

ADMHS Liabilities Update

County of Santa Barbara

June 23, 2015

Recommended Actions



- Receive and file the report updating known and estimated liabilities of the Alcohol, Drug, and Mental Health Services Department (ADMHS).
- Approve Budget Revision Requests (BRR # 0003925, 0004012, 0004013) to increase appropriations of \$6,049,321 in the ADMHS Mental Health Fund for outstanding liabilities, as funded by positive audit settlements (\$175,749), Deferred Revenue (\$1,005,628) and an Operating Transfer from the Audit Exception Reserve (\$4,867,944). \$3,758,393 will be transferred for current liabilities and \$1,109,551 will remain in the Audit Exception Reserve for long term liabilities.
- Return in February 2016 to provide an update on changes in liabilities to prepare for the FY 2016/17 budget.



Overview

- On December 10, 2013, ADMHS presented information regarding the Department's known and projected financial liabilities of \$9.5 million, as of September 30, 2013. The purpose of this presentation is to provide an update on ADMHS' extinguished (paid), known and estimated liabilities as of May 31, 2015.
- The largest change since the last liability update is the inclusion of \$2.7M in audit adjustments and liabilities related to the State's disallowance of the Department's nominal fee provider exemption. Nominal fee provider disallowances now meet GAAP liability recognition criteria and must be recorded. This exposure was reported in the last liability update but was not funded.



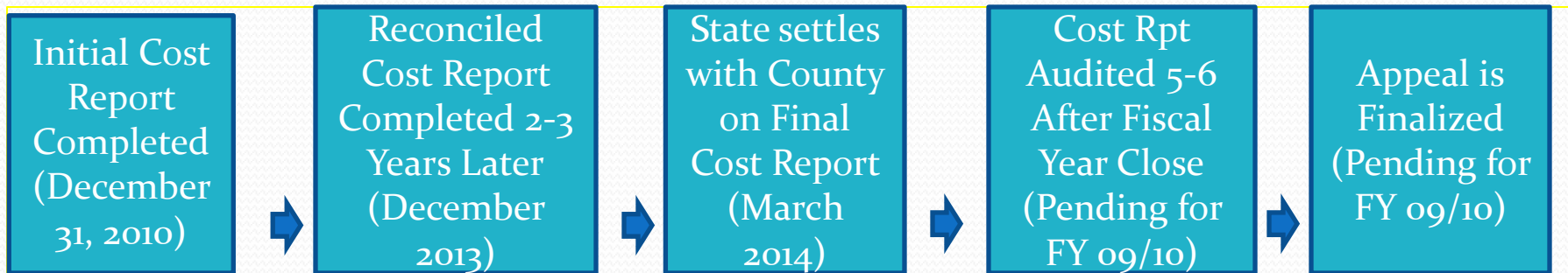
Funding Sources

- Mental Health has many external funding sources that account for 97% of revenue received and therefore high audit exposure.
- Each funding source has specific guidelines and restrictions and is audited separately.
- The cost report is the final claim for reimbursement of Medi-Cal programs, including Mental Health Services Act (MHSA) programs that use Medi-Cal funding as leverage.
- The Department's largest liability exposure relates to cost report audits and settlements for Federal Financial Participation (FFP). All remaining liabilities are related to cost report audits and settlements.
- MHSA has not yet been audited in the 10 years since inception but remains a high exposure area due to the large dollar amount received and complex funding restrictions.

Mental Health Cost Report Example



Sample Fiscal Year 2009/10



- Cost report settlements, audits, and appeal timing is controlled by the State.

3.5 Years: Average time for State to complete settlement process.

- Last completed settlement is FY 2009/10.

5.6 Years: Average time for State to audit County records.

- Last completed audit is FY 2008/09.
- ADMHS often doesn't receive information on the State's perceived unallowable items until the audit is completed 5 years later.

7.3 Years: Average time until audit appeals are finalized.

- Last completed audit appeal is FY 2005/06. FY 2002/03 – 2005/06 were settled with a 43% refund to the County.
- Validity of State audit adjustments are unadjudicated until a decision is rendered at a formal hearing and any appeal to Superior Court is resolved. Prior appeals have all settled.



Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013
Self Disclosures	\$ 0.8
Prior Year Cost Report Audits (FY 2005/06 to FY 2008/09)	\$ 1.3
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2
Other Settlements	\$ 0.4
Total ADMHS Liabilities	\$ 4.7

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8
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Total ADMHS and Partner Agency Liabilities	\$ 9.5
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Adjustments: (\$1.4M)

Known and Estimated ADMHS Liabilities (millions)	Adjustments
Self Disclosures	\$ -
Prior Years' Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ (0.3)
Prior Years' Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ (0.1)
Other Settlements	\$ -
Total ADMHS Liabilities	\$ (0.4)
Partner Agency Liabilities (millions)	
Multi-agency Integrated System of Care (MISC/CEC)	\$ (1.0)
Total ADMHS and Partner Agency Liabilities	\$ (1.4)

- Prior Year Cost Report Audits (\$0.3M)
 - FY 2005/06 ADP Cost Report Audit appealed successfully (\$0.1M)
 - FY 2008/09 EPSDT Settlement is a remote liability and unlikely to be collected by the State (\$0.2M)

- Prior Year Cost Report Settlements (\$0.1M)
 - FY 2009/10 Cost Report Settlement was finalized at less than estimated

- MISC/CEC (\$1.0M)
 - FY 2007/08 & 2008/09 audit adjustments less than anticipated



Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013	Adjustments
Self Disclosures	\$ 0.8	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ 1.3	\$ (0.3)
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2	\$ (0.1)
Other Settlements	\$ 0.4	\$ -
Total ADMHS Liabilities	\$ 4.7	\$ (0.4)

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8	\$ (1.0)
Total ADMHS and Partner Agency Liabilities	\$ 9.5	\$ (1.4)



Extinguished / Paid: (\$4.7M)

Known and Estimated ADMHS Liabilities (millions)	Extinguished (Paid)
Self Disclosures	\$ (0.8)
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ (1.0)
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ (0.5)
Other Settlements	\$ (0.4)
Total ADMHS Liabilities	\$ (2.7)
Partner Agency Liabilities (millions)	
Multi-agency Integrated System of Care (MISC/CEC)	\$ (2.0)
Total ADMHS and Partner Agency Liabilities	\$ (4.7)

- Final balance of Self Disclosed liabilities paid (\$0.8M)
- Prior Year Cost Report Audits (\$1.0M)
 - Remaining balance of FY 2006/07 Cost Report Audit (\$0.4M) and FY 2006/07 SB 90 recoupment (\$0.6M) were paid
- FY 2009/10 Cost Report Settlement paid (\$0.5M)
- Other settlements related to PHF chart reviews and Medicare disallowances were paid(\$0.4M)
- MISC/CEC(\$2.0M)
 - \$1.9M was paid for the CEC/MISC portion of the FY 2006/07 audit
 - \$0.1M in associated legal fees paid



Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013	Adjustments	Extinguished (Paid)
Self Disclosures	\$ 0.8	\$ -	\$ (0.8)
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ 1.3	\$ (0.3)	\$ (1.0)
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2	\$ (0.1)	\$ (0.5)
Other Settlements	\$ 0.4	\$ -	\$ (0.4)
Total ADMHS Liabilities	\$ 4.7	\$ (0.4)	\$ (2.7)

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8	\$ (1.0)	\$ (2.0)
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Total ADMHS and Partner Agency Liabilities	\$ 9.5	\$ (1.4)	\$ (4.7)
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Updated Liabilities: \$4.1M

Known and Estimated ADMHS Liabilities (millions)	Updated
Self Disclosures	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ 3.7
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 0.4
Other Settlements	\$ -
Total ADMHS Liabilities	\$ 4.1

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ -
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Total ADMHS and Partner Agency Liabilities	\$ 4.1
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- Prior Year Audits (\$3.7M)
 - FY 2007/08 Audit (Final*) \$0.3M
 - FY 2008/09 Audit (Final*) \$2.7M
 - FY 2009/10 & 2010/11 Audits (Nominal Fee Provider Estimate) \$0.7M
 - Nominal fee provider liability is now “probable” for future years and must be recorded.
 - ADMHS has documentation to support nominal fee provider status and appealed the State’s audit findings.
 - Published charges have been updated consistently since 2010.
 - No adjustments expected after FY 2010/11.

