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UNITED STATES GENERAL ACCOUNTING OFFICE

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HUMAN RESOURCES DIVISION

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JUNE 30, 1981

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The Honorable William L. Clay
House of Representatives

Dear Mr. Clay:

Subject: Appropriateness of Missouri's Mingling of Medicaid Reimbursement Funds with State General Revenue Funds (HRD-81-105)

In your March 13, 1981, letter, you requested information on several questions related to the recent 10-percent State budget reduction in Missouri and the resultant dismissal of more than 1,000 employees of the State Department of Mental Health. Your questions involved whether it was legal for Missouri to count Medicaid payments for services provided by the Department of Mental Health as revenue to the State general fund and whether this practice exacerbated cuts in patient care.

We reviewed the Medicaid law and regulations and discussed the questions with officials of the Department of Health and Human Services in Washington, D.C., and its regional office in Kansas City, Missouri. We also spoke with State officials from the Department of Mental Health and the Office of the State Auditor in Jefferson City, Missouri. In addition, we reviewed applicable State documents and practices.

We concluded that the State's handling of Medicaid payments to its Department of Mental Health was permissible under Federal law and regulations. Also, while the budget cuts had a dramatic impact on the Department, the impact was expected to be relatively short lived, with most of the reduction in employees being restored.

The Missouri Department of Mental Health receives State-appropriated general revenue funds to finance most of its operations. Any income for mental health services covered by Medicaid (or Medicare) is considered a reimbursement to the State for those services and is credited to the general revenue account. Thus, Medicaid payments received by the Department go dollar for dollar for patient services. Missouri, or any State, can legally combine

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Federal Medicaid payments with State general revenue funds, and most States use such payments to reimburse general revenue accounts. State legislatures prefer appropriating State agencies' budgets from general revenues because it allows them to exercise more control over agency expenditures regardless of the source of funds.

The Governor of Missouri applied a 10-percent cutback to State agency expenditures derived from State general revenues. Whether this cutback resulted in a disproportionate reduction in mental health services depends on the definition of "State general revenues." Of the $215.2 million mental health budget considered to be derived from State revenues, $4.5 million was anticipated Medicare reimbursements and $31.7 million was anticipated Medicaid reimbursements. Had these anticipated reimbursements not been considered State general revenue, the budget reduction for mental health services would have theoretically been $3.62 million less ($36.2 million X 10 percent). The Governor did exempt from budget cuts $28.0 million of general revenue funds appropriated to the Department to assure that the community placement of patients under the mental health deinstitutionalization program was continued in order to avoid the return of patients to more expensive institutional care. Without this exemption, the budget reduction would have been $2.8 million more.

Officials of the Department of Mental Health expected that, in the near future, about 900 of the 1,150 employees laid off as a result of the budget cuts would be rehired and that most of the services eliminated would be restored. Thus, most of the effects of the budget cuts would have been temporary. However, on June 22, 1981, Governor Bond announced that he was cutting the State's budget for fiscal year 1982 (which begins July 1, 1981) by 10 percent. We contacted the Department of Mental Health on June 23 to determine the impact of this announcement on its plans to rehire employees and reinstitute services reduced by the prior 10-percent cut. We were told that the rehiring probably would not be possible, but more time would be needed to fully assess the impact of the fiscal year 1982 cut.

The enclosure to this letter summarizes the facts surrounding Missouri's mental health program budget cuts, the effect on personnel and services, and efforts to rehire people and restore those services before the June 22 announcement.

As arranged with your office, we plan no further distribution of this report until 7 days from its issue date unless you publicly announce its contents earlier. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Gregory J. Ahart
Director

Enclosure

MISSOURI'S DEPARTMENT OF MENTAL HEALTH

BUDGET CUTS, PERSONNEL REDUCTIONS,

AND PLANNED SERVICE RESTORATION

The Department of Mental Health (DMH) is the State agency charged with managing mental health care in Missouri. Its budget for State fiscal year 1981 (July 1, 1980-June 30, 1981) was originally established at about $237.8 million. This amount included $215.2 million appropriated from State general revenue funds and $22.6 million in income anticipated from other sources, including Federal reimbursement for services provided under title XX of the Social Security Act, various grants, and private donations. DMH anticipated that the State would recover about $36.2 million of its expenditures from State general revenue funds through other Federal reimbursements--$4.5 million from Medicare (title XVIII) and $31.7 million from Medicaid (title XIX).

From the inception of the Medicare and Medicaid programs through fiscal year 1978, Missouri segregated Federal payments received through those programs in a "General Revenue Fund-Federal" account, which could be spent by DMH. Those funds were used for various purposes, such as one-time expenses (for example, upgrading laboratories to meet accreditation standards) and operational costs. In determining budget appropriation levels needed from State funds, DMH deducted projected Federal income under Medicare and Medicaid from its total budget needs.

In fiscal year 1979, segregation of Medicare and Medicaid payments in the special Federal account was discontinued as a result of several reports by the State auditor, who criticized the level of control over receipts and disbursements to and from that account. As a result, Federal Medicare and Medicaid payments now go into the "General Revenue Fund-State" account and cannot be spent by DMH. In determining DMH budget appropriation levels needed from State funds, Medicare and Medicaid payments are no longer deducted from total budget needs in determining the amount of State general revenues to request. This practice allows the State legislature to exercise more control over agency expenditures regardless of the funding source.

