Estimated Amount of Supplemental Legislative Funding Need and Recommendations for Enhancing Internal Controls Over Financial Reporting

Department of Mental Health, State of Oklahoma

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Date: May 15, 2025

Dear Stakeholders,

The Oklahoma Department of Mental Health is committed to delivering high-quality mental health services to our citizens while maintaining fiscal responsibility. This report estimates a $29,999,980 supplemental funding need for the fiscal year FY2025, based on actual usage through May 11, 2025. It also outlines 52 actionable recommendations to strengthen financial reporting, reduce errors, and mitigate fraud, ensuring accountability and compliance.

The estimate of $29,999,980 was derived from actual expenditures and revenues through May 11, 2025. The estimate reflects a best-effort projection with a reasonable margin of error, using historical data and trend analysis. No audit, review, or attestation services were performed. Actual needs may vary due to changes in service levels or unforeseen costs. Recommendations to strengthen internal controls over financial reporting were developed through interviews with the Agency and Office of Management and Enterprise Services (OMES) personnel, analysis of financial processes, and COSO best practices. These recommendations anticipate improving accuracy, compliance, and accountability in managing mental health services across state-owned and private facilities.

Key priorities include updating the ethical code, adopting modern accounting systems, and standardizing reimbursement processes. These changes will improve patient care by ensuring funds are used effectively, aligning with Oklahoma's mental health priorities. Implementation is phased over 18 months, with quick wins like enhanced training achievable in 2 months

I will be pleased to discuss this report with the stakeholders to assist in securing this funding and implement these controls, fostering a transparent and efficient Agency.

Thank you,

David Greenwell

David Greenwell, CPA, P.C.

Glossary of Key Terms

- **GAAP**: Generally Accepted Accounting Principles, standards for financial reporting.

- **GASB**: Governmental Accounting Standards Board sets accounting rules for state agencies.

- **COSO**: Committee of Sponsoring Organizations, a framework for internal controls.

- **CMS-1500**: Standardized form for billing healthcare services, ensuring consistency.

- **PeopleSoft AIS**: Accounting Information System for financial management and reporting.

Detailed explanations are in Appendix A.

Purpose

I was engaged to assist the Oklahoma Department of Mental Health (the Agency) in estimating supplemental legislative funding needed to offset the anticipated deficit for the fiscal year ending June 30, 2025. The estimate of $29,999,980 was derived from actual expenditures and revenues through May 11, 2025, with projections based on the following assumptions:

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Executive Summary

The Agency faces risks like billing errors, delayed reporting, fraud, and IT vulnerabilities in delivering mental health services. This report provides 52 recommendations across six COSO areas: Control of Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring Activities, and Financial Reporting and Compliance. Key actions include:

- Updating ethical guidelines to enhance protection of patient data and billing integrity.

- Adopting OMES' Compatible PeopleSoft AIS (Accounting Information System) for streamlined accounting.

- Standardizing procedures for reimbursements with CMS-1500 forms to reduce potential for fraud.

- Maximize revenue through reviews of including allowable indirect expenses in federal funding and ensure all patient services are properly invoiced.

Implementation is phased over 18 months, with quick wins like training updates in 2 months. The Agency will collaborate with OMES for shared services, minimizing costs. Appendix A explains terms like GAAP and CMS-1500.

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1. Control Environment

The control environment fosters integrity and accountability per COSO.

