



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
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2012 MAR 15 AM
COUNTY OF SANTA BARBARA
CLERK OF THE BOARD OF SUPERVISORS

Department Name: ADMHS
Department No.: 043
For Agenda Of: 3/20/12
Placement: Departmental
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: No Vote Required

TO: Board of Supervisors
FROM: Department Ann Detrick, PhD, Director
Director(s) Alcohol, Drug & Mental Health Services 805-681-5220
Contact Info: Marianne Garrity, RN, Assistant Director, Administration 681-5220
SUBJECT: ADMHS Update

County Counsel Concurrence

As to form:

Auditor-Controller Concurrence

As to form:

Other Concurrence:

As to form:

Recommended Actions:

- a. Receive and file a report regarding the Alcohol, Drug and Mental Health Services Department;
- b. Direct the Department to return to the Board in May 2012 with further information on the Department's financial projections and implementation of budget adjustments, as appropriate.

Background

The Alcohol, Drug and Mental Health Services (ADMHS) Department is the County's Mental Health Plan designated by the State of California Department of Mental Health (DMH), to provide Specialty Mental Health Services to:

- Medi-Cal beneficiaries with specialty mental health needs; and
- To the extent resources allow, services to uninsured individuals who are:
 - Children with serious emotional disturbance (SED);
 - Adults and older adults with serious mental illness (SMI).

ADMHS also provides Alcohol and Drug Services to Drug Medi-Cal beneficiaries, court-ordered and grant participants.

ADMHS has reported to the Board about historical operational and financial challenges, a number of which are shared by other counties across California. ADMHS has periodically briefed the Board about the Department's financial status and steps taken to strengthen the Department's operations. This report:

- 1) Describes the current financial challenges and potential solutions;
- 2) Discusses financial liability status;
- 3) Summarizes matters that have created issues for the County and the results of ADMHS' operational improvements over the past several years;
- 4) Future opportunities for the County's Mental Health System and next steps.

Current Challenges

Over the last several years, ADMHS implemented restructuring of its service delivery and business operations in response to a convergence of longstanding financial issues, as detailed further in this report. Despite deploying major changes within the local Mental Health System, the impacts of those issues still reverberate within the system today and are compounded by a structural financial imbalance inherent in the State Community Mental Health System.

The Issue

As reported to the Board on March 6, 2012 in the Fiscal Year 2011-12 Financial Status Report, the Mental Health Services Fund (0044) has a projected net negative variance of approximately \$6.4M that will require operational changes, program reductions, potential additional General Fund contribution and/or other solutions. This variance is attributed to the following:

- 1) \$3.7M - revised revenue estimate related to the FY 10-11 year end cumulative accrual (\$1M for FY 09-10 and \$2.7M for FY 10-11). This is related to the annual Medi-Cal claim amount being less than projected as well as a higher than anticipated denial rate for submitted claims (ADMHS continues to resubmit and appeal denied services);
- 2) \$1.5M - net loss due to inpatient system of care: additional costs related to recent Medicare Audits at the Psychiatric Hospital Facility (PHF), higher than anticipated indigent costs, and lower than anticipated Medicare revenue;
- 3) \$630K - primarily in lack of staffing vacancies (ADMHS used a 5% vacancy factor, but it is currently 0.2% due to lower than planned employee turn over and ADMHS quickly filling revenue generating positions critical to meeting revenue targets);
- 4) \$570K - reduced clinic claiming due to furlough.

A structural imbalance exists in California between the cost of providing mental health services and the funding to cover these costs. Attachment A describes the shift of responsibility for Mental Health Services over the last 20 years from the State to the Counties and the insufficient funding allocated to cover the associated costs. ADMHS has limited State and County funds available to meet its first obligation which is to match Federal Medicaid dollars, then to provide services to other populations, to the extent funding allows.

While the legally mandated population is Mental Health Medi-Cal beneficiaries, the community has come to rely on a higher level of services that are not covered by Medi-Cal including:

- Services to persons who are indigent;
- Services to Medi-Cal Beneficiaries that are not Medi-Cal reimbursable, such as inpatient services in psychiatric health facilities and long-term care facilities with more than 16 beds (known as Institutions for Mental Disease – IMD), certain case management activities and transportation;
- Services to homeless individuals to support their mental health stability and help prevent higher cost care, such as emergency room and psychiatric inpatient care.