At the direction of the State Department of Administration, DMH still maintains title XX funds in a special account, and they do not become part of State general revenues. A DMH official told us it was his understanding the Department of Administration insisted that title XX income be segregated as a means of assuring that expenditures for those services were commensurate with Federal reimbursements. In our opinion, there is little difference between Medicare and Medicaid income and title XX income. All three reimburse services provided by the State, and the State auditor criticized control over title XX funds at the same time he criticized control over Medicare and Medicaid funds.

BUDGET CUTS

Shortly after his inauguration in January 1981, Governor Bond announced that, because of projected shortfalls in State revenues, most State departments would be required to reduce their fiscal year 1981 expenditures by about 10 percent of those amounts derived from State general revenues. DMH was expected to reduce spending by about $18.7 million.

Other revenues ($22.6 million) were deducted from DMH's total budget before computing this amount since they are maintained in special accounts and are not considered State general revenue. Also exempted from the budget cuts was $28 million in State general revenue funds which represented payments for community placement of patients under the DMH deinstitutionalization program. This exemption was granted because the Governor wanted to assure that funds would be available for this program to avoid returning patients to more expensive institutional care.

The $18.7 million DMH spending cut was computed as follows.

	Amount (millions)
Total 1981 DMH budget	$237.8
Other revenues	- 22.6
Funded from State general revenues (as defined by State budget)	a/215.2
Governor's deinstitutionalization exemption	- 28.0
Amount to which 10-percent cut was applied	$187.2
10-percent budget cut ($187.2 X 10%)	$18.7

a/This includes $4.5 million in anticipated Medicare reimbursements and $31.7 million in anticipated Medicaid reimbursements.

SPENDING AND SERVICE REDUCTIONS

The $18.7 million budget reduction had a rather severe and immediate impact on DMH personnel and programs because it had to be absorbed over about a 4-month period (March-June 1981) rather than over a complete budget year. DMH's plan for reducing fiscal year 1981 expenditures was to make cuts in the following areas:

	Amount (millions)
Staffing reductions	$11.47
5-percent pay cut--remaining employees	2.38
Reduced fringe benefit costs due to above personnel actions	2.85
Eliminate capital improvements	1.00
	$17.70

The other $1 million in cuts originally levied by the Governor were canceled when DMH demonstrated that it would generate outside income of that amount which had not previously been included in projected State general revenue receipts.

The above cuts resulted in the layoff of about 1,150 DMH employees. The effect on DMH authorized staffing levels is shown below:

Authorized DMH staffing level-February 1981		12,222
Reductions:		
Vacant positions	250	
Layoffs	1,150	1,400
Approximate DMH staffing level-after reductions		10,822

A detailed list of reductions in service was not readily available; however, we were told that each DMH facility tried to absorb staffing reductions by eliminating support personnel rather than those involved in treatment. When treatment personnel had to be dismissed, facilities generally tried to select programs where Federal dollars would not be lost. According to a DMH spokesman, no major reductions in treatment services were made in programs for the mentally retarded. He said significant reductions in treatment services were generally limited to the following programs:

--Psychiatric youth centers at the St. Joseph and Farmington State hospitals were closed, and services at the centers in the Fulton and St. Louis hospitals were curtailed. (The fifth State hospital--Nevada--did not have a youth center.)

--Adult general psychiatric services were reduced through increased community placement and more stringent admissions requirements.

--Most medium-stay units in State hospitals and mental health centers associated with the DMH alcohol and drug abuse program were closed. The other type of service provided under this program--detoxification--was not affected.

PLANNED RESTORATION OF SERVICES

Based on anticipated additional income from new Medicaid program coverage and funding made available through deferral of scheduled capital improvements, DMH began rehiring personnel and restoring services in April 1981.

In early 1981 the Missouri legislature authorized (House Bill 894) the addition of two new types of mental health care to the State Medicaid Plan. These additions, which were retroactive to January 1, 1981, consisted of

--care for children under age 18 in intermediate care facilities for the mentally retarded and

--inpatient psychiatric care for children under age 21.

DMH was authorized by the Governor to expend Federal reimbursements for these services because this income had not been included when shortfalls were estimated. DMH estimated that the amount of Federal reimbursement for these services during fiscal year 1981 will be about $1.45 million. Later determinations of the Medicaid eligibility of patients in the above categories have disclosed that fewer patients may be eligible than previously anticipated and new Federal income may be somewhat less. DMH has also deleted some capital improvements remaining in its fiscal year 1981 budget after the 10-percent budget cut.

During April and May 1981, DMH authorized rehiring about 325 people and plans to rehire about 575 more in early fiscal year 1982. This plan of rehiring, which will reestablish approximately 900 positions, will bring staffing levels to within about 250 of staff on-board before the budget cuts.

According to DMH officials, the only major service which will not be reinstituted by early fiscal year 1982 is the youth center at the Farmington State hospital. Placements previously made at this facility will be made at facilities in St. Louis, about 70 miles north. The officials said the decision to not reopen the Farmington youth center was based primarily on accreditation problems.

The Governor's tentative guidelines for the fiscal year 1982 DMH budget indicate that funding will be approximately the same as originally authorized for fiscal year 1981--about $238 million. While the planned rehiring of personnel is somewhat contingent on anticipated Federal payments, DMH officials told us on June 15, 1981, that they are committed to the plan. They stated that, if anticipated Federal funds are not available, the Governor's office intends to support the mental health program with the necessary State funding.