



OKLAHOMA DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

Special Investigative Audit Report Part 1

May 20, 2025

Cindy Byrd, CPA
State Auditor & Inspector

**Oklahoma Department of Mental Health and
Substance Abuse Services**

**Special Investigative Audit Report
Part I**

May 20, 2025



May 20, 2025

TO THE HONORABLE GOVERNOR J. KEVIN STITT

We present Part One of our special investigative audit of the Department of Mental Health and Substance Abuse Services, in response to your March 5 request, pursuant to 74 O.S. § 212(c).

Included are our estimate of the fiscal year 2025 budget shortfall at the Department, as well as a brief summary of issues that led to the Department's budget crisis and our preliminary recommendations. We are pleased to have been able to assist you and Department leadership in this matter.

While projecting revenues and expenditures at any point in time is not an exact science, our estimate is based on the most recent and reliable information available from Department staff, the Oklahoma Health Care Authority, and the state accounting system. With careful planning and mindful spending, we anticipate that your supplemental request should allow the Department to complete a successful fiscal year and focus on improving its budgeting practices and related controls going forward.

We would like to express our appreciation to State CFO Aaron Morris for his expertise and Medicaid experience, as well as to the Department and OHCA staff who prioritized our interviews and requests. We look forward to resuming procedures related to the Oklahoma Turnpike Authority and other state agencies, which were paused in order to focus our full attention on this important engagement.

This report is addressed to and is for the information of the Governor as provided by statute. This report is also a public document pursuant to the Oklahoma Open Records Act, in accordance with 51 O.S. §§ 24A.1, et seq.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Department of Mental Health and Substance Abuse Services
Special Investigative Audit – Part One

FISCAL YEAR 2025
ESTIMATE OF SUPPLEMENTAL BUDGET NEEDS

	Unrestricted Funds (195/200)
Fund balance 05/14/25	\$ 57,397,183
Restricted - Consent Decree	(4,100,000)
Total Cash Available	\$ 53,297,183
Accounts Payable	
Title XIX (includes ETPS/DSH)	\$ 66,981,325
Non-Title XIX MMIS	19,908,241
Operations	19,519,213
Payroll	23,728,227
Other Payables Due	4,095,110
SUD Value-Based Payments	4,201,764
Total A/P	\$ 138,433,880
Accounts Receivable	
Appropriations	\$ 25,743,862
<i>Appropriations (16501)</i>	1,800,000
Reimbursements	28,682,253
OST unclaimed deposits	211,496
Total A/R	\$ 56,437,611
Supplemental Funding Needed	\$ (28,699,086)
Pended Payments	
	\$ 87,670,032

**Anticipated
FY 25 Needs**

We have estimated that the Department needs \$28,700,000 in supplemental funding for the remainder of FY 25.

Our table above presents:

- Cash balances for funds 195 (appropriations) and 200 (revolving fund) as of the morning of May 14, 2025
- Accounts Payable
 - Title XIX and Non-Title XIX/Medicaid figures from OHCA.
 - General Operations: An average of ten months' expenditures from appropriations and revolving fund excluding Title XIX and MMIS, projected for May and June.
 - Payroll: \$6,447,888 per the Department for each of the four remaining pay periods, limited to the percentage historically paid from funds 195 and 200.

**Department of Mental Health and Substance Abuse Services
Special Investigative Audit – Part One**

- Other Payables Due: Payables not originally planned for by the Department, including OPERS payments for recent terminations, workers' comp, ratified contracts, and court-ordered payments to attorneys for consent decree.
- SUD Value-Based Payments, paid to substance use disorder providers for meeting outcome-based benchmarks, under contract and contingent on available funding. Per Department staff, the remaining two FY 25 quarters that were originally unencumbered have now been re-encumbered and planned to be paid.
- Accounts Receivable
 - Remaining fund 195 appropriations to be received in June, with \$1.8m still expected for fund 165.
 - Reimbursements due to the Department per ODMHSAS staff as of May 12.
 - Outstanding deposits held in state treasury, minimum total per ODMHSAS staff.

Pended payments as of May 7, 2025 are presented for informational purposes. (The Department pays Certified Community Behavioral Health Clinics a cost inclusive rate for indigent patients, but there is a cap on how much they can pay; once the cap is exceeded, the remaining payments become "pended.") These payments cover services mandated by the state and the Department has historically paid them to the extent possible using unutilized funds at the end of the fiscal year.

