



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: Behavioral Wellness
Department No.: 043
For Agenda Of: March 21, 2017
Placement: Departmental
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Alice Gleghorn, PhD, Director
Director(s) Behavioral Wellness, (805) 681-5233
Contact Info: Christie Boyer, Associate Director of Finance, (805) 681-5231

SUBJECT: Behavioral Wellness Annual Liabilities Update

County Counsel Concurrence

As to form: Yes

Other Concurrence: N/A

As to form: No

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 Behavioral Wellness Department.
- B. Determine that these activities are exempt from California Environmental Quality Act review per CEQA Guideline Section 15378(b)(4), since the recommended actions are government fiscal activities which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment.

Summary Text:

On March 15, 2016, Behavioral Wellness presented information to the Board of Supervisors regarding known and projected financial liabilities of \$2.2M, as of January 31, 2016. Since the March 2016 report, liabilities have decreased to \$1.5M. This decrease primarily resulted from settling the FY 2014/15 Psychiatric Health Facility (PHF) Audit and the FY 2009/10 Cost Report Audit being finalized at a lesser amount than previously anticipated offset with minimal new liabilities.

The Department has historically had a significant amount of liabilities in prior years ranging from a high of \$19.4M, as reported to the Board on May 15, 2012, to a recent low of \$1.5M in the current year. This board letter provides an update on extinguished, known and estimated liabilities as of January 31, 2017.

Background:

Behavioral Wellness has many external funding sources that account for 97% of revenue received, and as a result has high audit exposure. Each source has specific guidelines and restrictions and is audited separately. Funding sources often have both financial and programmatic audits. The Department is often challenged with lengthy delays to receive funding, as well as delays in cost settlements and the audit appeals process. It takes an average of 7.8 years for Behavioral Wellness to reach full resolution on cost report audit appeals through the State’s administrative appeal process. Most of these appeals were settled and did not make it to a formal judicial hearing, and as such, there has been no determination of the validity of State audit adjustments. The Department currently has four years (FY 2006/07 – FY 2009/10) of outstanding appeals in various stages of the appeals process.

Audits must be paid up front although the vast majority of State findings are appealed. The Department’s largest liability exposure relates to cost report settlements and audits for Federal Financial Participation (FFP). The remaining liabilities on the balance sheet as of January 31, 2017 all primarily relate to cost report settlements and audits for prior periods.

The Department had prior year liabilities amounting to \$19.4M as reported in May 2012. The liabilities have steadily declined in recent years to \$9.5M as of December 2013 and \$7.5M as of June 2015. In our last report to the Board in March 2016, outstanding liabilities were reduced even further to \$2.2M and were funded through established reserves.

The following table represents changes in the liabilities from January 31, 2016 through January 31, 2017, with information on the funding status. These changes are due to adjustments in estimated amounts as settlements are finalized, liabilities are paid, and new liabilities arise from the completion of audits or cost report settlements.

Known and Estimated Behavioral Wellness Liabilities (In Millions)	As of January 2016	Adjustments	Extinguished/ Paid	New	As of January 2017	Funded	Unfunded
Total Liabilities for Cost Report & Audit Settlements	\$2.2	-\$0.6	-\$0.2	\$0.1	\$1.5	\$1.5	\$0.0

After adjusting liabilities based on actual finalized amounts (-\$0.6M), extinguishing liabilities (-\$0.2M), and adding new liabilities (\$0.1M), Behavioral Wellness has known and estimated liabilities totaling \$1.5M as of January 31, 2017. The predominant change between the 2016 update and the present update is that several liabilities were finalized at lower amounts or paid off with no significant exposure to new liabilities.

Adjusted Liabilities:

\$0.6 million in liabilities required adjustment due to the conclusion of audits, specifically:

- The FY 2009/10 cost report liability was \$623,468 lower than anticipated as fewer audit adjustments were posted in the State cost report audit.

Extinguished/Paid Liabilities:

\$0.2 million in liabilities were extinguished, including:

- The FY 2014/15 PHF Audit amounting to \$221,791 was recouped by the State.
- The FY 2012/13 Alcohol and Drug Program (ADP) cost settlement of \$14,354 was paid.

New Liabilities:

Behavioral Wellness has \$0.1 million in new liabilities, including:

- The FY 2011/12 ADP audit of provider, Good Samaritan, in the amount of \$37,783. This was an audit of a contracted provider and not a County facility.
- A FY 2014/15 outpatient chart review of County operated clinics amounting to \$35,118.

Funding Sources for Current Liabilities:

Behavioral Wellness has \$1.4M in liabilities remaining from the last update and \$0.1M in new liabilities. The \$1.5M will be funded by amounts set aside on the Department's balance sheet as approved in prior liability updates. The new liabilities of \$0.1M will be funded through existing appropriations.

Looking Forward:

Cost Report Settlements

The Department anticipates that future liabilities related to cost report settlements will be minimal (1-2% of budget) due to improved processes including:

- Regular rate reviews (at least 3 times per year) of contractor costs.
- Aligning interim provisional claiming and cost report processes.

The last cost report settlement was for FY 2010/11. FY 2011/12 is estimated at \$0.4M and is included in the \$1.5M known liabilities. Settlements for FY 2012/13 and beyond are anticipated to be positive as of the date of this report; however final cost reports have not yet been filed for fiscal years 2011/12 through 2015/16, therefore estimates could change as reports are finalized. The County files final cost reports based on the State's request and accordingly does not have control over the timing of final cost report submission.

Cost Report Audits

Additional controls were implemented to reduce future audit settlements, including:

- Employed a CPA and former County Audit Supervisor, to oversee cost reports, audits, and appeals.
- Encouraged fiscal staff to obtain professional certification in accounting to enhance knowledge of accounting principles. Two additional staff responsible for cost report preparation are seeking or have achieved CPA certification.
- Held monthly accounting meetings with the Auditor-Controller and CEO.
- Participated in 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.

The Department anticipates that future audit settlements will be less; however this is largely contingent on State audit procedures and interpretations. All counties are currently facing challenging audits due to State interpretations of law and audit protocol. Fiscal years 2010/11 – 2015/16 are still open and subject to State audit. The Department will keep the Auditor-Controller apprised of any proposed audit adjustments. Audits for FY 2006/07 through 2009/10 are in various stages of the State's administrative appeals process and the Department is working with County Counsel to recover funds for these fiscal years.

Behavioral Wellness will return in March 2018 to provide an update on changes in liabilities.

Performance Measure:

N/A

Contract Renewals and Performance Outcomes:

N/A

Fiscal and Facilities Impacts:

Budgeted: No

Fiscal Analysis:

Discussed above

Key Contract Risks:

There are no contract changes or risks associated with this action.

Staffing Impacts:

Legal Positions:

FTEs:

There are no staffing impacts associated with this action.

Special Instructions:

Please provide a scanned copy of the minute order via email (bwellcontractsstaff@co.santa-barbara.ca.us).

Attachments:

Attachment A: Liabilities Update PowerPoint FY 17-18

Authored by:

Christie Boyer, CPA

cc: