



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: ADMHS
Department No.: 043
For Agenda Of: November 5, 2013
Placement: Departmental
Estimated Tme: 45 minutes
Continued Item: No
If Yes, date from:
Vote Required: 4/5

TO: Board of Supervisors
FROM: Department Takashi Wada, MD, MPH, Interim Director
Director(s) Alcohol, Drug and Mental Health Services, 805-681-5168
Contact Info: Michael C. Evans, Chief Financial Officer, 681-4517
SUBJECT: ADMHS Liabilities Update

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Receive and file the report updating known and estimated liabilities of the Alcohol, Drug and Mental Health Services Department (ADMHS); and
- B. Approve a Budget Revision Request (BRR# 0003059) to transfer \$140,956 from ADP fund balance into the current year operating budget; and
- C. Approve a Budget Revision Request (BRR# 0003169) to increase the Mental Health Fund operating budget by \$750,110 by a release of ADMHS unused CEC/MISC funds in the Audit Exception account of \$121,555 and ADMHS deferred revenue of \$628,555.

Summary Text:

On May 15, 2012, ADMHS and the CEO's Office presented information to the Board of Supervisors regarding the Department's projected financial liabilities of \$14.4 million and the projected FY 11-12 operating loss of \$5.0 million; for a total estimated amount of \$19.4 million, at that time. This Board Letter provides an update on ADMHS' extinguished, known and estimated liabilities as of September 30, 2013.

Background:

The following table represents the changes in the liability amounts from May 15, 2012 through September 30, 2013, the amount of liabilities that are funded, and the amount of unfunded liabilities. These changes were due to some liabilities being extinguished (paid), some liability amounts were revised based on estimated amounts being finalized, and the addition of new liabilities.

Known and Estimated ADMHS Liabilities (millions)	As of 5/15/12	Adjustments	Extinguished	New	As of 9/30/13	Funded	Unfunded
FY 11-12 Projected Negative Net Financial Impact (gross)	\$5.0	+\$0.5	-\$5.5	\$0.0	\$0.0	\$0.0	\$0.0
Self Disclosures	\$1.2	\$0.0	-\$0.4	\$0.0	\$0.8	\$0.8	\$0.0
Prior Years' Cost Report Audits and Settlements (FY 05-06 to FY 08-09)	\$7.8	+\$0.6	-\$7.9	\$0.9	\$1.4	\$0.7	\$0.7
Prior Years' Cost Report Audits and Settlements (FY 09-10 to FY 10-11)	\$0.0	\$0.0	\$0.0	\$2.2	\$2.2	\$2.2	\$0.0
Other Settlements	\$0.3	+\$0.2	-\$0.7	\$0.6	\$0.4	\$0.4	\$0.0
Total ADMHS Liabilities	\$14.4	+\$1.3	-\$14.5	+\$3.7	\$4.8	\$4.1	\$0.7

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$5.0	\$0.0	-\$0.2	\$0.0	\$4.8	\$4.8	\$0.0
Total ADMHS and Partner Agency Liabilities	\$19.4	+\$1.3	-\$14.7	+3.7	\$9.6	\$8.9	\$0.7

Established funding sources as of May 15, 2012 were \$7.8 million and the CEO's Office had identified \$12.1 million of potential new funding sources, as described in the paragraph below. When combined, these funding sources of \$19.9 million addressed ADMHS' estimated \$19.4 million in liabilities as of May 15, 2012.

On May 15, 2012 the Board approved \$4,620,000 of funding in the Audit Exception account to be used to fund prior year Medi-Cal related cost report settlement liabilities. On June 16, 2012 the Board approved \$4,793,045 of funding from the favorable State Audit Settlement for FY 02-03 through FY 05-06 to fund the ADMHS FY 11-12 operating loss and for estimated Medi-Cal related cost report

settlement liabilities. The CEO's Office recommended \$2,700,000 of the Strategic Reserve be allocated to address the unfunded CEC/MISC liability associated with Probation Department Medi-Cal services. The \$2,700,000 transfer was not made in FY 11-12, but was approved by the Board at the end of FY 12-13.

After extinguishing \$14.7 million in liabilities, updating the remaining liabilities based on actual finalized amounts (\$1.3 million), and adding new liabilities (\$3.7 million), ADMHS has known and estimated liabilities that totaled \$9.6 million as of September 30, 2013.

Finalized and Estimated Liabilities:

A total of \$14.7 million in liabilities has been extinguished:

- \$7.3 million of finalized liabilities were paid in FY 11-12 and FY 12-13, with ADMHS utilizing \$2.6 million of its operating revenue and reserves towards the liabilities.
- \$7.4 million was effectively paid by the California Department of Health Care Services (DHCS) intercepting FY 13-14 current year Medi-Cal payments and applying them against outstanding invoices owed to the State.

Both of the actions above have negatively affected ADMHS' current year revenue sources and ADMHS will address current year operations at a future Board of Supervisors' meeting during this second quarter.

At the end of FY 12-13, the State made the final required payment to the County per the 43% settlement agreement entered into between the State and the County pertaining to cost report audits for FY 02-03 through FY 05-06. ADMHS continues to wait for DHCS to credit the County for almost \$4.5 million in unaccounted intercepted payments from FY 12-13 and double audit payments made for FY 03-04 through FY 05-06.