- Prior Year Cost Report Settlements (\$0.4M)
 - FY 2011/12 Cost Report Settlement (Estimated)

*Net of CEC/MISC



Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013	Adjustments	Extinguished (Paid)	Updated
Self Disclosures	\$ 0.8	\$ -	\$ (0.8)	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ 1.3	\$ (0.3)	\$ (1.0)	\$ 3.7
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2	\$ (0.1)	\$ (0.5)	\$ 0.4
Other Settlements	\$ 0.4	\$ -	\$ (0.4)	\$ -
Total ADMHS Liabilities	\$ 4.7	\$ (0.4)	\$ (2.7)	\$ 4.1

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8	\$ (1.0)	\$ (2.0)	\$ -
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Total ADMHS and Partner Agency Liabilities	\$ 9.5	\$ (1.4)	\$ (4.7)	\$ 4.1
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Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013	Adjustments	Extinguished (Paid)	Updated	Total As of May 2015
Self Disclosures	\$ 0.8	\$ -	\$ (0.8)	\$ -	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2008/09)	\$ 1.3	\$ (0.3)	\$ (1.0)	\$ 3.7	\$ 3.7
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2	\$ (0.1)	\$ (0.5)	\$ 0.4	\$ 2.0
Other Settlements	\$ 0.4	\$ -	\$ (0.4)	\$ -	\$ -
Total ADMHS Liabilities	\$ 4.7	\$ (0.4)	\$ (2.7)	\$ 4.1	\$ 5.7

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8	\$ (1.0)	\$ (2.0)	\$ -	\$ 1.8
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Total ADMHS and Partner Agency Liabilities	\$ 9.5	\$ (1.4)	\$ (4.7)	\$ 4.1	\$ 7.5
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Funded \$4.8M & Unfunded Liabilities \$2.7M

Known and Estimated ADMHS Liabilities (millions)	Funded	Unfunded*
Self Disclosures	\$ -	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2010/11)	\$ 1.4	\$ 2.3
Prior Year Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 1.6	\$ 0.4
Other Settlements	\$ -	\$ -
Total ADMHS Liabilities	\$ 3.0	\$ 2.7

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 1.8	\$ -
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Total ADMHS and Partner Agency Liabilities	\$ 4.8	\$ 2.7
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- \$4.8M already set aside to fund ADMHS liabilities
- \$2.7M Unfunded*
 - Prior Year Cost Report Audits (\$2.3M)
 - \$1.6M Balance of FY 2008/09 Audit
 - \$0.7M FY 2009/10 & FY 2010/11 Audits (Nominal Fee Provider)
 - Prior Year Cost Report Settlements (\$0.4M)
 - FY 2011/12 Cost Report Settlement
 - All unfunded balances primarily relate to nominal fee provider

*SB 90 requested to fund



Currently Known & Estimated ADMHS Liabilities

Known and Estimated ADMHS Liabilities (millions)	Total As of September 2013	Adjustments	Extinguished (Paid)	Updated	Total As of May 2015	Funded	Unfunded*
Self Disclosures	\$ 0.8	\$ -	\$ (0.8)	\$ -	\$ -	\$ -	\$ -
Prior Year Cost Report Audits (FY 2005/06 to FY 2008/09)	\$ 1.3	\$ (0.3)	\$ (1.0)	\$ 3.7	\$ 3.7	\$ 1.4	\$ 2.3
Prior Years' Cost Report Settlements (FY 2009/10 to FY 2011/12)	\$ 2.2	\$ (0.1)	\$ (0.5)	\$ 0.4	\$ 2.0	\$ 1.6	\$ 0.4
Other Settlements	\$ 0.4	\$ -	\$ (0.4)	\$ -	\$ -	\$ -	\$ -
Total ADMHS Liabilities	\$ 4.7	\$ (0.4)	\$ (2.7)	\$ 4.1	\$ 5.7	\$ 3.0	\$ 2.7

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$ 4.8	\$ (1.0)	\$ (2.0)	\$ -	\$ 1.8	\$ 1.8	\$ -
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Total ADMHS and Partner Agency Liabilities	\$ 9.5	\$ (1.4)	\$ (4.7)	\$ 4.1	\$ 7.5	\$ 4.8	\$ 2.7
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*SB 90 requested to fund



Recommended Funding

- \$7.5M in total liabilities as of May 2015
- The Department already has \$2.6M set aside in the Mental Health operating fund to settle liabilities
 - Request use of \$1M of ADMHS Deferred Revenue
 - Remaining \$1.6M relates to long term liabilities and is payable in future years.
- \$4.9M must be transferred to increase operating budget to fund remaining liabilities
 - Request transfer of \$4.9M from the Audit Exception Reserve.
 - \$2.2M previously authorized to fund audit exceptions
 - \$2.7M as funded by a portion of prior year's SB 90 unfunded mandate payments to be deposited in the Audit Exception Reserve. The CEO recommended the transfer of SB 90 funds to the Audit Exception Reserve at the June 10, 2015 hearing and this was approved by the Board.