Unknowns

Some factors that may impact estimated A/P and A/R:

- **The age of each piece of data.** We obtained the most recent and reliable data possible from the statewide accounting system and other parties. However, a single day can cause large fluctuations in a state agency's finances, so individual line items may vary from other materials provided to the committee.
- **Any ratifications in progress** for payables that have not been encumbered. A ratification is required when an agency receives services prior to having a purchase order for those services approved by Finance or OMES. The Department reported at least \$10,770,000 in total ratifications for FY 24 and 25 so far, suggesting it would not be unusual for additional ratifications to occur before June 30.
- **Continuing fluctuations in payroll** due to both new hires and terminations, especially those involving leave payouts.
- **The cost of multiple ongoing investigations/audits** related to the current budget crisis.

IMPACTS ON THE FY 2025 BUDGET

Introduction

Many pressures and events impacted the FY 25 budget.

- The Department used \$9.4 million of FY 25 funds for FY 24 expenditures and thus **started FY 25 in a deficit**.
- The **state match amount for Medicaid increased** without a corresponding increase in revenues. During the pandemic, there was an increase in the Federal Medical Assistance Percentage (FMAP), which increased federal payments, so the state paid less. That has now ended, returning the state match to a higher level.
- The Department's budget was also impacted by **questionable past spending** highlighted in the press, including Narcan machines and a related advertising campaign, promotional costs for the 988 Mental Health help line including a regional Super Bowl ad, and the paused Donahue Behavioral Health campus construction project. Critical purchasing decisions like these impact future available funds. Further, these practices call into question how the agency prioritizes spending limited funds in the delivery of services to those who need help.

And as discussed further below, the budget was impacted by:

- MCO billing delays and claim payment issues,
- Medicaid recoupment due to cost resetting at two facilities,
- Increased expenditures, especially in both Department payroll and contracted medical personnel, and
- Higher level budget pressures and control environment issues.

Issues with MCO Payments

The transition to managed care caused several changes for the Department. There has been a learning curve as providers were registered and learned the billing systems and MCOs began to learn how state facilities work, especially those offering mental health treatment. This caused a lag in both billing and payments after implementation began in April 2024.

The MCOs are reportedly still having issues properly paying claims, including:

- Claims paid using the state's tax ID number rather than provider identifiers, resulting in combined payments to multiple state entities,
- Payments made out to the wrong party,
- Payments sent to the wrong location, and
- Claims paid by physical check in error.

These issues cause delays in receipting. The outstanding balances owed to the Department by MCOs, in turn, impact cash flow.

Also due to these payment errors, some claims are tied up at the state level and must be identified in the State Treasurer’s Unclaimed Deposits report and split with other state entities in a complicated process. There are currently at least \$211,496 in EFTs waiting to be claimed by ODMHSAS; other figures presented by Department staff present a much higher potential balance.

**Medicaid
Recoupment**

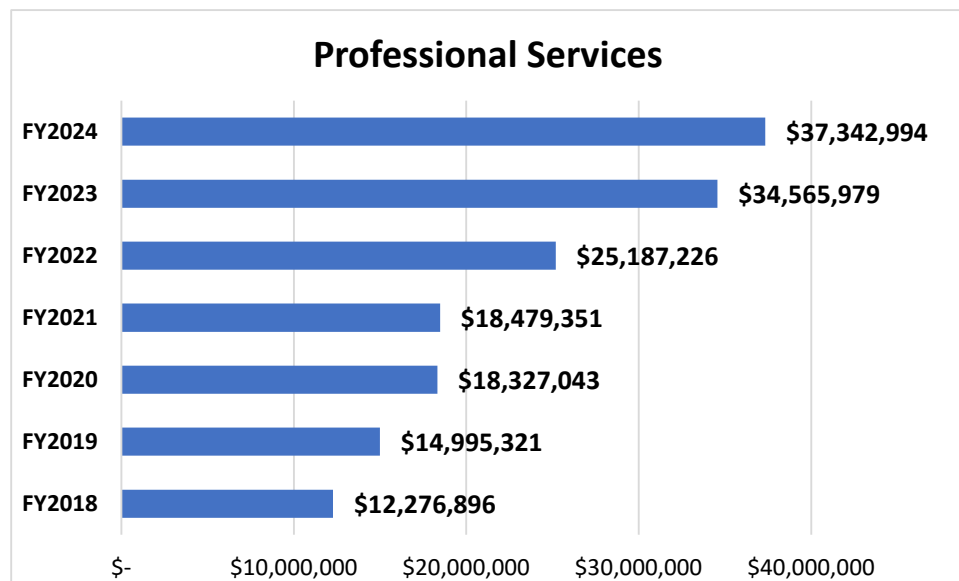
Medicaid recouped \$4.2 million from two Department facilities, as the result of a rebase cost report that retroactively reset Medicaid and ODMHSAS PPS rates for FY 23 and 24 and set the rates for FY 25. This decreased revenues and, in turn, alternate revenue streams (appropriations) were used to pay a corresponding amount of expenditures.

