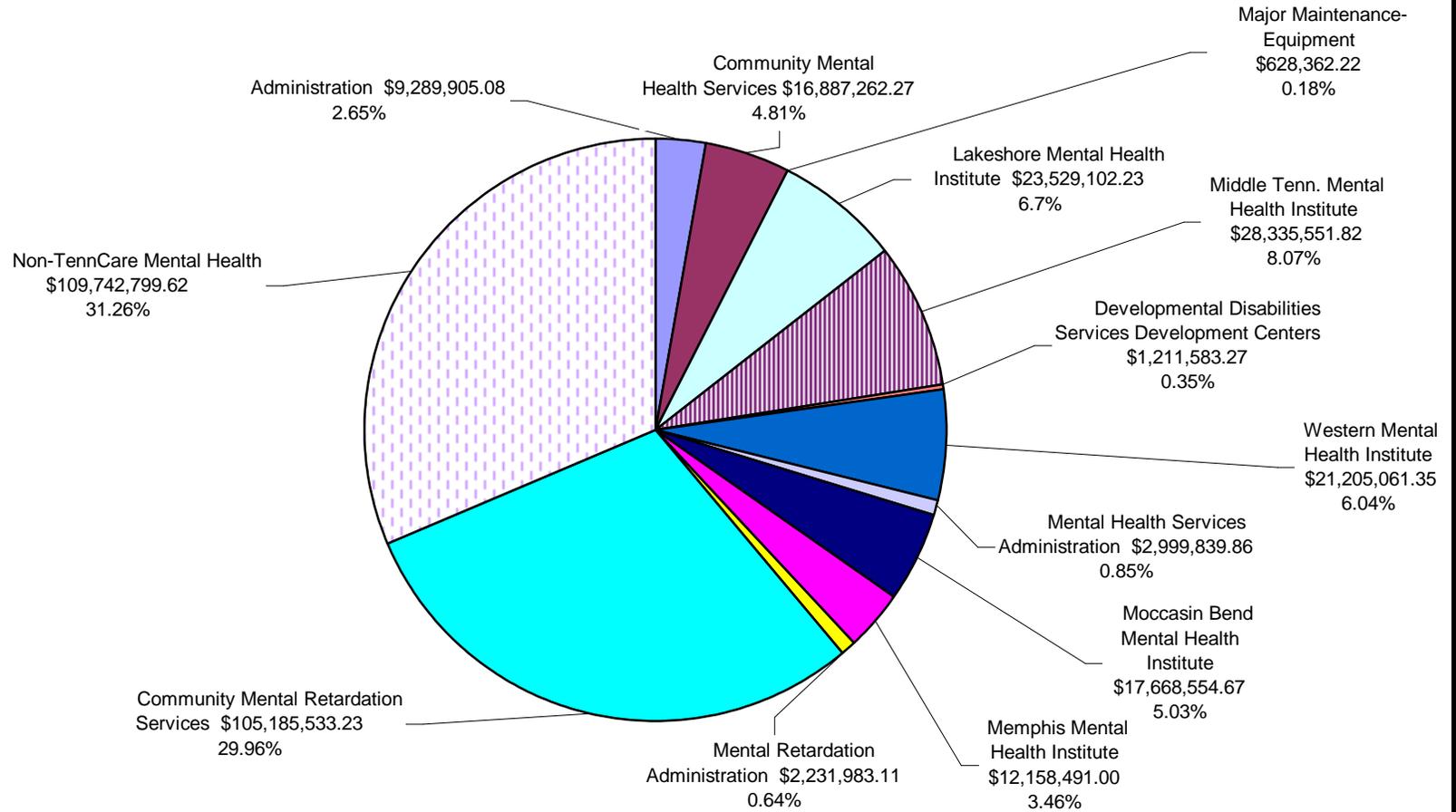
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Mental Health and Mental Retardation

Department of Mental Health and Mental Retardation Expenditures by Allotment & Division

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Mental Health and Mental Retardation