1.1 **Update Code of Conduct**: Revise to address possible ethical dilemmas and conduct quarterly training to enhance a culture of excellence. **Timeline**: 2 months. **Owner**: Executive Leadership.
1.2 **Strengthen Governance**: Appoint a board member with GASB expertise and CPA license. **Timeline**: 3 months. **Owner**: Executive Leadership.
1.3 **Hire CFO**: Seek a CFO with 5+ years of governmental accounting experience and CPA license. If delayed, engage a consultant interim within 1 month. **Timeline**: 3 months. **Owner**: HR.
1.4 **Hire Internal Auditor**: Seek an auditor with 3+ years of governmental auditing experience and CPA/CIA. Alternatively, fund CIA training for current staff, or seek assistance from other agencies. **Timeline**: 3 months. **Owner**: HR.
1.5 **Define Roles**: Document finance, procurement, and reimbursement roles in an organizational chart, ensuring segregation of duties. Review annually. **Timeline**: 3 months. **Owner**: Finance.
1.6 **Enhance Training**: Train staff on GAAP, GASB, and regulations using healthcare fraud case studies. Require annual refreshers. **Timeline**: 6 months. **Owner**: HR.
1.7 **Enforce Conflict Policies**: Require annual conflict-of-interest disclosures, reviewed by an independent committee. **Timeline**: 3 months. **Owner**: Compliance.
1.8 **Link Performance to Controls**: Tie evaluations to control adherence, with disciplinary actions for non-compliance. **Timeline**: 6 months. **Owner**: HR.
1.9 **Demonstrate Leadership Commitment**: Publish an annual public statement on ethical behavior. **Timeline**: 6 months. **Owner**: Executive Leadership.
1.10 **Engage Private Entities**: Mandate private entities to submit codes of conduct and attest to ethical standards. **Timeline**: 6 months. **Owner**: Procurement.

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2. Risk Assessment

Risk assessment mitigates financial reporting risks.

2.1 **Conduct Annual Assessment**: Perform a COSO-based assessment with finance, compliance, IT, and program input, visualized in Tableau/Power BI. Document in a risk register. **Timeline**: 6 months. **Owner**: Compliance.
2.2 **Specify Revenue Risks**: Document risks like grant deferrals, Medicaid misclassification, and proper use of indirect costs in federal reimbursement and grants. **Timeline**: 6 months. **Owner**: Finance.
2.3 **Mitigate Fraud Risks**: Assess red flags (e.g., multiple claims per patient daily, non-credentialed provider billing). **Timeline**: 6 months. **Owner**: Compliance.
2.4 **Assess IT Risks**: Conduct quarterly IT assessments for cybersecurity and data integrity. **Timeline**: 3 months. **Owner**: IT.
2.5 **Develop Risk Matrix**: Prioritize risks by likelihood and impact. Update annually. **Timeline**: 6 months. **Owner**: Compliance.
2.6 **Evaluate Private Entities**: Assess financial stability and audit history. **Timeline**: 6 months. **Owner**: Procurement.
2.7 **Target High-Risk Facilities**: Identify high-risk facilities for scrutiny. **Timeline**: 6 months. **Owner**: Compliance.
2.8 **Monitor Regulatory Changes**: Assess risks from Medicaid/state law changes. **Timeline**: 2 months. **Owner**: Compliance.
2.9 **Engage External Consultant**: Conduct biennial external assessments. **Timeline**: 12 months. **Owner**: Compliance.

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3. Control Activities

Control activities mitigate risks, segmented into general, reimbursement, facility/asset, and IT controls.

3.1 General Controls

3.1.1 **Segregate Duties**: Ensure no employee controls multiple transactions. Audit annually. **Timeline**: 3 months. **Owner**: Finance.
3.1.2 **Approve Transactions**: Require documented approval for reimbursements and payroll. **Timeline**: 3 months. **Owner**: Finance.
3.1.3 **Reconcile Accounts**: Reconcile ledger, bank accounts, and grants within 10 days of month-end. **Timeline**: 3 months. **Owner**: Finance.
3.1.4 **Digitize Records**: Digitize per HIPAA/state laws (7 years for Medicaid). Pilot in one facility by month 6. **Timeline**: 18 months. **Owner**: IT.

3.2 Reimbursement Controls

3.2.1 **Standardize Claims**: Require CMS-1500 templates with cost breakdowns and proof (e.g., de-identified treatment notes). **Timeline**: 6 months. **Owner**: Procurement.
3.2.2 **Automate Flagging**: Pilot machine-learning flagging for duplicate/unallowable claims in one facility. **Timeline**: 12 months (pilot by month 6). **Owner**: IT.
3.2.3 **Review High-Risk Claims**: Conduct pre-payment reviews for claims over $10,000 or from high-risk entities. **Timeline**: 6 months. **Owner**: Finance.
3.2.4 **Use Approval Checklists**: Support approvals with compliance checklists, including indirect expenses in grants. **Timeline**: 4 months. **Owner**: Finance.
3.2.5 **Conduct Post-Payment Audits**: Audit 10% of reimbursements quarterly. **Timeline**: 9 months. **Owner**: Compliance.

