

ALCOHOL, DRUG AND MENTAL HEALTH SERVICES

An Uncertain Financial Future

SUMMARY

The Alcohol, Drug and Mental Health Services (ADMHS) Department provides services to a significant number of clients who have a critical need for such care. Its \$64 million budget is largely funded by reimbursements from Federal and State funds. Timely and accurate reporting of the services provided and the associated costs is critical to receiving such reimbursements. Prior problems in the reporting and accounting of these services have led to disallowances and disputes in obtaining reimbursement, resulting in significant potential liabilities of \$33.7 million which the Santa Barbara County may have to pay from general fund sources.

The 2008-2009 Santa Barbara County Civil Grand Jury conducted an investigation to determine the scope the financial problems facing ADMHS and the County, and the cause of the system breakdown. The finances of ADMHS are probably the most difficult to analyze of any county department. Each funding source or agency has its own very complex rules for eligibility, for what services, and for whom. Each has its own different methods of billing for reimbursement. Even if everything is done correctly, the State or Federal government can decide, several years later, that something was not documented properly and deny payment retroactively. Sophisticated software and skilled staff are required to be sure all bills are submitted properly, and then monitored to assure payments are received. Unfortunately, over the last eight years, for various reasons, the system for doing this complicated billing failed, resulting in potentially serious financial problems for the Department and the County. During the past year, with the help of the County Auditor-Controller, ADMHS reviewed the finances going back through those years in an effort to correctly assess financial liabilities, and has put in place new staff and new programs to monitor billings going forward.

The Grand Jury believes that initial reports are encouraging. But it is too soon to know if these changes have corrected all the problems, or even if all past problems have been determined.

BACKGROUND

Alcohol, Drug and Mental Health Services (ADMHS) provide services and protect residents of the County who have mental illness and substance abuse problems. Generally, these are people who cannot care for themselves and depend on ADMHS for support and treatment. Without exception, the workers interviewed by the Jury are dedicated and go out of their way to support the Department's mission of providing vital services to the community. In addition to providing direct treatment, ADMHS supports

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and contracts with community based organizations and assists them in providing food and shelter for their clients. If those in need of these services are not helped now, and community based organizations are forced to reduce their services, the costs to the County will escalate as illnesses become more severe. The Department faces reduced revenue as a result of past problems, current problems and future State cutbacks. Some of these problems were the result of poor management. Some are a result of pressure within the County to balance its budget.

With the passage of time the financial problems have become more difficult to unravel. New areas of improper billing have surfaced through both internal and State audits, while the department has simultaneously dealt with a new software billing program which failed to bill for many months.

There are four major areas of concern to the Jury: 1) past liabilities, which involve overpayments by the State of California which will need to be repaid; 2) current large receivables resulting in cash flow deficits by ADMHS; 3) staffing, so that the proper people are now in place to correct the problems, and ensure they do not recur in the future; 4) monitoring the billing software to ensure current and accurate statements to Medi-Cal and Medicare. The State budget and the Federal stimulus bill will both have a significant impact on the ADMHS budget, but as of April 2009 it is impossible to evaluate how the budget will be affected.

METHODOLOGY

In conducting its investigation, the Santa Barbara County Civil Grand Jury interviewed the following:

- The ADMHS Director and Deputy Director
- Both the current and the former ADMHS Chief Financial Officers
- Staff members of ADMHS responsible for billing and accounting
- The Santa Barbara County Auditor-Controller and Deputy Director
- Santa Barbara County CEO and an Assistant CEO

In addition, the Grand Jury reviewed the following documents:

- Numerous ADMHS internal financial statements covering 2007 and 2008
- Schedule of Estimated Liabilities with Supporting Documentation
- The Short-Doyle Medi-Cal Program Audit Report of the Santa Barbara County Alcohol, Drug and Mental Health Services as of Fiscal Year Ended June 30, 2003
- November 5, 2007 self disclosure letter from the Santa Barbara County CEO and the Director of ADMHS to the Department of Health Services and the California Department of Mental Health
- June 25, 2008 response from the California Department of Mental Health to the self disclosure letter
- Appeal filed by ADMHS for an Administrative Hearing which occurred on October 28, 2008

- March 18, 2009 Report of Findings by the hearing officer denying ADMHS claims

OBSERVATIONS AND ANALYSIS

The \$33.7 Million Elephant in the Room

In November 2007, the County CEO and Director of ADMHS sent a self disclosure letter to the State Department of Mental Health stating that they had uncovered potential billing problems which may have led to over-billing the State by approximately \$9 million. The letter stated that the exact dollar amount was still uncertain, and that staff was working on determining a more exact figure. In a response to the County's self disclosure, the State in 2008 agreed with the billing issues referred to in that letter, and took the position that additional amounts were owed for mental health services which were improperly billed. This amount, combined with further scrutiny of the Department accounts led to an estimate of potential liabilities of \$33.7 million.

