

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 5/1/01
Department Name: Alcohol, Drug and Mental Health
Department No.: 043
Agenda Date: 5/22/01
Placement: Departmental
Estimate Time: 30 mins
Continued Item: YES
If Yes, date from: 4/24/01

TO: Board of Supervisors

FROM: Merna McMillan, Ph.D., Director, Alcohol, Drug and Mental Health Services
Bob Geis, CPA, Auditor-Controller

STAFF CONTACT: ML Gordon, Asst Director, Administration, ADMHS
Carrie Topliffe, Auditor-Controller Contracts Division

SUBJECT: Report on ADMHS Fiscal Status; Report from ADMHS Labor/Management Project Team; Restructuring and Personnel Actions

Recommendation(s):

That the Board of Supervisors:

1. Accept the Auditor-Controller's Reports on ADMHS Fiscal Issues and the Status of the A-C Contract with ADMHS for the provision of Accounting Services
2. Accept and file the attached Project Agreement of the ADMHS Labor/Management Project Team
3. Approve the ADMHS Proposed Restructuring, and adopt Personnel Resolution, effective May 28, 2001 as follows: **DELETE:**
 - a. One (1.0 FTE) Assistant Director-Programs (Job Class 5164, Range 665) (\$6,688-8,165)
 - b. One (1.0 FTE) Account Clerk III (Job Class 0062, Range 436) (\$2,134-2,606)
 - c. Three (3.0 FTE) Patient Representatives (Job Class 5644, Range 439) (\$2,167-2,645)
 - d. One (1.0 FTE) Data Entry Operator (Job Class 2139, Range 421) (\$1,981-2,418)

ADD:

Three (3.0 FTE) ADMHS Division Manager (Job Class 0453, Range 635) (\$5,759-7,030)

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 1. An Efficient Government Able to Respond Effectively to the Needs of the Community and Goal No. 3. A Strong, Professionally Managed County Organization.

Executive Summary and Discussion:

ADMHS FISCAL/BUDGET ISSUES:

Background – For the past several months, pursuant to an agreement with ADMHS approved by your Board, the Auditor-Controller’s office (A-C) has been responsible for performing the fiscal and accounting activities in coordination with the ADMHS Administrative Division. Part of the contractual responsibility included an advisory role for the A-C in the preparation of the ADMHS 2001/02 proposed budget. During this initial phase of the A-C’s involvement with ADMHS day-to-day fiscal operations, we have devoted significant resources to performing a financial assessment of the Department that included a review of revenue sources, billing methodology, and the extent and nature of monies owed to the State as a result of prior years’ cost report settlements.

Financial Assessment –

- **Revenue Sources:** The Department’s major revenue sources for Mental Health activities (totaling \$36.5 million) include charges for services provided by the clinics and contract service providers (\$20.6 million), realignment sales tax (\$8 million), Federal and State grants (\$3.0 million), and reimbursements (\$4 million) from partner agencies (Probation, Public Health, and Social Services).

- **Billing Methodology:** It should be noted that \$16 million of the total \$20.6 million ‘Charges for Services’ revenues are received from MediCal reimbursements. It is our preliminary assessment that the Department’s present financial difficulties are rooted in the lack of controls and inadequate processes pertaining to setting service rates, billing for services performed, and preparing year-end cost reports to the State.
- **Utilizing Current Year’s Revenues to pay off Prior Years’ Debts:** Simply stated, the federal MediCal funds are intended to reimburse the County **for one-half of the total costs incurred** by the County and its contract service providers in providing mandated services **for MediCal eligible clients. Based on its costs**, the County estimates the costs of providing services for the coming year and **negotiates** a ‘per-unit-of-service’ rate. This rate is used throughout the year to bill MediCal (for reimbursement) as services are performed. After year-end, a ‘cost-report’ is prepared by the Department to reconcile costs actually incurred for the year with MediCal reimbursements received. In a perfect world, these amounts would be the same. However, since reimbursements to the County are based upon an ‘*estimated* rate for service’ set by the County **and State**, money typically exchanges hands after year-end.

Of primary significance in our County is the fact that for cash flow enhancement purposes, the annual estimated service rates have been **maximized**. This has resulted in MediCal reimbursements exceeding the Department’s *actual* annual costs. In the absence of effective fiscal oversight, these excess reimbursements, instead of being set aside for repayment **as they had been in prior years**, were expended on other programs. **While funds were set aside, they were not** adequate to repay the State, **and** the Department has had to use current year revenues (monies meant for reimbursing the Department for services rendered *this year*) to pay off cost report settlements for *prior* years. This practice has resulted in an accumulated shortfall of approximately \$3.1 million through FY 99/00, and it is anticipated that we will have a significant cost settlement liability for FY 00/01 for which no funds **are currently available for repayment**. Since the State customarily bills for cost settlements owed two or more years later, this is likely to impact the department’s budget through FY 2002-03.