3.3 Facility and Asset Controls

3.3.1 **Track Assets**: Use barcoding/RFID for medical supplies/equipment. **Timeline**: 6 months. **Owner**: Operations.
3.3.2 **Verify Inventory**: Conduct semi-annual inventory reconciliations. **Timeline**: 6 months. **Owner**: Operations.
3.3.3 **Strengthen Payroll**: Implement biometric timekeeping with staff consent and privacy policy. **Timeline**: 9 months. **Owner**: HR.

3.4 IT Controls

3.4.1 **Maintain Audit Trails**: Ensure tamper-proof trails for system changes. **Timeline**: 6 months. **Owner**: IT.
3.4.2 **Test Disaster Recovery**: Conduct annual simulations, reporting to leadership. **Timeline**: 9 months. **Owner**: IT.
3.4.3 **Automate Controls**: Use continuous monitoring software for real-time detection. **Timeline**: 12 months. **Owner**: IT.

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4. Information and Communication

Effective systems ensure reliable data.

4.1 **Adopt PeopleSoft AIS**: Transition within 6 months, with 3 months for data migration/testing and OMES support. **Timeline**: 6 months. **Owner**: IT.
4.2 **Use Data Analytics**: Implement Tableau/Power BI to track error rates, processing times, claim rejections, and CMS-1500 compliance. **Timeline**: 12 months. **Owner**: Finance.
4.3 **Enhance Whistleblower Hotline**: Partner with a third-party provider to develop enhanced whistleblower hotline. **Timeline**: 6 months. **Owner**: Compliance.
4.4 **Communicate Policies**: Share GAAP/GASB updates via quarterly memos. **Timeline**: 6 months. **Owner**: Finance.
4.5 **Develop Entity Portal**: Create a HIPAA-compliant portal with multi-factor authentication

and encryption. **Timeline**: 12 months. **Owner**: IT.

4.6 **Share Audit Findings**: Report findings to board/OMES with corrective plans. **Timeline**: 6 months. **Owner**: Compliance.

4.7 **Create Dashboard**: Develop a real-time financial dashboard. **Timeline**: 12 months. **Owner**: IT.

4.8 **Hold Town Halls**: Conduct quarterly town halls to reinforce ethical culture. **Timeline**: 6 months. **Owner**: Executive Leadership.

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5. Monitoring Activities

Monitoring ensures control effectiveness.

5.1 **Review Transactions**: Review 10% of high-risk transactions (e.g., claims over $10,000, new vendors, prior errors) monthly. **Timeline**: 3 months. **Owner**: Finance.

5.2 **Develop KPIs**: Track error rates and reconciliation times. **Timeline**: 6 months. **Owner**: Compliance.

5.3 **Conduct Audits**: Perform annual risk-based audits, prioritizing reimbursements/IT. **Timeline**: 9 months. **Owner**: Compliance.

5.4 **Track Deficiencies**: Resolve control deficiencies within 90 days. **Timeline**: 6 months. **Owner**: Compliance.

5.5 **Audit Private Entities**: Conduct annual audits with site visits/claim testing. **Timeline**: 12 months. **Owner**: Compliance.

5.6 **Use Continuous Auditing**: Implement ACL/IDEA, piloting in one facility by month 6. **Timeline**: 12 months. **Owner**: IT.

5.7 **Engage External Auditor**: Hire every 3 years to validate processes. **Timeline**: 18 months. **Owner**: Compliance.

5.8 **Benchmark Controls**: Compare with other state agencies using Tableau/Power BI. **Timeline**: 18 months. **Owner**: Compliance.

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6. Financial Reporting and Compliance

Ensure accurate statements and compliance.

6.1 **Divisional Reporting**: Identify facilities as separate divisions to prevent fund borrowing. **Timeline**: 2 months. **Owner**: Executive Leadership.