Inpatient services, which are the most costly programs (State Hospital beds, acute inpatient psychiatric hospital services and long term care facilities services) continue to impact the County's mental health budget (costs have increased by \$2M since FY 07-08). These services are not covered by MHSA, never fully reimbursed by Medi-Cal and frequently are not covered at all by Mental Health Medi-Cal. Additionally, there has been an increase in indigent utilization, such that less of those inpatient costs are reimbursable. The costs associated with providing inpatient services to the indigent population has increased by approximately \$1.5M since FY 07-08 to an estimated \$5.5M for FY 11-12.

Solutions

Since 2008, ADMHS has trimmed outpatient services to indigent persons to help control costs. ADMHS has also shifted the population to MHSA programs whenever legally possible. Consequently, MHSA resources, including prudent reserve, are being fully maximized. To counter some of the above negative variances, the Department plans to:

- a) \$1.2M - Prepare a Budget Revision to release Fund Balance from employee concessions to offset reimbursement losses related to furlough and other cost reimbursement reductions.
- b) \$1.4M - Propose to relocate the ADMHS Crisis and Recovery Emergency Services (CARES) clinics from the Mental Health Fund (0044) to the Mental Health Services Act Fund (0048).
- c) \$500K - Receive an EPSDT allocation from the State for children's services which is \$500K higher than the Department's projected year-end amount (this allocation will need to be supported by Mental Health Medi-Cal related costs).

The above actions would offset approximately \$3.1M of the above referenced negative variances.

There is a potential for improvement to the portion of the loss related to the -\$3.7M (item #1, page 2 of this report) FY 10-11 revenue accrual/estimate; however, the above figures reflect currently known claims. It is important to note that a significant portion of the accrual problem resulted from a change in methodology and data used to estimate the accrual. The Department believes that the changes made were needed and in the long term will provide improved insight and better tools for revenue estimates; however, there were unanticipated negative results in this first year of application. Additionally, as described in Attachment A, because of the State's final settlement occurs long after the year ends, final revenue figures for FY 10-11 will not be known until the fiscal year ending June 2016.

The remaining net financial impact of \$3.3M would need to be addressed through some combination of additional Departmental reductions, changes and General Fund contribution. If additional Department reductions are required due to funding constraints, ADMHS will have to significantly curtail services to the non-mandated indigent population and non Medi-Cal services to Medi-Cal beneficiaries. In FY 11-12, the cost associated with providing these services is approximately \$8.7M. Due to the short timeframe

available to realize savings prior to the end of the fiscal year, there would be significant service level impacts associated with Department reductions, such as:

1. Reduction in acute hospital and long term care in IMD settings;
2. Reduction in funding to community services such as homeless and residential programs.

The above drastic measures, if implemented by April 1, 2012 would yield approximately \$1.25M in projected savings for the remainder of this fiscal year, which would cover less than half of the projected variance.

FY 07-08: A Pivotal Year

The State's structural financial imbalance in supporting mental health care has left counties with the responsibility to finance more and more of the mental health system. Over the past years, ADMHS has witnessed firsthand the phenomenon of a drop in resources to fund its core mental health programs. In FY 07-08, a number of historical financial challenges and systemic issues came to light and culminated into a financial crisis in Santa Barbara County that necessitated major changes in the Mental Health System.

- FY 02-03 through FY 05-06: ADMHS developed improper billing practices in order to generate increased annual cash flow to fund operations. This was discovered in FY 07-08 and self disclosed to the State, as further described below.
- FY 05-06: ADMHS had a shortfall of \$2.4M which brought the Department's fund balance to zero.
- FY 06-07: ADMHS proposed, and the Board approved, the FY 06-07 Budget Reforecast Plan which included a variety of Department revenue and expenditure reductions in the amount of \$5.2M.
- FY 07-08:
 - Budget Shortfall. ADMHS identified a FY 07-08 budget shortfall of approximately \$6.97M in its Adult Mental Health programs. This resulted from the discovery that Medi-Cal revenues had been over projected, with State and local funding insufficient to provide the required matching dollars. The Board approved transfers to offset the FY 07-08 shortfall after ADMHS provided a Restructuring Plan for a balanced budget for FY 08-09. During FY 08-09 Budget Hearings, the Board of Supervisors allocated \$4M in additional funds to ADMHS to help alleviate some of the immediate impacts of service reductions. This funding, which ADMHS chose to allocate across two years, enabled ADMHS to gradually reduce services and establish a system of care more in line with available resources.
 - DMH Audit – MISC/CEC. In February 2008, State auditors disallowed costs for FY 02-03 related Mental Health Medi-Cal billing for child/adolescent mental health services provided through the Multi-agency Integrated System of Care Program (MISC/CEC) by ADMHS' interagency partners: Department of Social Services, Probation and Public Health. The finding represented a potential multi-year financial liability estimated at the