The FY 06-07 CEC/MISC liability (\$1.9 million) is now known as part of the FY 06-07 audit, while the estimated liability amounts for CEC/MISC for FY 07-08 and FY 08-09 (\$2.9 million combined) have not changed since May 2012. The County is appealing this assessment and will continue to vigorously defend its position that CEC/MISC was a Medi-Cal reimbursable program as DHCS completes their audits of each year. It is unknown at this time how successful the County will be in this effort.

New Liabilities/Exposures:

Prior Years' Cost Report Audits and Settlements: Below are ADMHS liabilities totaling \$3.7 million that were not accounted for in the May 15, 2012 Board letter, since they were either not known of at the time or there were no estimates available.

ADP FY 05-06 Audit (Final)	\$ 140,956
SB 90 Claiming Audit (Final)	\$ 569,404
Mental Health Prior Years' Invoices (Final)	\$ 316,476
Mental Health FY 08-09 EPSDT Settlement (Final)	\$ 180,706
Mental Health FY 12-13 PHF Inpatient Chart Review (Final)	\$ 188,872
Medicare Prior Years' PHF Disallowances (Final)	\$ 128,227

Mental Health FY 09-10 Settlement (Preliminary)	\$1,448,720
Mental Health FY 10-11 Settlement (Preliminary)	\$ 773,419
Total New ADMHS Liabilities	\$3,746,830

It should be noted that ADMHS also completed and submitted the initial Medi-Cal cost report for FY 11-12 and it is estimated that the State will owe the County \$567,894. ADMHS has improved its processes in an effort to reduce the magnitude of cost report settlements. Processes and staff were in place by FY 09-10 and it is anticipated that settlements for FY 10-11 and subsequent periods will not be as large as in prior years (as reflected in the preliminary amounts listed above). In the FY 13-15 Recommended Budget Policies, additional funding of the audit exception reserve was recommended to provide funding for such future State settlements and a strategy of adding \$1 million per year to the audit exception reserve was adopted with the Fiscal Years 2014-16 Budget Development Policies. This policy will be reviewed annually until the audit liabilities are fully funded.

Nominal Fee Provider Exposure: In addition to the new estimates for the cost reports and disallowances listed above, ADMHS has liability exposure if it is determined by the State that ADMHS does not qualify as a “nominal fee” provider and ADMHS’ Medi-Cal reimbursement is limited to the lower of actual costs or Published Charges. The nominal fee provider exposure exists for FY 06-07 through FY 11-12 and is estimated to be \$2,761,729. ADMHS and County Counsel believe that ADMHS qualifies as a nominal fee provider, but DHCS has disallowed the nominal fee provider exemption in the FY 06-07 cost report audit. ADMHS has filed an appeal of the FY 06-07 audit findings. The nominal fee provider issue also affects ADMHS’ ability to receive reimbursement from Medi-Cal for direct service costs that exceeded the State Maximum Allowance rates. If the County is not recognized as a nominal fee provider, then the County will not be eligible to receive additional Medi-Cal reimbursement.

Funding Sources for Current Liabilities

\$8.9 million has been set aside to ADMHS’ currently known liabilities and there remains \$729,511 in ADMHS liabilities that do not have an approved funding source:

1. ADP FY 05-06 Audit (Final): \$140,956
2. Mental Health FY 08-09 EPSDT Settlement (Final): \$180,706
3. SB 90 Claiming Audit for FY 06-07 (Final): \$407,849

ADMHS has sufficient reserves in the Alcohol Drug Programs (ADP) Fund to fund the ADP FY 05-06 Audit booked liability and requests a transfer of \$140,956 from the ADP Fund restricted fund balance into the ADP Fund operating budget. ADMHS also has sufficient deferred EPSDT revenue in the Mental Health Fund to fund the Mental Health FY 08-09 EPSDT Settlement booked liability and the balance of the SB 90 Claiming Audit for FY 06-07. ADMHS therefore requests an increase to the Mental Health Fund’s operating budget in the amount of \$750,110 to be funded by the use of deferred revenue (\$628,555) and a transfer from the unused balance of the funds set aside in the Audit Exception Account for the CEC/MISC liabilities (\$121,555).

The Nominal Fee Provider exposure is not a booked liability and does not require to be funded at this time. ADMHS will continue to work with the Auditor Controller and County Counsel in determining the probability of this exposure becoming a liability and will keep the Board informed about its status.

Fiscal and Facilities Impacts:

The above recommendations have the following fiscal impacts:

1. The ADP Fund restricted fund balance is projected to be \$1,864,843 at the end of FY 13-14 after transferring \$140,956 from the ADP Fund restricted fund balance to the ADP Fund operating budget.
2. The amount of deferred EPSDT revenue in the Mental Health Fund will be \$64,922 after using \$180,706 for the Mental Health FY 08-09 EPSDT Settlement booked liability and \$447,849 for the SB 90 Claiming Audit for FY 06-07.

Staffing Impacts

There are no staffing impacts associated with this action.

cc:

Robert Geis, Auditor Controller