



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: 5/15/12  
Placement: Departmental  
Estimated Tme: 1 HR  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**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**

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**County Counsel Concurrence**

As to form:

**Other Concurrence:**

As to form:

**Auditor-Controller Concurrence**

As to form:

**Recommended Actions:**

- a. Receive and file a report from the Alcohol, Drug and Mental Health Services Department in response to Board of Supervisors' inquiries from the March 20 hearing;
- b. Provide direction to the Department, as appropriate.

**Summary Text**

On March 20, 2012, the Alcohol, Drug and Mental Health Services (ADMHS) Department presented information to the Board of Supervisors regarding the Department's current year financial status, historical financial liabilities and operational improvements as well as future challenges. The Board provided direction to ADMHS and the County Executive Office (CEO) to return in May. This report provides additional information requested by the Board and further updates regarding the Department.

**Background**

ADMHS 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;
- Adults and older adults with serious mental illness.

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

ADMHS has aimed to preserve core elements of the local mental health system within the constraints of limited funding and regulatory requirements. Programs have been created with the implementation of the Mental Health Services Act Fund 0048 (MHSA), passed by California voters in 2004, which is fully funded and requires no General Fund Contribution. At the same time, ADMHS has faced a structural imbalance in the core Mental Health Services Fund 0044 (hereafter 'Mental Health Fund') driven by limited discretionary funding available to cover non-Medi-Cal services, including services to the indigent and costly inpatient services. Because ADMHS' core programs include clinic-based professional services, psychiatry and mental health clinical services, ADMHS has made every effort to preserve this core system to the extent possible, while implementing best practices and evidence-based programs within ADMHS' clinics and through contracts with Community Based Organizations (CBOs).

**Response to March 20, 2012 Board Direction**

The following provides information per the Board's direction at the March 20, 2012 hearing pertaining to a Request for Proposals, ADMHS staffing and services/supplies budget and updated financial status.

Request for Proposals

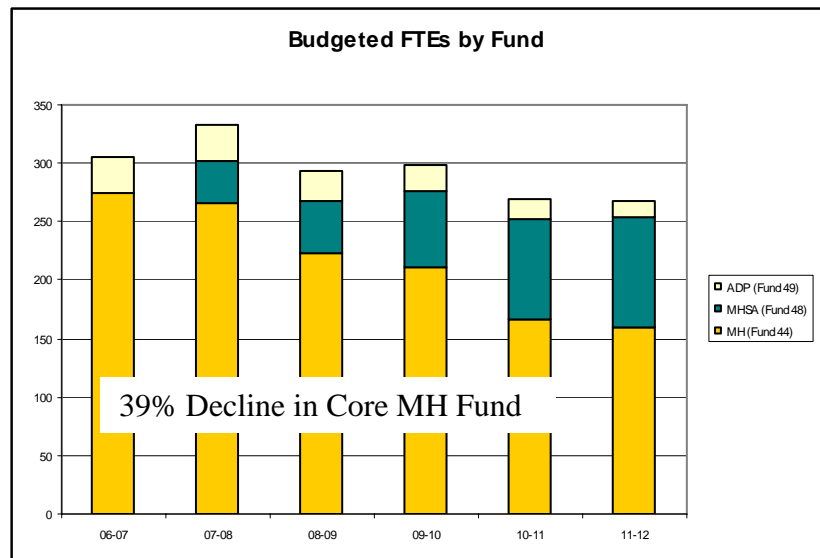
The Board directed the CEO's office to explore a range of options for the examination of the departments operations through an RFP, including, but not limited to, consolidation with Public Health and for the establishment of a task force/stakeholder process to look into the potential restructuring of the department. The CEO released an RFP in February, which closed on April 13, 2012. The CEO will report to the Board on recommended next steps with regard to this process.

ADMHS Staffing

The Board requested further information regarding the Department's staffing levels including regular, extra help and contract employees as well as the services and supplies budget.

Staffing trends in the Mental Health Fund and MHSA Fund reflect the evolution of the system and an overall reduction in ADMHS staffing.

- o ADMHS. Current overall budgeted staffing levels are lower than in FY 06-07: from 304.78 FTE in FY 06-07 to 268.4 FTE in FY 11-12.



- Mental Health/MHSA. The combined Mental Health Funds have reduced budgeted staff from 302.6 in FY 07-08, when planned MHSA programs were ramping up, to 253.4 in FY 11-12. As described in previous Board Letters, FY 07-08 was a turning point for ADMHS due to various financial challenges. In response, the Department acted by restructuring core mental health programs and redirecting MHSA service expansion when possible. Despite the intended expansion of the system and addition of 93.6 FTE to MHSA programs, the Mental Health Fund lost 114.7 FTEs since FY 06-07. While ADMHS has not instituted layoffs, in the last few years the Department did not fill some funded positions vacated through attrition, thereby shrinking staffing. In fact, ADMHS' staffing levels today are below those in FY 05-06.
- The remainder of the staffing reduction of 15 FTE is in the ADP fund.

<b>Budgeted FTEs by Fund FY 05-06 to 11-12 <sup>1</sup></b>							
	<b>05-06</b>	<b>06-07</b>	<b>07-08</b>	<b>08-09</b>	<b>09-10</b>	<b>10-11</b>	<b>11-12</b>
MH (Fund 44)	262.0	274.5	265.9	223.8	211.1	166.0	159.8
MHSA (Fund 48) <sup>2</sup>	0	0	36.7	44.4	64.5	85.6	93.6
ADP (Fund 49)	27.9	30.3	30.0	24.4	23.3	16.9	15.0
ADMHS	289.9	304.8	332.6	292.6	298.9	268.6	268.4

Contractors on Payroll. Pursuant to the Board's policy on Contractors on Payroll (COPs) adopted in October, 2006, ADMHS has significantly reduced its use of COPs. COPs do not meet the Internal Revenue Service definition for Independent Contractors and are paid through the County Payroll System. Historically, COPs were used to manage special projects, fill ongoing staff needs such as psychiatry and other critical functions. In accordance with the Board's policy, ADMHS has limited COPs over the last several years and currently has contracts with seven COP physicians and one dietician for the Psychiatric Health Facility (PHF). Note the significant reduction in expenditures, elimination of excess contract allocations and reduction in the number of COPs, depicted in the following chart.

<b>Contractors on Payroll</b>							
	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>FY 09-10</b>	<b>FY 10-11</b>	<b>FY 11-12</b>
<b>Contract Value</b>	\$2,504,838	\$1,780,574	\$1,874,145	\$1,460,474	\$1,253,712	\$869,572	\$748,980
<b>Actual Expenditures</b>	\$1,439,817	\$1,293,596	\$1,781,751	\$1,150,237	\$935,063	\$676,749	\$727,438
<b>Number of COPs (not FTE)</b>	38	20	19	17	14	9	8

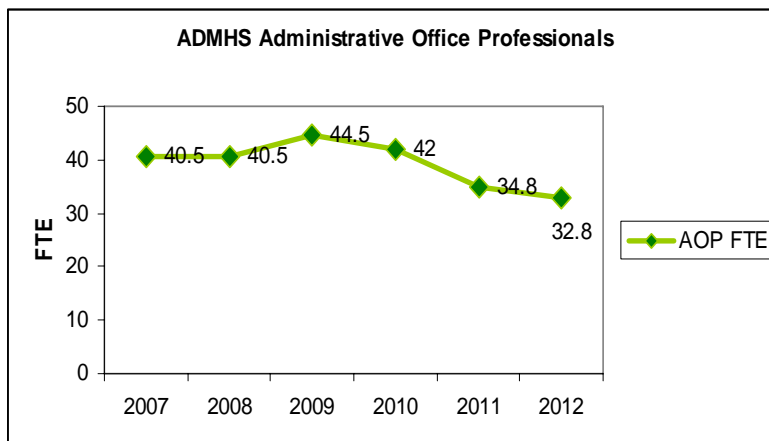
Extra Help. Extra help are temporary staff that backfill vacancies or provide coverage at times when higher staff levels are needed. ADMHS reduced use of extra help over the last six years; specifically, FY 11-12 is a 33% decline in expenses for Extra Help compared to FY 05-06 (29% since 06-07).

<b>Extra Help</b>							
	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>FY 09-10</b>	<b>FY 10-11</b>	<b>FY 11-12</b>
<b>Budgeted Expenses</b>	\$741,257	\$697,448	\$596,665	\$403,575	\$492,233	\$471,537	\$496,207
<b>EXH FTE</b>	18.43	15.26	13.47	10.68	9.9	11.15	12.77

<sup>1</sup> Includes Extra Help and Contractors on Payroll

<sup>2</sup> MHSA is fully funded and uses no General Fund Contribution

Administrative Office Professionals. In an effort to minimize the impact of funding declines on clinical operations, ADMHS has reduced Administrative Office Professionals (AOP) wherever possible. AOPs perform critical support functions. AOP personnel include, patient representatives, clinic support staff and accounting staff. ADMHS employs 19% fewer FTE AOPs in 2011 compared to 2007.



### Services and Supplies

The Services and Supplies Object Level (S&S) includes operating costs as well as services provided by CBOs, and cost allocations from the General Fund for support services. ADMHS' FY 11-12 Estimated Actual amount in Services and Supplies (less Intra Fund Charges) is 14% less than FY 06-07 levels. Some of the major categories in this object level are:

1. CBO contracts.
  - a. CBO contracts comprise the largest portion of the S&S (77%). This amount is consistent with prior years' proportion of the S&S, with the exception of FY 08-09 when S&S overall was reduced and contract levels remained, making up about 85% of the total.
  - b. ADMHS, per the Board's direction, has made a concerted effort to align contract maximum amounts with service levels, staffing and costs. Prior to FY 08-09, ADMHS' oversight of contractor's costs and services was minimal and contract maximums were often inflated as the more services were performed, the more dollars were allocated. However, because the contracts are cost reimbursed, cost reports and audits revealed costs were often lower than the amounts paid, yielding amounts owed by CBOs to the Department. ADMHS implemented close monitoring through the quarterly scorecard process, which helps ensure appropriate contract maximums are set and adhered to.
2. Other Charges makes up approximately 5% of the S&S object level and includes cost allocations from the General Fund, such as utility charges and motor pool charges from General Services, liability and malpractice insurance costs as well as settlements relating to grants, audits and other types.
3. Other Operating Expenses include janitorial services, maintenance, pharmaceuticals, office expenses, professional services, equipment, rents/leases, training and travel.
4. Intrafund charges are transfers between funds for expenses such as administrative indirect costs and for staff who perform client services covered by multiple funds. These transfers are excluded from the S&S total to present a true picture of the S&S expenditures for the Department. The

following example illustrates the Intrafund charges for staff providing services supported by more than one fund:

- a. A clinician's personnel cost of \$100K is budgeted in the Mental Health Services Fund, but the clinician spends 30% of their time providing client services covered by the MHSA Fund (\$30K);
- b. ADMHS charges the MHSA Fund \$30K in LIA 7668 - Services County Provided;
- c. Mental Health Services Fund receives \$30K in revenue to offset the \$30K in costs that that are tied to the Mental Health Services Fund.

	Actual (In Millions)										Estimated	
	FY 06-07		FY 07-08		FY 08-09		FY 09-10		FY 10-11		FY 11-12	
CBO Contracts	\$32.45	77%	\$34.68	76%	\$32.31	85%	\$28.35	78%	\$27.84	74%	\$27.96	77%
Other Charges	\$ 2.35	6%	\$ 3.87	8%	\$ 2.40	6%	\$ 2.70	7%	\$ 3.31	9%	\$ 1.86	5%
<b>CBO &amp; Other Charges Subtotal</b>	<b>\$34.80</b>	<b>82%</b>	<b>\$38.55</b>	<b>84%</b>	<b>\$34.71</b>	<b>91%</b>	<b>\$31.05</b>	<b>86%</b>	<b>\$31.15</b>	<b>83%</b>	<b>\$29.82</b>	<b>82%</b>
Other Operating Expenses	\$ 7.60	18%	\$ 7.15	16%	\$ 3.52	9%	\$ 5.26	14%	\$ 6.56	17%	\$ 6.55	18%
<b>Services &amp; Supplies Sub-Total</b>	<b>\$42.40</b>		<b>\$45.70</b>		<b>\$38.23</b>		<b>\$36.31</b>		<b>\$37.71</b>		<b>\$36.37</b>	
Intra Fund Charges <sup>3</sup>	\$ -		\$ -		\$ 1.91		\$ 4.08		\$ 5.06		\$ 6.70	
<b>Services &amp; Supplies Total</b>	<b>\$42.40</b>		<b>\$45.70</b>		<b>\$40.14</b>		<b>\$40.39</b>		<b>\$42.77</b>		<b>\$43.07</b>	

As illustrated in the staffing and S&S sections above, ADMHS has made reductions over the last several years, with the goal of preserving service levels, jobs and shifting to best practices in the implementation of new programs. In addition, ADMHS has taken other steps in FY 11-12 to contain costs and maintain revenues:

- Consolidated the Lompoc Children's and Adults clinics into one County-owned facility saving \$80K in lease costs annually;
- Reduced utilization of contracted out-of-county acute psychiatric and long-term beds during the second half of the year. This has resulted in cost containment; however, reduced access to acute psychiatric inpatient beds has had significant service impacts, including increased wait times (frequently 24 hours) for people in acute psychiatric crisis at hospital emergency rooms and the jail. To mitigate these impacts, ADMHS has deployed resources (i.e. Extra Help) in the PHF to increase the bed utilization while meeting regulatory requirements;
- Continued weekly tracking of revenues at ADMHS Child/Adult Clinics, Crisis and Recovery Emergency Services (CARES) and the PHF, making adjustments as necessary to ensure revenue targets are met;

<sup>3</sup> Portion of Intrafund Charges allocated to Services and Supplies

- Received approval from the Santa Barbara County Mental Health Commission to move ADMHS Crisis and Recovery Emergency Services (CARES) from the Mental Health Services Fund to MHSA;
- Through MHSA, installed videoconferencing capability in each of the three regions, which is already showing decreases in staff and vehicle costs associated with travel across the County;
- Implemented a one-time outreach program, funded by MHSA Prevention and Early Intervention funding, to raise public awareness of Children's Medi-Cal Mental Health Services available through ADMHS clinics and facilitate referrals of children and adolescents with specialty mental health service needs.

In summary, ADMHS has made reductions where possible in an effort to safeguard critical services and maintain the integrity of financial and program oversight. Additional staffing reductions would adversely affect the Department's programs and service levels.

### **FY 11-12 Financial Status**

As reported to the Board on May 8, 2012 in the Fiscal Year 2011-12 Financial Status Report, the Mental Health Fund has a projected net negative variance of approximately \$5.0M, due to prior year accruals, additional costs related to recent Medicare Audits at the PHF, higher than anticipated indigent costs, and lower than anticipated Medicare revenue. This net variance includes \$1.1M released from Fund Balance for employee concessions to offset reimbursement losses related to furlough and other cost reimbursement reductions. Transferring costs associated with the Crisis and Recovery Emergency Services (CARES) program move from the Mental Health Fund to MHSA in the amount of approximately \$1.4M reduces this remaining net financial impact to \$3.6M. On March 20, ADMHS reported a \$3.3M net negative variance. The difference is due to a slight improvement in the Department's operating costs offset by not using the Early Periodic, Screening Diagnosis and Treatment (EPSDT) over allocation of \$0.5M.

On March 20, ADMHS informed the Board of additional proposed solutions to the projected FY11-12 shortfall, as well as reductions in the system that would have had significant service level impacts, including curtailing all services to indigent persons who do not have serious mental illnesses and reducing non Medi-Cal reimbursable services (such as Institutions for Mental Disease) to Medi-Cal beneficiaries. The Board requested ADMHS return in May to provide additional information regarding various departmental expenditures and current status of liabilities. As time has elapsed, the opportunities to realize savings have diminished.

### **Liabilities**

Pursuant to the Board's direction at the March 20<sup>th</sup> meeting, the latest status on historic liabilities incurred by ADMHS and partner agencies is summarized below. Over the last four years, the County has worked diligently on the liability issues accumulated for the periods of FY 02-03 through 07-08, with some significant success. In FY 07-08, the County recorded liabilities in the amount of \$17.0M for self disclosure issues, potential settlements and prior years' audit findings. The following table illustrates the currently known and estimated liabilities for ADMHS and partner agencies.

<b>Currently Known and Estimated ADMHS Liabilities (millions)</b>	
FY 11-12 Projected Negative Net Financial Impact	\$5.0
Self Disclosures	1.2
Prior Years' Cost Report Audits and Settlements (FY2005-06 to FY2008-09)	7.8
Other Settlements	0.3
<b>Partner Agency Liabilities (millions)</b>	
Multi-agency Integrated System of Care (MISC/CEC)	\$5.0
<b>Total Current Liabilities</b>	<b>\$19.4</b>

FY 11-12 Projected Negative Financial Impact: This liability is explained in detail in the “FY 11-12 Financial Status” section above.

Self Disclosures: In November 2007 the County self-disclosed to the State Department of Mental Health potential issues regarding cost reporting, claiming and accounting methods used by ADMHS and its third party providers for FY 02-03 through FY 06-07. These liabilities were originally estimated at \$9.3M and the County has worked with the State to secure the best possible outcome. As described in the Auditor-Controller’s Board Letter dated May 8, 2012, \$4.6M from the original liability recorded in FY 07-08 is available for appropriation by the Board of Supervisors.

Prior Years’ Cost Report Audits and Settlements: Pursuant to the State’s regular Mental Health Medi-Cal cost report settlement process, ADMHS is finalizing multiple prior year cost report audits and settlements. 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. ADMHS currently estimates cost report audit and settlement liabilities to total \$7.8 million covering the years FY 05-06 through FY 08-09.