The Department was not aware in advance that these recoupments were coming, so they were not budgeted for FY 25. The Department is also still looking into whether it will get a partial refund on the state share of the amount being recouped.

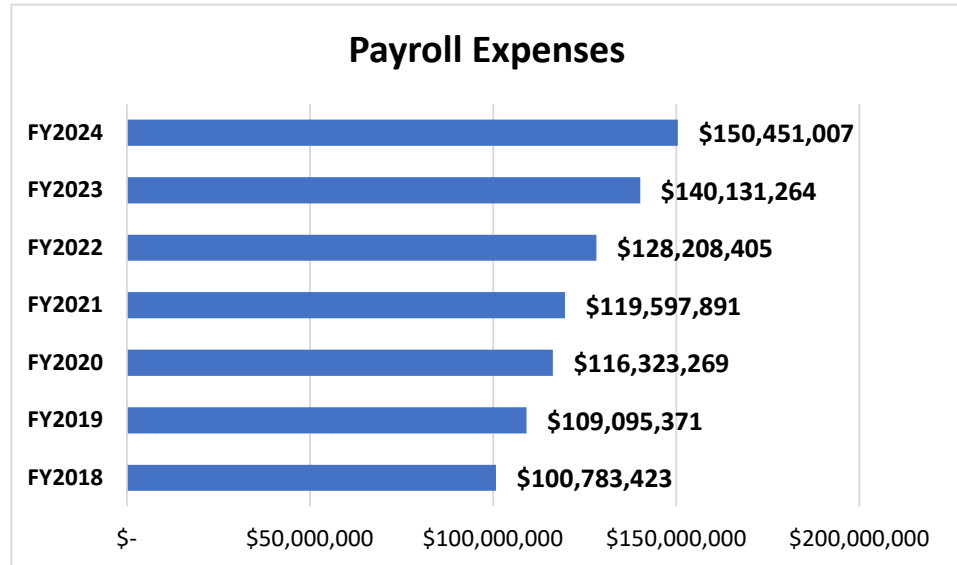
**Pressure from
Historical Trend
of Increasing
Expenditures**

Our detailed analysis of expenditures is ongoing and includes the following issues:

- Professional services expenditures (those rendered by someone with specialized knowledge or training in a field, such as legal or nursing services) have increased 204% between FY18 and FY24. This was attributable mainly to employment placement services and medical contracting.



- Overall payroll expenditures increased 49% from FY 18 through FY 24.



- Between January 2024 and April 2025, a total of 38 individuals were hired with salaries of at least \$100,000. Of these, 21 were executive positions and the remaining 17 were medical.
- In this same time frame, there were 376 pay raises greater than 10% with an annual value of \$4,073,948. The majority of payroll is paid from funds 195 and 200.

**State Budget
Pressures and
Control
Environment
Issues**

The Department's **budget request was impacted by:**

- The Governor's request for agencies to maintain a flat budget.
- Difficulty explaining complex and misunderstood needs related to topics like Medicaid growth and pended payments, which resulted in a lack of urgency around these issues.

Employees are also experiencing **pressure due to the current tone at the top of ODMHSAS:**

- SAI investigators were notified that some staff were required to sign nondisclosure agreements and discouraged from cooperating with the investigation.
- Staff brought to our attention many concerns with structural changes and lack of communication from the management level, including leadership:
 - Not attending meetings or signing documents,
 - Employing armed guards, locking down the administrative floor, and even threatening employees in meetings,

- Failing to inform employees of internal events that the employees then learn about through the media,
- Constantly changing the supervisory structure, leading to employees being unaware who their supervisor is and having to research this information online.

PRELIMINARY RECOMMENDATIONS

Budget and Financial Practices

- Separate supplemental funds in a revolving fund to be used only for existing and essential FY 25 obligations, supported with documentation/explanations.
- Utilize realistic budget practices that reflect the agency's true needs and financial position. Adequate funds must be requested for core operations.
- Comply with OMES monitoring efforts and financial practices as outlined in HB 2785.

Department Structure and Personnel

- Hire a qualified CFO with state government financial experience as soon as possible.
- Implement an internal audit department in line with 43A O.S. § 2-205 and applicable internal audit standards.
- Evaluate the qualifications of recent executive hires, and consider shifting funding from unnecessary executive positions to fulfill operational obligations.
- Scrutinize recent and ongoing terminations to ensure they are not retaliatory.

Internal Controls

- Assess and improve the agency's control environment and communication practices in line with Government Standards for Internal Control.
- Obtain an independent, in-depth audit of internal controls in key financial areas.



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov