



**June 1, 2009**

***Report on Assistance Provided to the  
Department of Alcohol Drug and Mental  
Health Services (Mental Health Programs)***



**Auditor-Controller's Office**

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## **EXECUTIVE SUMMARY**

### **Background**

In November, 2007 the County's Department of Alcohol, Drug and Mental Health Services (ADMHS) disclosed several Medi-Cal billing issues to the State Department of Mental Health (DMH). These issues resulted in an estimated \$17M liability and \$14M contingent liability that ADMHS may owe to the DMH.

As a result of this disclosure, the County Auditor-Controller's Department and ADMHS initiated projects designed to prevent future billing errors and improve ADMHS' overall fiscal processes.

### **Objectives**

The projects and related objectives are as follows:

- **Self-disclosure committee** – To ensure that appropriate communication occurs between the County Executive Office (CEO), County Counsel, Auditor-Controller, and ADMHS to correct billing errors.
- **Contract redesign** – To incorporate enforceable terms and conditions into Community Based Organization (CBO) contracts, eliminate ambiguity in contract language, and strengthen internal controls.
- **Cost-reporting** – To ensure that cost reports are prepared according to DMH directives.
- **Five-year look back** – To calculate any potential liability related to disclosure items and perform a cost settlement with CBOs.
- **ShareCare analysis** – To analyze the functionality of ADMHS' client management and billing system (ShareCare).
- **Accounting restructuring** – To enhance the accumulation of financial information, incorporate internal controls, and assist management in making adequate estimates for financial reporting and decision making.

### **Resources**

The Auditor-Controller's Office's dedicated resources to these projects included the Auditor-Controller, Assistant Auditor-Controller, Chief-Deputy Controller, Audit Manager, Division Chiefs, Financial Systems Analyst, and Accountant Auditors. The Auditor-Controller's Office dedicated approximately 2,400 total hours of personnel time to these projects from July, 2007 through April, 2009.

### **Conclusion**

Although ADMHS has made improvements in its billing and fiscal processes, there is still much progress to be made. Weaknesses exist across many areas including: a lack of enforcement of contract terms and conditions, recording of unsubstantiated revenue estimates, billing delays, ShareCare malfunctions, and deficiencies in the development of policies and procedures.

## **MEDICAID OVERVIEW**

### **General**

Medicaid is the primary funding source for County mental health services. To adequately assess the County of Santa Barbara's ADMHS' mental health programs a thorough understanding of Federal, State and County Medicaid systems is necessary. An overview of Medicaid is presented below to assist the reader in understanding the projects discussed in this report.

### **Medicaid Program (Federal and State)**

Medicaid was established by the Federal government. Although the Federal government establishes general guidelines for the program and participates financially, States operate and administer Medicaid. Medicaid covers children and adults who meet complex eligibility requirements. The program should not be confused with Medicare, which is a Federal program that serves the health care needs of elderly and some non-elderly individuals with disabilities without regard to their financial circumstances. Medi-Cal is California's version of the Medicaid program.

California County mental health systems are governed by the Bronzan-McCorquodale Act (the Act). The Act defines the mission of California's mental health system as one which can "enable seriously mentally disabled persons of all ages to access services and programs that assist them, in a manner tailored to each individual, to manage their illness, to achieve their own personal objectives and to develop skills and supports leading to a constructive and more satisfying life in the least restrictive available setting." The Act states that "to the extent resources are available" Californians should be the recipients of public mental health services which are "client-centered culturally competent and fully accountable."

Mental health Medi-Cal claiming is a reimbursement system in which counties are provided an interim cash flow of State and Federal funding pending cost settlement and audit. Funding is made available through the Federal Medicaid entitlement program and matching State and County funds are required. Claims are reimbursed based upon the appropriate Federal Medical Assistance Percentage (FMAP). This figure represents the percentage of a claim for which the Federal government will pay Federal Financial Participation (FFP). Any amounts not provided by FFP must be matched by State or County funds.

Children's eligible mental health services are generally reimbursed with a 50% FMAP and 45% State General Fund match (Early Periodic Screening and Diagnosis or EPSDT funds), the remaining 5% must be matched with County funds, including Realignment (the mental health allocation of sales tax). Eligible adult mental health services are generally reimbursed with a 50% FMAP and a 50% County fund match, generally with Realignment funds.