Improved Cost Report Processes

	ACTUALS					ESTIMATED		
	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13
Cost Report Settlements (In Millions)	\$ 1.5	\$ 2.5	\$ 3.1	\$ 0.9	\$ 0.5	\$ 0.8	\$ 0.4	\$ (0.3)
% of Total Expenditures	2.4%	3.6%	4.3%	1.5%	0.8%	1.2%	0.6%	-0.4%

- Settlements are expected to be minimal in future years, however some degree of cost settlement (1-2%) should be anticipated each year due to variability in claiming and costs.
- Cost report settlements arise when there is a difference in the rate used to claim on a provisional basis during the fiscal year vs. the final rate in the cost report.
- Safeguarding procedures were put in place to decrease the magnitude of cost settlements, including:
 - Quarterly rate reviews of contractor costs.
 - Aligning interim/provisional claiming and cost reporting processes.
- Effective controls have resulted in a decrease in costs settlements from a high of \$3.1M in FY 2007/08 to an estimated positive settlement of \$0.3M in FY 2012/13.
- ADMHS cost reporting processes were reviewed in detail and reported to be sound in the May 2013 TriWest Report (pg. 66 of 153).



Improved Audit Processes

<i>Liability Type (In Millions)</i>	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY2010/11
Partner Agency CEC/MISC	\$ 1.5	\$ 1.8	\$ 1.9	\$ 1.4	\$ 0.3	\$ -	\$ -
Self Disclosure	\$ 0.9	\$ 0.5	\$ 1.3	\$ -	\$ -	\$ -	\$ -
ADMHS & Contractor	\$ 1.5	\$ 0.2	\$ 0.3	\$ 0.3	\$ 2.7	\$ 0.7	\$ 0.0
Total Audit Liabilities	\$ 3.9	\$ 2.5	\$ 3.5	\$ 1.7	\$ 3.0	\$ 0.7	\$ 0.0
% of Total Expenditures	6.9%	4.0%	5.1%	2.3%	5.1%	1.1%	0.0%

Estimated

- Audit liabilities must be paid up front although the County disagrees with State findings.
- ADMHS has implemented controls to reduce audit adjustments, including:
 - Employed a CPA to oversee cost reports, audits, and appeals.
 - Held biweekly accounting meetings with the Auditor-Controller and CEO.
 - Attended statewide meetings to identify risks, themes, and resolutions impacting local county mental health agencies.
 - Consulted with County Counsel, other counties, and CBHDA on unadjudicated items.
 - Hired consultants to prepare financial reports in specialized areas.
 - Developed an internal reporting system unique to Santa Barbara County, to track and report on client services.
 - Adjusted cost reports to remove agreed upon errors identified in the audits.



Audit Challenges

- Audits vary greatly by year depending on the issues present.
- The administrative appeal judges ruling on the auditor's interpretation of the regulations are also employed by DHCS.
- With no final appeal rulings, the contested audit adjustments are unadjudicated and it is unclear whether future cost reports should be adjusted.
- State audit reports are complex and often contain errors.
 - State issued FY 2008/09 audit with \$355k in errors.
- ADMHS anticipates audit settlements to decrease, however this depends on State audit procedures and interpretations.
- All counties face challenging audits due to State interpretations of law and audit protocol.



Reserve Funding

- Recommend establishing and maintaining a reserve account to address routine audit exceptions.
- In the FY 13-15 Recommended Budget Policies, additional funding of the Audit Exception Reserve was recommended for settlements and audits and a strategy of adding \$1M per year to the reserve was adopted with the FY 14-16 Budget Development Policies.
- Per the May 2013 TriWest Report:

Finding F-2.7: Most comparison counties maintain reserves for Medi-Cal audit exceptions and variability in MHSA funding.

Santa Barbara County depleted its realignment reserve account used to fund outstanding Medi-Cal liabilities due to the 2008 challenges and has not, as of the time of this analysis, restored it. Benchmark/best practice counties report that it is a prudent business practice to establish and maintain a reserve account to address routine Medi-Cal audit exceptions from prior years due to inconsistent application and promulgation of state billing “rules” by state offices, as well as variability in MHSA revenue (see table below).

Benchmark Counties	Reserve Account Approach
Marin	Amount based on past “worst” case audit exception from previous years
Monterey	10% of total budget
San Luis Obispo	Amount routinely calculated based on audit exceptions found each year
San Mateo (best practice)	2% of total budget

Recommended Actions Summary



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Questions?