The California Department of Mental Health is not current with its audits, and has audited ADMHS only through June 30, 2003. If the State finds what it considers to be overpayments, money is only owed after the State has completed an audit for that year. Disputes today deal only with overbillings from before June 30, 2003. As an example, in 2009, almost \$3 million was withheld by the State for alleged overpayments dating back to the 2002/03 fiscal year. Subsequent audits will take place over the next several years.

The \$33.7 million problem stems from several distinct areas. All amounts shown are approximate.

1. **\$14.4 million.** This is a result of billing Medi-Cal for services delivered by probation officers and welfare social workers. This problem arose because, in the past, the County was encouraged to integrate services of Mental Health, Probation, and Department of Social Services under the Multi-agency Integrated Service Center (MISC) program, which was initially funded by grants. Under this program probation officers and social workers were trained to provide case management services to clients under the supervision of ADMHS. Their services were billed to the MISC grant. When the grant ended, these services were then billed to Medi-Cal, in the belief that they were eligible under Medi-Cal rules. The County still maintains that these services are eligible for Medi-Cal reimbursement, and continued to bill them through 2008. The issue was argued in an Informal Administrative Hearing in Los Angeles on October 28, 2008 before a hearing officer from the Office of Administrative Hearings and Appeals, State of California Department of Health Care Services. On March 18, 2009, the hearing officer issued his ruling and denied all claims by the Santa Barbara ADMHS. The County had 30 days to file an appeal. If appeals are unsuccessful, it is unclear which County department would be responsible for this liability, or whether the County general fund would ultimately be responsible for any payment.

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2. **\$3 million.** A number of patients who receive services from ADMHS are eligible for both Medicare and Medi-Cal (so-called Medi-Medi). Medi-Cal rules require that for services to these dual eligible patients, Medicare be billed first, and Medi-Cal only for amounts Medicare does not pay. A number of years and several directors ago, the decision was made not to bill Medicare for these dual eligible patients, apparently due to the complexities of the billing and the frequent non-payment by Medicare. When the County recently discovered this, it notified the State, and calculated the amount owed. Further analysis may reduce this amount, and it is possible that some of the \$3 million may be recovered through approved Medicare claims.
3. **\$3.3 million.** This represents an obvious error, in which the 15% administrative fee in contracts was billed twice to the State. The 15% overhead was included in all the contracts, but the County billed the State an additional 15%, apparently not realizing that it was already included in the contracts. The Auditor-Controller and the Chief Financial Officer for ADMHS have been reviewing this error, and believe that the total amount owed will be sharply lower than \$3.3 million.
4. **\$2.3 million.** Medications given to patients in the Psychiatric Health Facility (PHF) inpatient unit are supplied by a pharmacy through a contract with ADMHS. According to Medi-Cal rules, services for eligible patients at the PHF must be billed to the State on an "all-inclusive" basis. Due to an error in the contract with the pharmacy, which went unnoticed for a number of years, the pharmacy billed Medi-Cal separately for medication provided to these patients. It is uncertain how much of the \$2.3 million will be a liability to the County.
5. **\$7.4 million.** In addition to retroactive denials based on eligibility or what the State considers lack of adequate documentation of "medical necessity", the State audits actual costs of delivering services, and reimburses the County only up to those actual costs. The County must bill the State based on estimates of costs, which are then audited retroactively. The County has overestimated these costs in the past, resulting in part of the "overpayment". Again, additional analysis may reduce this liability.
6. **\$3.3 million.** Other miscellaneous billing problems.

Approximately \$17 million was shown as a liability on the financial statement of ADMHS as of June 30, 2008. The remaining amounts have been considered a contingent liability, and will only be shown as a liability if a court denies all claims by the County. The \$17 million will be reduced by several million as a result of current analysis, although the final amount owed will still be substantial.

Overbillings were the result of poor decisions by ADMHS staff and executives, and inadequate supervision of contracts and financial reviews. The people responsible for the overbillings have been replaced, the entire executive team is new, and the job

responsibilities in the fiscal department have been revised. The Department takes the overbillings seriously, and has taken major steps to address the problems. The above notwithstanding, the complexity of the ADMHS budget makes it difficult to know how effective these changes will be. The audits and the litigation also may conclude that the Department continues to overbill, and that new amounts may be owed the State.