time to be \$12.2M for FY 02-03 through 07-08. ADMHS discontinued this program due to the financial risk to the County and dramatically altered the children's system of care.

- ADMHS Disclosures to State Department of Mental Health (DMH). In Fall 2007, after ADMHS discovered and launched an examination of several compliance issues related to irregular reimbursement practices for services rendered, ADMHS, with concurrence of the County Executive Office (CEO), County Counsel and Auditor-Controller, notified the State Department of Mental Health DMH of findings related to:
 - Documentation issues by a network provider.
 - 15% administrative fees improperly added to organizational provider contracts.
 - Excess Federal Financial Participation (FFP) funds and Early Period Screening Diagnosis and Treatment (EPSDT) billed to the State and collected by ADMHS but not supported with required matching funds.
 - Incorrect billing for clients dually eligible for Medicare and Mental Health Medi-Cal.

The County discontinued these practices and developed policies and procedures to ensure appropriate documentation, billing and reimbursement processes are carried out.

Liability Status

MISC/CEC. The liability amounts previously described for the partner agency MISC/CEC issues were estimated in FY 07-08 and the County is in discussion with the State to resolve final amounts owed. Some of the reserve balances established by the Board during FY 07-08 may be utilized for upcoming settlements described below.

Self Disclosures. In FY 07-08, the potential liabilities associated with the self disclosed matters were estimated at \$9.3M, and the County proposed to the State that they be settled as State audits for FY 02-03 thru 07-08 are performed. Many of the self disclosed items have now been finalized and amounts owed to the State are currently estimated to be lower than initially projected.

Ongoing Cost Settlements. Pursuant to the State's regular Mental Health Medi-Cal cost report settlement process, ADMHS is finalizing multiple prior years. The following is the latest status of prior FY cost report reconciliations and audit settlements:

- | | |
|--------------------------------|----------|
| ○ 05-06 Cost Report Audit | \$734K; |
| ○ 06-07 Cost Report Audit | Pending; |
| ○ 07-08 Reconciled Cost Report | \$3.7M; |
| ○ 08-09 Reconciled Cost Report | Pending. |

As depicted above, the County owes \$4.43M to the State for FY 05-06 and FY 07-08. Funding for the above State settlement amounts is planned to be provided from established reserves, subject to Board review and approval. Due to the State's claiming, reimbursement and audit process, ultimate Medi-Cal reimbursements and final settlement amounts aren't known until five years after the end of a given fiscal year. This potentially creates new settlement liabilities each year. ADMHS will return to the Board in May of 2012 to provide a comprehensive overview of liability status as the items referenced within this section represent only those areas where amounts have been finalized as of the date of this report.

ADMHS' Response to Financial Challenges

ADMHS has initiated numerous changes since FY 07-08 as part of the effort to secure the Department's ongoing financial stability. These improvements have sought to ensure that high quality services are delivered to the appropriate population efficiently, with tight management and oversight of expenses and revenue generation. A major focus of ADMHS' operational changes has been in the financial management area, with priority given to preventing/reducing future cost settlements, improved management information on the nature and funding source of services provided, audit exceptions with the State, and in turn, with its contracted service providers.

Service Delivery

- Reorganization of mental health service system to better meet available revenue. Revamped service delivery system to incorporate evidence-based practices. Reduced adult community service system of care in Adult Mental Health Services, Fund 0044 by approximately \$14.3M (FY 06-07 to FY 11-12 Estimated Actual).
- Clear delineation of mandated, mental health priority population: children with serious emotional disorders and adults with serious mental illness.
- Improvements to Clinic/CARES operations, including clinic appointment scheduling system with tie to clinician documentation and standardization of the client intake/registration process.

