



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 15, 2016
Placement: Departmental
Estimated Time: 15
Continued Item: No
If Yes, date from:
Vote Required: 4/5

TO: Board of Supervisors
FROM: Department Alice Gleghorn, PhD, Director
Director(s) Behavioral Wellness, (805) 681-5220
Contact Info: Christie Boyer, Associate Director of Finance, (805) 681-5231
SUBJECT: Behavioral Wellness - 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. Approve Budget Revision Request (BRR #0004319) to increase appropriations of \$221,791 in the Behavioral Wellness Department, Mental Health Services Fund, for Other Charges funded by unanticipated revenue from California Health and Welfare Realignment Vehicle License Fee Growth. Decrease budgeted revenues of \$115,260 in the Mental Health Services Fund offset by an increase in Intergovernmental Revenue-State.
- C. Approve Budget Revision Request (BRR #0004364) to establish appropriations of \$56,864 in the Behavioral Wellness Department, Alcohol and Drug Programs Fund, for Other Charges funded by release of Restricted Local Realignment 2011 fund balance.
- D. Return in March 2017 to provide an update on changes in liabilities to prepare for the FY 2017/18 budget.
- E. 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 June 23, 2015, Behavioral Wellness presented information to the Board of Supervisors regarding known and projected financial liabilities of \$7.5M, as of May 31, 2015. Since the June 2015 report, liabilities have significantly decreased to \$2.2M. This decrease primarily resulted from paying off the FY 2007/08 - 2008/09 cost report audits with minimal new exposures to date.

This board letter provides an update on extinguished, known and estimated liabilities as of January 31, 2016.

Background:

Mental Health 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 7.3 years for Behavioral Wellness to reach full resolution on cost report audit appeals through the State's administrative appeal 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, 2016 all primarily relate to cost report settlements and audits for prior periods.

The Department had liabilities amounting to \$9.5M as reported in December 2013. Outstanding liabilities were reduced to \$7.5M in the June 2015 update. Established funding sources, as of June 2015, were \$4.8M and during the June 2015 Budget Hearings the Board authorized the appropriation of unanticipated SB 90 funds of \$3.7M into the Audit Exception Fund Balance. \$2.7M was identified to address the unfunded portion of the \$7.5M in liabilities and an additional \$1.0M was reserved for future audit exceptions.

The following table represents changes in the liabilities from May 31, 2015 through January 31, 2016, 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 May 2015	Adjustments	Extinguished/ Paid	New	As of January 2016	Funded	Unfunded
Prior Year Audits	\$3.7	\$0.0	-\$3.0	\$0.3	\$1.0	\$1.0	\$0.0
Prior Year Cost Report Settlements	\$2.0	-\$0.1	-\$0.7	\$0.0	\$1.2	\$1.2	\$0.0
Total Liabilities	\$5.7	-\$0.1	-\$3.7	\$0.3	\$2.2	\$2.2	\$0.0

Partner Agency Liabilities (millions)

Multi-agency Integrated System of Care (MISC/CEC)	\$1.8	\$0.0	-\$1.8	\$0.0	\$0.0	\$0.0	\$0.0
Total Behavioral Wellness and Partner Agency Liabilities	\$7.5	-\$0.1	-\$5.5	\$0.3	\$2.2	\$2.2	\$0.0

After adjusting liabilities based on actual finalized amounts (-\$0.1M), extinguishing liabilities (-\$5.5M), and adding new liabilities (\$0.3M), Behavioral Wellness has known and estimated liabilities totaling \$2.2M as of January 31, 2016. The predominant change between the 2015 update and the present update is that a significant amount of the audit liabilities were paid by the Department.

Adjusted Liabilities:

\$0.1 million in liabilities were updated based on new information and actual finalized amounts, including:

- The FY 2010/11 cost report settlement was \$90,487 less than originally anticipated.

Extinguished/Paid Liabilities:

\$5.5 million in liabilities were extinguished, including:

- The FY 2007/08 (\$1.8M) and 2008/09 audits (\$3.0M) were paid by the Department.
- The FY 2010/11 cost report liability of \$682,932 was settled.

New Liabilities:

Behavioral Wellness has \$0.3 million in new liabilities. These include:

- The FY 2014/15 Psychiatric Health Facility (PHF) audit of \$221,791. The Department of Health Care Services (DHCS) completed an onsite chart review of the PHF in October 2015 resulting in a disallowance of \$221,791.
- The FY 2011/12 Alcohol and Drug Program (ADP) audit of provider, Coast Valley Substance Abuse, in the amount of \$42,510. This was an audit of a contracted provider and not a County facility.
- The FY 2012/13 ADP cost report settlement of \$14,354.

Funding Sources for Current Liabilities:

Behavioral Wellness has \$1.9M in liabilities remaining from the last update and \$0.3M in new liabilities. The \$1.9M will be funded by amounts set aside on the Department's balance sheet as approved in the June 2015 liability update. The new liabilities of \$0.3M will be funded through proposed budget revisions; including 1) BRR #0004319 which is to increase the Mental Health Fund's operating budget in the amount of \$221,791 for unanticipated revenue from Realignment Vehicle License Fee Growth and, 2) BRR #0004364 which establishes appropriations in the Alcohol and Drug Program Fund through a release of Restricted Local Realignment 2011 fund balance. \$1.0M will remain in the Audit Exception Reserve account for future settlements.

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:

- Quarterly rate reviews 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 \$2.2M 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 2014/15, therefore estimates could change as reports are finalized. The Department is also facing a significant staffing shortage and difficulties in recruiting for professional accounting staff in the Fiscal Division. Staffing deficiencies and retention result in loss of organizational knowledge which could, in turn, impact financial reporting, operations, and liabilities.

Cost Report Audits

Additional controls were implemented to reduce future audit settlements, 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.

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. The State is currently conducting an audit of the FY 2009/10 cost report which should be completed by December 2016. The Department will keep the Auditor-Controller apprised of any proposed audit adjustments. Audits for FY 2006/07 through 2008/09 are in various stages of the State's administrative appeals process.

Behavioral Wellness will return in March 2017 to provide an update on changes in liabilities.

Performance Measure:

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 (ADMHSContractsstaff@co.santa-barbara.ca.us).

Attachments:

Attachment A: BRR #0004319

Attachment B: BRR #0004364

Attachment C: Liabilities Update PowerPoint Presentation

Authored by: Christie Boyer, CPA

CC:

Robert Geis, Auditor-Controller