The year-end reporting process is the culmination of the mental health financial and statistical data accumulation for the fiscal year. The County is required to submit a cost report for the fiscal year ended June 30, to DMH by December 31 of each year. The cost report serves as a basis for computing the year-end cost settlement and payment between the DMH and the County and is also the basic standardized record subject to audit. All year-end cost settlements are considered interim cost settlements and are subject to audit by DMH. The DMH is required to complete an audit three years after the year-end cost settlement is certified. Generally the cycle, from cost report filing to audit, is not completed until five years after the initial cost report is filed by the County.

**Medicaid Program (County)**

Counties provide mental health services to Medi-Cal beneficiaries through a publicly or privately operated mental health managed care plan contracted with DMH and share in the financial risk. Each California County operates its own mental health plan for Medi-Cal beneficiaries.

The County of Santa Barbara (the County), through the mental health plan, provides mental health services to adults and children directly through its clinics and through CBOs. During fiscal year 07/08 ADMHS spent approximately \$24M for adult and \$16M for children's mental health programs.

During the fiscal year 07/08 the County contracted with 28 CBOs to provide mental health services. Expenditures made to CBOs for fiscal year 06/07 amounted to approximately \$6.5M for adult and \$11M for children's mental health programs.

ADMHS contracts with CBOs generally subject these organizations to the same year-end reporting and cost settlement process. The CBOs are also, under contract terms and conditions, subject to the DMH audit as well as any County performed audits.

## ***PROJECT ASSISTANCE***

The Auditor-Controller's Office, in conjunction with ADMHS staff, initiated projects to assist the department in improving its billing and accounting processes. Due to the complex nature of the Medi-Cal billing processes imposed by DMH a significant period of time was also dedicated to understanding the process.

Projects that the Auditor-Controller's Office assisted the ADMHS Department with are as follows:

### **No 1. Self-Disclosure Committee**

**Members: Bob Geis, Heather Harkless, Ann Detrick, Marianne Garrity, Mike Brown, Jason Stilwell, Dennis Marshall, Celeste Andersen**

**Objective:** To facilitate monthly committee meetings that review ADMHS' compliance with DMH billing and reimbursement directives and other applicable law(s). The committee also meets to ensure that ADMHS has completed all steps outlined in the self-disclosure letter to resolve liabilities. Members include representatives from County CEO, Auditor-Controller, County Counsel, and ADMHS.

**Status:** The committee held its initial meeting on October 15, 2008 and has met monthly on a regular basis.

**Next Steps:** The Auditor-Controller's Office will continue to facilitate regular monthly meetings to review and advise the ADMHS Department on billing and reimbursement related issues. ADMHS should develop detailed plans to timely perform steps to resolve each disclosure item and any associated liability.

### **No 2. Contracts Redesign**

**Members: Bob Geis, Heather Harkless, Marianne Garrity, Tom Alvarez, Christy Toma, Celeste Andersen**

**Objective:** To redesign ADMHS' CBO contracts to incorporate internal controls.

**Status:** This project started in March, 2008 and the new Mental Health contract format was finalized in June, 2008. The new contract included the following:

- Requirement for CBOs to submit operating budgets prior to contract execution.
- Clear identification of the number of units of service to be provided.
- Requirement for CBOs to notify ADMHS when 75% of the maximum contract has been expended.
- Penalties for late submission of reports.
- Clear payment terms and conditions.

- Provisions to perform cost settlement processes.
- Provisions to recover denials from audit processes.

**Next Steps:** ADMHS should develop policies and procedures and employ adequate resources to ensure that the contract terms and conditions are enforced. For example, cost settlement clauses with CBOs should be enforced to ensure that ADMHS is paying CBOs appropriate amounts for authorized services performed. Furthermore, a comprehensive contract listing by CBO and funding source should be maintained to ensure that funding streams are sufficient to maintain programs and that contracts are adequately budgeted in the County-wide financial system.

We also strongly recommend that ADMHS annually present to the board, after the close of the fiscal year, the units of service and cost of services provided by ADMHS and CBO clinics.

### **No 3. Mental Health Cost Report Instruction Manual**

**Members:** Julie Hagen, Justin Greene, Ryder Bailey, Tom Alvarez

**Objective:** To prepare an instruction manual to provide guidance for the preparation of the annual mental health cost report that ADMHS is mandated to submit to DMH. Specifically, this manual is intended to provide the guidance necessary to successfully compile the required cost report.

**Status:** This project is complete. ADMHS staff undertook an initial attempt to document the mental health cost report process. This document was our starting point. The objective of this project was to gain an understanding of the cost report process in order to be able to write an effective manual. The 148 page instruction manual includes, but is not limited to, sections which cover the following subjects:

- An overview of the mental health cost reporting process.
- CBO preparation of cost reports and subsequent ADMHS review.
- How to prepare the County's detail and summary cost reports.
- The State's rate setting process including:
  - Negotiated rates
  - Published charges
  - State maximum allowable rates
  - Actual costs
- The post-cost report completion, reconciliation, and audit.

**Next Steps:** The manual must be continuously updated to comply with code and regulation changes.

- All updates or changes to this manual should be reviewed and monitored by management level staff.

- Staff preparing the cost report should follow the processes outlined in the instruction manual.
- Complete backup documentation should be prepared and retained.
- A process to reconcile the amounts claimed and received from the State to the costs reported in the annual cost report must be established.

**No 4. Mental Health Five Year Lookback (fiscal years 02/03 through 06/07)**

**Members: Heather Harkless, Jane Lee, Tom Alvarez, Tom Johnson, Keiko Monahan**

**Objective:** The Auditor-Controller's Office performed a contract analysis of all twenty-eight of ADMHS' Mental Health CBOs for fiscal years 02/03 through 06/07. The objective of the project was to determine the following:

- Whether CBOs were paid within contract terms and conditions.
- Whether ADMHS collected FFP and EPSDT funds in excess of contract amounts paid to CBOs.
- The amount of CBO's gross charges inflated by administrative fees.
- The amount of overpayments that the State made to ADMHS.
- The amount of over or underpayments that ADMHS made to CBOs.

**Status:** This project started in March, 2009 and was completed in May, 2009. As a result of our analysis we found the following:

- Deficiencies existed in ADMHS enforcement of contract terms and conditions. Specifically, ADMHS did not enforce cost settlement clauses included within CBO's contracts. The lack of enforcement of these terms and conditions resulted in contract over and under payments to CBOs.
- ADMHS collected FFP and EPSDT funds on behalf of CBOs that were outside of contract terms and conditions and were not disbursed to the CBOs. These represent overpayments to ADMHS by DMH.
- Gross charges for four CBOs were inflated by administrative fees.

**Next Steps:** ADMHS should develop and follow policies and procedures for the following State processes:

- The performance of cost settlements with the State.
- Revising provisional (interim) rates collected from the State throughout the year.
- The return of funds to the State.

Furthermore, ADMHS needs to develop and follow policies and procedures for the following CBO processes:



- The performance of cost settlements with CBOs in accordance with contract terms and conditions.
- Revising provisional (interim) rates paid to CBOs throughout the length of the contract.
- The collection or return of any amounts due to or from CBOs.

ADMHS should also employ resources to obtain knowledge of the DMH audit adjustments pertaining to the County and CBOs. Due to a lack of knowledge and resources in this area, unsubstantiated audit adjustments may be made by DMH.

**No 5. ShareCare System Analysis**

**Members: Julie Hagen, Julie Jacobs**

**Objective:** To evaluate issues that ADMHS has with its client management and billing system, ShareCare.

**Status:** The implementation of ShareCare caused many issues for ADMHS over the last two fiscal years. The conversion was made before testing was complete and there was an insufficient time-period of running parallel with the old system. As a result of this rushed conversion, there was data corruption, lost data and functionality, delays in billing DMH, and problems researching units that DMH denied. The ADMHS Staff has been working closely with the vendor to resolve the issues. Although progress has been made on the issues, they are not fully resolved. In addition, the vendor has only one resource devoted to ADMHS. The lack of resources dedicated by the vendor results in delays in requests and untimely correction of errors.

***Next Steps:***

ADMHS must continue to work with the vendor to resolve issues. ADMHS management should be made aware of all remaining issues. Furthermore, clear communication between ADMHS management and the vendor is necessary regarding the issues and when they will be fully resolved. We also recommend that an independent audit of the system's functionality and internal control system be performed by an outside party.

**No 6. Accounting Restructuring**

**Members: Bob Geis, Theo Fallati, Julie Hagen, Mark Paul, Tom Alvarez, Julie Jacobs**

**Objective:** Modify ADMHS' financial accounting and reporting processes to provide more accurate and clear operational financial reporting.

**Status:** This project started in March of 2008 and continued until April of 2009. This project included many detailed tasks that ADMHS needed to complete to

enhance the accountability of its financial transactions. Although many items were initiated in this project, many remain to be completed by ADMHS staff.

The first step of the restructuring included the establishment of a new fund to separate Alcohol and Drug Programs from Mental Health Programs to enhance accountability. The separation of these funds would enhance ADMHS' tracking of program effectiveness. This was a complex undertaking and included the establishment of the following processes:

- Charging services between funds.
- Allocating administration costs between funds.
- Establishment of a budget in each fund.
- Charging labor costs between funds.

Another aspect of this project included identifying other mechanisms to enhance accountability and financial reporting. The Auditor-Controller staff assisted ADMHS in performing the following:

- Analyzing revenue and expenditure line items accounts.
- Setting up a tracking mechanism for monitoring payment transactions and sources of funds for payment of outstanding liabilities.
- Making various budget revisions and journal entries, setting up monthly revenue estimates, preparing budgets, and year-end accounting entries.
- Clearing out amounts in ADMHS' Capital Projects Fund.
- Training on the financial accounting/reporting system and proper timesheet coding.

During this project, the Auditor-Controller's Office also made recommendations to ADMHS on the following:

- How to reserve funds for a loan terminating with a lump sum payment.
- Revising the accounting structure to reflect activities more clearly for management purposes.
- Preparing budget adjustments to reflect known reductions/adjustments to revenue in fiscal year 08/09 and to correct over-accruals from fiscal year 07/08.
- Revising published charges to increase amounts of Medi-Cal received from the State.
- Reducing the occurrence of billing delays and errors.

**Next Steps:** There are still many areas to work on, change and improve. ADMHS staff and management need to take a focused approach on the issues in order to continue to make improvements to financial reporting and recording the results of operations. The areas where ADMHS should focus are:

- Allocation of administration costs between funds.
- Adjustment of the budget amounts for major revenue accounts for 08/09.
- Analyze accounts receivable so that accurate revenue accruals are posted for this fiscal year.
- Set up an accounting structure for the Recovery Act funding.
- Monitoring the on-going audits by the State and regularly report to Auditor-Controller and CEO on status.
- Reducing the occurrence of billing delays and errors.
- Ensuring that adequate reserves exist for lump-sum payments on loans.

## **CONCLUSION**

We noted deficiencies in all facets of ADMHS' operations. Although progress in correcting these deficiencies has been made there are still many improvements that must be completed to ensure that the department can operate effectively. Projects with which the Auditor-Controller's Office assisted ADMHS were related to fiscal functions. The projects did not encompass programmatic operations, quality assurance activities, nor did the Auditor-Controller's Office perform an evaluation on the effectiveness of ShareCare.

During our assistance to ADMHS, we identified major areas of concern. We feel that it is imperative that ADMHS correct the deficiencies listed below to fiscally function adequately. Specifically, ADMHS should implement and follow policies and procedures over:

- The timely cost settlement with CBOs and enforcement of contract terms and conditions regarding the cost settlement process.
- Accounting for audit and cost settlements with CBOs and DMH.
- Adjusting CBO and DMH reimbursement rates throughout the year.
- Recording accurate revenue estimates.

An analysis of factors contributing to the untimely collection of revenue should also be analyzed and corrected including the timeliness of the following:

- Billings recorded in ShareCare by clients and CBOs.
- Medicare billings.
- Medi-Cal billings.
- Subsequent billing of Medi-Cal for clients denied by Medicare.
- Follow-up on disallowed units.

Furthermore, we recommend that an independent evaluation should be performed on the effectiveness of ShareCare and a determination be made on continuing use of the system.

Finally, ADMHS should improve its communications with CBOs, DMH, staff, other departments, executive management, the Board of Supervisors and with internal staff to ensure that items are adequately communicated including:

- Terms and conditions of contracts.
- Units of service.
- Appropriate channels to communicate information should be distributed to DMH. ADMHS staff should also be adequately trained to bring items to the attention of management if the staff is not the appropriate recipient of the item.

- Development of a reporting instrument to adequately provide updates to the CEO and Board of Supervisors.
- Audit entrance and exit meetings and final reports to the Auditor-Controller's Office.

Only through the improvement of the items listed above will ADMHS be able to adequately function within the County.