

COUNTY OF SANTA BARBARA

ROBERT W. GEIS, C.P.A.
Auditor-Controller

THEO FALLATI, C.P.A.
Assistant Auditor-Controller



County Administration Bldg.
105 E. Anapamu Street, Rm. 303
Santa Barbara, CA 93101
(805) 568-2100

Mailing Address:
P.O. Box 39
Santa Barbara, CA 93102-0039
FAX (805) 568-2016

OFFICE OF THE AUDITOR-CONTROLLER

July 8, 2008

The Honorable William J. McLafferty
Santa Barbara County Superior Court
1100 Anacapa St., 2nd Floor
Santa Barbara, California 93121-1107

Santa Barbara County Grand Jury
Attention: Foreperson
1100 Anacapa Street
Santa Barbara, CA 93101

Auditor-Controller Department Response to the 2007-08 Grand Jury Report on: Inpatient Psychiatric Treatment 16 Beds....And Deeper in Debt

Dear Judge McLafferty:

Attached is my response to the current grand jury report entitled Inpatient Psychiatric Treatment. The Grand Jury requested that the Auditor-Controller respond to finding number 7. I want to thank the Grand Jury for its efforts at improving County government over the past year and commend the efforts of its members.

Sincerely,

Robert W. Geis, C.P.A.
Auditor-Controller

Cc: Ted Sten, Grand Jury Foreperson 2007-08
Michael Brown, County Executive Officer
Ann Dietrich, Director ADMHS

AUDITOR-CONTROLLER'S DEPARTMENT RESPONSE
SANTA BARBARA COUNTY 2007-08 GRAND JURY

FINDINGS AND RECOMMENDATION

**INPATIENT PSYCHIATRIC TREATMENT
16 BEDS...AND DEEPER IN DEBT**

FINDING 7

The cash basis accounting system used by Alcohol, Drug and Mental Health Services does not give a clear picture of the financial performance of the Department.

RECOMMENDATION 7

Alcohol, Drug & Mental Health Services should initiate accrual basis accounting instead of, or in addition to, the current cash basis system.

RESPONSE TO FINDING AND RECOMMENDATION 7

I partially disagree with the technical finding. Generally Accepted Government Accounting principles require the County maintain financial records on the modified accrual basis of accounting. This is neither a cash basis nor full accrual basis. Currently under the County modified accrual method cash receipts are recorded in the month received and accruals are posted at year-end. Revenues are recognized only when measurable and available.

The current County system also provides for monthly estimates of both revenues and expenditures. When the estimates are coupled with year to date actual revenues the system provides annual projection reports. The ADMHS department is working to improve their revenue estimate procedures in order to make these reports more useful to the department and the County.

Using modified accrual accounting on a monthly basis for certain revenue and expenditure accounts could provide additional value to improving all the Mental Health financial reports. However, this could add another level of complexity by mixing accounting basis. Some accounts would be on the modified accrual basis for monthly accounting and some accounts would include only the monthly cash basis and year-end accruals. The department of Social Services tried to implement this technique a number of years ago and since has abandoned that effort. We only offer a caution that this change be well designed and all users have an understanding of how revenues are being recorded in the accounting and budgeting system.

The Auditor-Controller department is assisting the ADMHS department to improve the financial provisions of third party contracts, their accounting, departmental reporting and the internal control framework.

As an additional comment, we agree with the Grand Jury that the current recording of Medi-Cal revenues on a monthly basis needs to be improved.

The management of Medi-Cal services is complex, including the rules and regulations, and significant deficiencies at the State Department of Mental Health Services, as revealed in a recent State audit report. While the Grand Jury has pointed out the need for improvement in Medi-Cal accounting that is only a small segment of what needs to be improved. The management of the many facets of Medi-Cal administration and the financial provisions related to these programs all need to be reviewed and improved. Process improvements are necessary in contract administration, eligibility, operating budgets, rate setting, accounting for revenues, billing and payment procedures, cost reporting to the State, settlement reports with the State and non-profit providers, preparing and responding to audits. One very critical element to the operating controls revolves around the units of service incurred and the assurance of Medi-Cal eligibility. The department must control units of service and costs for both Medi-Cal and Non-Medi-Cal services. This has to be accomplished within the limits of local revenue resources available for Mental Health services.