Other Settlements: ADMHS incurred other minor settlement liabilities including a five year settlement agreement with a contract provider and miscellaneous State audit disallowances.

Multi-agency Integrated System of Care (MISC/CEC): In February 2008, the State disallowed services provided by interagency partners (Probation, Public Health and Social Services) under the MISC/CEC program dating back to FY 02-03. The potential multi-year financial liability for ADMHS’ interagency partners was initially estimated to be \$12.2M for FY 02-03 through the first half of FY 08-09. Currently, the remaining MISC/CEC liability is estimated to be \$5.0M.

Funding Sources. Established funding sources that are available to address current liabilities are depicted below.

<b>ADMHS Established Funding Sources (millions)</b>	
Allocated Audit Reserves	\$4.1
CARES transfer to MHSA Fund	1.4
MISC/CEC Reserve	1.5
Deferred Revenue	0.8
<b>Total Identified Funding Sources</b>	<b>\$7.8</b>

Allocated Audit Reserve. Of the original \$17.0M in booked self disclosure liabilities, \$4.1M will be used this fiscal year to pay for self disclosed liabilities and prior years' cost report audits and settlements.

CARES Transfer to MHSA Fund. As described in the FY 11-12 Financial Status section, the transfer of costs associated with the CARES program from the Mental Health Fund to MHSA Fund reduces the Department's negative net financial impact by \$1.4M.

MISC/CEC Reserve. \$1.5M is available in the MISC/CEC reserve accounts set aside by the partner agencies to cover a portion of the MISC/CEC disallowance costs for FY 06-07 through FY 07-08.

Deferred Revenue. Revenue in the amount of \$0.8M attributed to FY 08-09 MISC/CEC was set aside and is also presently available to apply toward MISC/CEC related liabilities.

### **Strategy to Address Liabilities**

As described above, there is \$19.4M in known and estimated liabilities and \$7.8M in established funding sources to address the liabilities. This leaves an unidentified funding gap for currently known/estimated issues of \$11.6M. While all liabilities must be addressed, time frames and amounts differ for the various liability issues. The following table outlines the use of ADMHS' established funding sources and the remaining liabilities that do not have funding sources identified. The CEO's office will report to the Board on potential funding sources under separate cover.



		ADMHS Established Funding				Funding Source Not Identified	
		Allocated Audit Reserves	CARES Costs to MHSA Fund	MISC/CEC Reserve	Deferred Revenue		
<b>Funding Currently Identified</b>		<b>\$7.8</b>	<b>\$4.1</b>	<b>\$1.4</b>	<b>\$1.5</b>	<b>\$0.8</b>	
<b>Liabilities</b>	<b>Liabilities &amp; Funding Required for FY 11-12 (Known)</b>						
	Self Disclosures	1.2	(1.2)	-	-	-	
	Prior Years' Cost Report Audits and Settlements	4.7	(2.9)	-	-	1.8	
	Multi-agency Integrated System of Care (MISC/CEC)	0.3	-	-	-	0.3	
	FY 10/11 Over Accrued Revenue & FY 11/12 Negative Financial Impact	5.0	-	(1.4)	-	3.6	
	Other Settlements	0.3	-	-	-	0.3	
	<b>FY 11-12 Total Liabilities &amp; Funding Sources</b>		<b>11.5</b>	<b>(4.1)</b>	<b>(1.4)</b>	<b>-</b>	<b>6.0</b>
	<b>Liabilities &amp; Funding Required for FY 12-13 (Estimated)</b>						
	Prior Years' Cost Report Audits and Settlements	3.2	-	-	-	3.2	
	Multi-agency Integrated System of Care (MISC/CEC)	1.9	-	-	(1.5)	(0.4)	
	<b>FY 12-13 Total Liabilities &amp; Funding Sources</b>		<b>5.1</b>	<b>-</b>	<b>-</b>	<b>(1.5)</b>	<b>(0.4)</b>
	<b>Liabilities &amp; Funding Required for Future Years (Estimated)</b>						
	Multi-agency Integrated System of Care (MISC/CEC)	2.8	-	-	-	(0.4)	2.4
<b>Future Years Total Liabilities &amp; Funding Sources</b>		<b>2.8</b>	<b>-</b>	<b>-</b>	<b>(0.4)</b>	<b>2.4</b>	
<b>Total Liabilities</b>		<b>19.4</b>	<b>(4.1)</b>	<b>(1.4)</b>	<b>(1.5)</b>	<b>(0.8)</b>	
<b>Remaining Amount of Established/Unidentified Funding</b>		<b>\$(11.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$11.6</b>	

**Authored By:** C. Toma