Financial Management

- Addition of dedicated staff to cost report, audit and contract financial monitoring functions to reduce likelihood of settlements with the State and providers.
- Improve oversight of fiscal compliance and Mental Health Medi-Cal/Medicare billing procedures.
- Development of real-time tracking tools for expenses/income, including weekly tracking of Clinic/CARES fiscal status and inpatient utilization.
- Projects with Auditor/Controller staff:
 - Cost Report Preparation and Instruction Manual (Mental Health and ADP)
 - Annual Cost Settlement process with State
 - Annual Cost Settlement process with Providers
 - Annual update of ADMHS Published Charges
- Reconciliation of State and Federal payments over five years.
- ADMHS research, re-submittal and resolution of State denied Medi-Cal services.

Contracts

- Regular cost/rate review and adjustments.
- Scorecards for major CBOs include close monitoring of service levels, staffing levels, costs and adherence to contract. Scorecards enable comparison of similar programs and implementation of improvements based on key indicators like costs, hospitalization and incarceration.
- Quarterly meetings between ADMHS multidisciplinary team and providers.
- FY 11-12 contract adjustments of approximately \$1M resulted from aligning service levels and costs attributed to this monitoring process.

Quality Assurance

- Regular departmental audits of medical charts to confirm medical necessity and proper documentation
- Daily management and triage of high cost emergency and inpatient resources (Vista, PHF, IMDs).
- Establishment of process for documentation trainings regularly attended by 300 clinical and direct care staff.
- Significant improvement in annual External Quality Review Organization (EQRO) results by State of ADMHS' Medi-Cal Mental Health Plan since 2008.

Management Information System

- Completion of complex system conversion initiated in 2007, with significant modification and testing to ensure compliance with changing State/Federal requirements.
- Uploading of service claims data to State in timely fashion, with regular review of performance on timeliness.
- External review of MIS system, conducted in 2011, verifying compliance with all State and Federal billing rules.
- Development of data reports responsive to the needs of divisions across ADMHS.

Future Opportunities

As outlined herein, ADMHS has attempted to maintain mental health services for those most in need within limited resources for years. ADMHS is making continued operational enhancements to manage its limited resources, including:

- Medi-Cal Revenue accrual assumptions will include adjusted rates for denials and non-reimbursable services based on additional data developed in the past year;
- Monitoring of service levels and funding sources for ADMHS clinics and the PHF will continue to be performed and reviewed by management on a weekly basis;
- A Request for Proposal (RFP) was issued in March 2012, seeking to build on internal operational improvements and to identify opportunities for further enhancements. Implementation of the RFP findings may be supported with the creation of a community stakeholder advisory committee.

In addition, State and Federal initiatives are anticipated to provide opportunities to strengthen the County's mental health system while alleviating some of the financial burdens the County has faced.

- AB 1297 (Chesbro) eliminates California's use of administratively-established Statewide Maximum Allowances (SMAs) for federal reimbursement and allows counties to be reimbursed up to their actual costs for providing Medicaid services. It also expands the timeline for submission of initial reimbursement claims from six months to twelve, per Federal guidelines, and may allow for recovery of increased administrative costs. The impacts of this law on Santa Barbara's revenues are being analyzed; however, legislative intent is to allow counties to recover more of the costs for services provided to Mental Health Medi-Cal beneficiaries.

- The California State Association of Counties and California Mental Health Directors' Association continue to advocate on behalf of counties with the State DMH and Department of Health Care Services regarding State reimbursement and settlement processes.
- The Federal Affordable Care Act provides significant expansion of Medicaid to individuals with mental health issues who do not currently qualify for Mental Health Medi-Cal. Americans who earn less than 133% of the poverty level (approximately \$14,000 for an individual and \$29,000 for a family of four) will be eligible to enroll in Medicaid. States will receive 100% federal funding for the first three years to support this expanded coverage, phasing to 90% federal funding in subsequent years. For the first time, low-income adults without children will be guaranteed coverage through Medicaid. ADMHS anticipates this will provide funding for a significant number of individuals who currently make up the indigent population.

Next Steps

In conclusion, the ADMHS has made considerable progress in right-sizing its service system and revenues while addressing the repercussions of significant historical financial problems. In order to ensure that the issues facing the Department remain at the forefront of discussion and the Board is informed of issues and ADMHS' process, the Department will update the Board in May 2012 and, thereafter, on a quarterly basis or as information becomes available.