



Auditor of Public Accounts  
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**Edelen Releases Examination of Bluegrass MH/MR, Questions Executive Benefits,  
Certain Expenditures; Recommends Board Strengthen Controls**

**FRANKFORT, Ky. (Dec. 20, 2012)** – Auditor Adam Edelen today released a special examination of the Bluegrass Regional Mental Health – Mental Retardation Board, Inc., which found problems with executive compensation, spending without supporting documentation and lax management practices.

The exam found that the Lexington-based, non-profit mental health agency paid more than \$2.8 million in executive benefit contributions since 1997 to the President/CEO and various other employees solely at the discretion of the President/CEO with no scrutiny by board members. The contributions, which are designed to retain talent within an organization, were largely awarded to a core group of central office administrative staff while healthcare employees received either no contributions or less significant amounts.

“Dedicated professionals, many of whom face great challenges on a daily basis in our Commonwealth’s mental health facilities, had not received raises since at least 2009,” Edelen said. “As we’ve recently been reminded, untreated mental illness can have tragic consequences. To provide that care and protect the public, we must provide those on the front lines with respect and fair pay.”

The agency provides mental health, substance abuse and intellectual and developmental disability treatment to 30,000 adults and children in its 17-county region. It also has contracts with the Commonwealth to manage Eastern State Hospital in Lexington and Oakwood in Somerset.

The examination was in response to news media reports and anonymous concerns presented to the auditor’s office regarding certain financial transactions and policies of Bluegrass.

The exam report contains eight findings and recommendations for strengthened controls by the board.

The exam found the Cabinet for Health and Family Services was unaware that \$296,000 paid to Bluegrass to transition the management of Oakwood was used to purchase a house in Somerset, which was used by Bluegrass staff during the initial transition of the mental health facility. The invoices submitted by Bluegrass to request reimbursement for the house and \$32,000 worth of furnishings did not indicate what items were purchased with the requested funds. Cabinet staff questioned invoices internally but paid the amount without requesting detailed invoices. The Cabinet was aware of the house, but Cabinet officials said they thought it was purchased with Bluegrass' cash reserves.

“There is no question Bluegrass succeeded at turning around a troubled facility,” Edelen said. “But an organization that derives 68 percent of its revenue from taxpayers must be diligent at containing costs and providing transparency.”

After news media attention, Bluegrass sold the house for \$292,000. The auditor's office recommends and the Cabinet is requesting that Bluegrass reimburse the Commonwealth for the price of the house minus reasonable lodging and travel costs that would have been reimbursed by the Cabinet.

Other financial issues were identified during the exam, including:

- Bluegrass spent \$172,025 in lobbying expenses from January 2011 to September 2012 without adequate documentation of lobbying activities;
- The President/CEO and a contract consultant spent nearly \$38,000 on credit cards during an 18-month period without detailed receipts to document the business purposes;
- Cash reserves for Eastern State Hospital and Oakwood in fiscal year 2012 totaled more than \$20 million, despite each facility having a stable funding source.

The exam also found that consolidation of board governance, management and infrequent financial reporting of the for-profit entity New Directions creates the appearance that the two entities are not truly separate.

And, it found the board did not take actions to address inherent conflicts of interested created by personal relationships that existed between Bluegrass employees. The board should strengthen several of its policies to achieve greater accountability.

The full Bluegrass MH/MR examination can be found on the [auditor's website](#).

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