The Budget –

- **Current year:** ADMHS has some short-term and long-term fiscal challenges. **Severe local housing shortages and a lack of treatment alternatives have contributed to** increased residential placements for clients in **out-of-County** locked facilities of **over \$1 million**. **Patients often linger in expensive treatment facilities simply because there is no place for them to go**. Monies owed to the State from annual cost settlements for *prior* years dating back to FY 94/95 of \$3.2 million need to be addressed. ADMHS proposes to deal with this estimated \$4.2 million shortfall by using \$2.0 million in mental health reserves which had been set aside for payment of cost settlements, salary savings of \$0.8 million, **increased revenue efforts**, and by deferring payment of the balance (\$1.4 million for the FY 98/99 cost settlement) to the State over the next four years. Exposures: The FY 00/01 salary savings may be less than anticipated; and the State may not agree to permit the County to spread payment of \$1.4 million of cost report settlements due and payable this year over a four year period.
- **Next fiscal year:** Anticipated cost settlements of \$1.5 million due to the State for the 99/00 year, increased operating costs, stagnation in realignment revenues, and cost-of-living salary increases of \$.6 million serve to create a significant potential shortfall for FY01/02. The department proposes to deal with this challenge by carefully managing staffing vacancies, improving processes which create efficiencies, reducing contracted services, researching the basis of the cost settlement reports to identify potential

reductions in the amounts owed, and deferring payment of the \$1.5 million due the State for anticipated cost settlements. Exposures: FY 01/02 salary savings goal of \$0.8 million is very aggressive (based on annualizing current salary costs, and actually representing a vacancy rate of 17.5%) and may fall short of the target; processing efficiencies may not result in sufficient savings; management of staffing vacancies and modifications to contracted services may result in decreases in revenues and decreases in the provision of services to the current ADMHS client base. Finally, the State may not agree to defer payment of the \$1.5 million cost settlement which will be due and payable.

Other Fiscal Issues – The Auditor-Controller’s involvement with ADMHS fiscal affairs was prompted by on-going concerns of ADMHS management pertaining to the recruitment, training, and retention of supervisory and technical fiscal personnel. Over the past several years, high turnover of fiscal staff and the inability to recruit qualified replacement staff have had a debilitating effect on the accuracy and timeliness of ADMHS financial data. This, in turn, has inhibited informed management decision-making in both financial and operating areas.

During the first 60-90 days of the contract for fiscal services with ADMHS, the Auditor-Controller implemented the ‘Fiscal Services Project’ statement approved by your Board on January 23, 2001. This statement (attached as Exhibit A) included various short-term tasks to be completed within 60 days, and longer term goals with a time line of two or more years. Although each of the short-term tasks has been substantially completed, our increasing familiarity with the department’s internal processes has revealed significant opportunities for additional improvements in critical areas (e.g. contract administration procedures, accounts payable processing, preparation of cost reports, standardizing and optimizing billing procedures in the clinics, upgrading the Department’s facilities, vehicles, and technology to County standards, etc.). We have established specific projects to deal with several of these issues over the next six to twelve months (see Exhibit B). **We have also begun to participate in the ongoing multi-departmental effort to sustain the children’s mental health program, which is working to “rightsize” after the termination of millions of dollars in grant funding.**

Also, the Internal Audit division is conducting an audit of the Alcohol and Drug Program (ADP). In addition to ADP finances, we are examining the complexities involved in integrating ADP financial functions into ADMHS (while adequately segregating ADP revenues and expenditures) and the integrating of the provision of services to best serve dually diagnosed consumers who may be in need of both ADP and mental health services. (see Exhibit C for Audit Outline). The consolidation of ADP into the Mental Health Department in 1998 has complicated ADMHS fiscal operations since the State Department of Mental Health, and the State Department of Alcohol and Drug Programs have different mandates regarding target populations and uses of federal and state revenues. This, coupled with the high turnover of experienced fiscal staff in the Alcohol, Drug and Mental Health Department, has impacted supervision of those operations. Preliminary results of our review of ADP fiscal status indicate that ADP’s financial position appears sound. Although significant sums (approximately \$4 million) are owed to the State, ADP has sufficient funds on hand to repay the cost settlement amounts due to the State. **Based on substantial differences in funding vehicles, the ADP repayments are due to excessive allocations made by the State and not due to over-billings.**

Conclusion: The Auditor-Controller staff has not yet attained a level of familiarity with ADMHS operations and financing to enable us to comment authoritatively concerning the ability of ADMHS to continue to provide the level and scope of services it is currently providing – given its present and probable future financial constraints. There is **substantial evidence** that mental health programs are seriously underfunded.