Ongoing Financial Problems

The ADMHS Department traditionally works at a deficit, and requires funds from the County general fund to balance its budget. Payments from ADMHS and its support of many community based organizations are critical in providing an essential lifeline. The clients of ADMHS are the residents most in need of help with little ability to care for themselves. Last year, in an effort to eliminate the deficit, there were budget talks to reduce expenses and subsidies of community based organizations, and there was a large public outcry. As a result, in fiscal year ending June 30, 2008, the County subsidized ADMHS with \$6.9 million. An additional \$4.3 million was provided for the current fiscal year, with slightly more than \$1 million carried over to next year. To achieve a breakeven budget, \$3.3 million will be required to be cut from its expenses next fiscal year.

Staffing

All key staff members are relatively new. The ADMHS Director started on January 1, 2008. The Deputy Director has been at the Department for two years. The Chief Financial Officer started in August 2008. The fiscal manager was given new responsibilities to head up revenue/collections and accounting. A new position is being requested for billing compliance, and new job descriptions have been established to monitor contracts.

The Auditor-Controller's staff is working closely with ADMHS and meets with them weekly, providing resource material, to conducting audits and developing new systems. It is expected that the Auditor-Controller will continue in this capacity.

Software and Billing Problems

Against this backdrop, there are two additional areas which affect both the County and ADMHS. The billing system currently in place is *ShareCare*[™], which was acquired on June 24, 2007. This software program was a beta test program, which means it was a prototype and not fully developed. Santa Barbara County was the "guinea pig", and was used to test how well the program would work in practice, thereby saving the County money on the purchase.

As is often true with beta versions, *ShareCare*[™] had major problems, preventing the County from billing both Medicare and Medi-Cal on a current basis. For many months neither was billed, which meant that ADMHS had limited revenue, and the County had to subsidize the Department. The ADMHS Department withheld payments on the maintenance agreement to force *ShareCare*[™] staff to correct problems. By November 2008, Medi-Cal billings were finally brought current.

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The Grand Jury believes that the purchase of a beta version of the software was a significant error in judgment by the ADMHS staff involved, particularly since the software was so critical to the entire budget of ADMHS. Furthermore, the prior software was not retained as a backup system, so ADMHS was totally at the mercy of this unproven system. Administrative controls over the information technology area in the ADMHS Department and the management review process associated with the decision to purchase this system were clearly inadequate.

On August 18, 2008, Medicare changed its billing system from fiscal intermediaries to Medicare Administrator Contractors (MAC). Palmetto GBA became the MAC for Santa Barbara County. The result was a shut down in Medicare billings. The ADMHS Department experienced difficulty in receiving an access code to allow billing, causing additional and unnecessary cash flow problems for both ADMHS and the County.

It was clear from the interviews that ADMHS staff is aware of the many financial problems facing the Department. The Department has taken an active role in presenting its position in the Informal Administrative Hearing with the State, and is actively working with *ShareCare*[™] and its owner, The Echo Group, and with Palmetto GBA to solve billing problems. The County, and in particular the Auditor-Controller, is likewise focused on all these areas, and is working to assist the Department.

CONCLUSION

Even without the current economic/financial conditions impacting Federal, State and County governments, ADMHS is not healthy financially. Its Medi-Cal overbillings will cost the County substantial funds. The on-going annual deficit will be difficult to cover, and may require further cutbacks in services.

On a positive note, all key people in the Department are relatively new, they have revised job descriptions and reorganized staff to be sure past problems do not recur. The staff also is well aware of all issues discussed in this report. It is too soon to see how successful the reorganization will be.

FINDINGS AND RECOMMENDATIONS

Finding 1

The *ShareCare*[™] billing software has not performed as expected, and has failed to bill Medi-Cal and Medicare in a timely manner.

Recommendation 1

That in the future the Alcohol, Drug and Mental Health Services Department purchase only proven software and maintain a backup program until the new program is fully implemented and functional.

Finding 2

Many of the financial liabilities of the past eight years would never have been incurred if adequate accounting systems had been in place.

Recommendation 2

That the Santa Barbara County Auditor-Controller continue to review and monitor the accounting activities of the Alcohol, Drug and Mental Health Services Department.

REQUEST FOR RESPONSE

In accordance with *California Penal Code Section 933.05*, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

Director, Alcohol, Drug and Mental Health Services – 60 days

Findings 1, 2
Recommendations 1, 2

Santa Barbara County Executive Officer – 60 days

Findings 1, 2
Recommendations 1, 2

Santa Barbara County Auditor-Controller – 60 days

Finding 2
Recommendation 2