6.2 **Encumber Payroll**: Decrease payroll overspending. **Timeline**: 2 months. **Owner**: Executive Leadership.

6.3 **Fund Utilization**: Use restricted funds per grant terms, verified by compliance reviews, before unrestricted funds. **Timeline**: 2 months. **Owner**: Finance.

6.4 **Maximize Funding:** Ensuring all state-provided services are properly billed and indirect costs are appropriately included in federal grants funding. **Timeline** 2 months: **Owner:**

Finance.
6.4 **Issue Control Statement**: Issue an annual plain-language statement on control effectiveness, reviewed by OMES. **Timeline**: 12 months. **Owner**: Executive Leadership.
6.5 **Enhance Transparency**: Post reports on Agency website within 30 days. **Timeline**: 6 months. **Owner**: Finance.
6.6 **Conduct Mock Audits**: Perform annual mock Medicaid audits. **Timeline**: 9 months. **Owner**: Compliance.
6.7 **Create Compliance Calendar**: Outline deadlines, integrated into PeopleSoft AIS for reminders. **Timeline**: 3 months. **Owner**: Finance.
6.8 **Align with OMES**: Use OMES-approved templates. **Timeline**: 6 months. **Owner**: Finance.

Implementation Strategy

- **Phasing**:

  - **Phase 1 (0–2 months)**: Quick wins (e.g., code of conduct, segregation of duties, compliance calendar).

  - **Phase 2 (3–6 months)**: System upgrades (e.g., PeopleSoft AIS, entity portal).

  - **Phase 3 (6–18 months)**: Advanced tools (e.g., data analytics, continuous auditing).

- **Resource Needs**:

  - Hire CFO, auditor, and IT specialist, or possible shared services arrangements.

  - Invest in PeopleSoft AIS and Tableau/Power BI, leveraging OMES shared services.

- **Stakeholder Engagement**:

  - Hold workshops with private entities to co-design CMS-1500 processes.

  - Use training and town halls to manage change.

- **Barriers**:

  - Mitigate staff resistance with streamlined processes and privacy training.

  - Use OMES services to reduce costs.

- **Metrics**:

  - Track via scorecard: % controls implemented, audit findings resolved, error rate reduction (target: 5% to 2% in 12 months).

Conclusion

These recommendations address risks in financial reporting, enhancing accountability and compliance. Prioritizing automation, fraud detection, and transparency will ensure success. The Agency will collaborate with OMES and track progress via a scorecard, securing the $29,999,980 needed for FY2025.

Appendix A: Explanation of Acronyms and Accounting Terminology

GAAP

Generally Accepted Accounting Principles, ensuring consistent financial reporting.

GASB

Governmental Accounting Standards Board, setting rules for state agencies.

COSO

Committee of Sponsoring Organizations, a framework for internal controls.

CMS-1500

Standardized form for healthcare billing, reducing errors and ensuring compliance.

Current Usage of Data Analytics in Sophisticated AIS

Data analytics in PeopleSoft AIS enhances efficiency and compliance.

1. **Descriptive Analytics**

    o **Definition**: Summarizes historical data (e.g., dashboards, KPIs).

    o **Example**: Tracks monthly claim volumes, identifying high-risk facilities (Section 2.7).

    o **Value**: Ensures transparency (Section 6.5).

2. **Diagnostic Analytics**

    o **Definition**: Identifies causes of issues (e.g., anomaly detection).

    o **Example**: Pinpoints why a private entity's claims are rejected 20% more often (Section 3.2.2).

    o **Value**: Reduces fraud risks (Section 2.3).

3. **Predictive Analytics**

    o **Definition**: Forecasts outcomes (e.g., machine learning).

- o **Example**: Predicts claim spikes, triggering pre-payment reviews (Section 3.2.3).

- o **Value**: Enhances risk assessment (Section 2.1).

4. **Prescriptive Analytics**

- o **Definition**: Recommends actions (e.g., decision modeling).

- o **Example**: Suggests rejecting claims lacking proof, with audit plans (Section 5.5).

- o **Value**: Drives efficiency (Section 7).