In addition, the Department did not receive an adequate funding allocation when it began to administer “The Mental Health Plan,” previously the responsibility of the Santa Barbara Regional Health Authority. The department’s continued financial viability depends on its ability to inventory the array of services it now provides, identifying funding streams for those services mandated by Federal and State agencies, and only provide the additional services valued by the community when funding sources can be identified. Recently initiated ADMHS efforts including a “System of Care” team (of the Labor/Management Collaborative – see below) and a collaborative ADP Strategic Planning Project should, in our opinion, assist in the critical determination as to the department’s service mandates and the community’s priorities regarding any additional services to be provided to our citizens.

LABOR / MANAGEMENT COLLABORATIVE:

Background – In July, 2000, the County Administrator established an ADMHS Labor/Management Project Team to address internal departmental issues of mutual interest to ADMHS management and staff. The project team was comprised of ADMHS staff and management, a representative of SEIU Local 620, and was facilitated by staff from the County Administrator’s Office. (see list of members in Exhibit D). The committee met regularly over a three-month period and on January 29, 2001, a “Project Agreement” was signed by all project members, outlining the team’s immediate and longer-term goals on recruitment and staffing, classification and compensation, and system of care issues.

Current Status of Activities -

- System of Care Team – This team has met three times to date and has been tasked with studying and making recommendations on current services being provided, methods of service delivery, populations served and underserved, alternative models of service delivery, current organizational culture now and desired culture, and Department mission and vision statements.
- Director/Assistant Director Recruitment – The Project Team has played an integral role in the interviewing and selection process for the new Department Director and will also be involved in the selection process for a new Assistant Director and other managers. (See Atch D for the Project Team Agreement).
- Recruitment and Staffing Subcommittee– This subcommittee’s recommendation that regular joint interviews be conducted by program managers and regular interview dates set for filling clinical vacancies has been implemented. The department also plans to pursue recommendations that the administration work with the Employees University to explore with local colleges the establishment and funding of a curriculum to train needed mental Health professionals and to identify and design courses as needed to meet the training needs of the department.
- Classification and Compensation Subcommittee–This committee has also been charged with making recommendations on career ladders and special duty pay supervisors. In this connection the department is currently working on a subcommittee recommendation that the establishment of “working” supervisors be considered for implementation

PROPOSED RESTRUCTURING AND PERSONNEL RESOLUTION:

Background – During the budget hearings in June 1999, ADMHS informed your Board it would return to request approval to restructure the Department. The proposed restructure is the product of a lengthy process

involving major stakeholders including the Labor Management Project Team, Mental Health Commission, Advisory Board on Drug and Alcohol Problems, ADMHS management, and the Auditor-Controller's office. A major objective of this change is to benefit consumers by facilitating an integration of service delivery among ADMHS staff serving Adults, Children, Acute, and ADP consumers. Another significant objective is to begin developing career ladders which will include working supervisory positions to reduce the large span of control of program managers. This will provide growth opportunities for staff while assisting in the day-to-day supervision of staff and clinical interns.

Specifics – The proposed restructure will:

- Reduce the Department from six to three divisions
- Enhance integration of comprehensive services by having all service divisions report to one Assistant Director.
- Establish Division Manager positions and a Compliance division to ensure long-term strategic service and fiscal planning, as well as the identification, prevention and management of compliance and risk issues.
- Begin the development of career ladders which will include working supervisory positions to reduce large span of control issues for program managers.

(See Resolution Attached and Exhibits E and E-1 representing the current structure compared to the recommended structure for the Department).

Mandates and Service Levels: ADMHS services are mandated by Health and Safety Code, Section 11801.5, and Welfare and Institutions Code, Section 5600.

Fiscal and Facilities Impacts: Costs associated with restructuring will be absorbed within the current ADMHS budget. There are no requested increases to department staffing associated with the establishment of three new division managers. Costs will be offset by the deletion of administration positions, including one Asst Director position. All of the positions being proposed for deletion are currently vacant.

Special Instructions:

Please send a signed copy of the Personnel Resolution to: ML Gordon, Asst Director, Administration, ADMHS

Concurrence: County Administrator's Office, County Personnel Department