



**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: April 3, 2018
Placement: Administrative
Estimated Time: N/A
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 21, 2017, Behavioral Wellness presented information to the Board of Supervisors regarding known and projected financial liabilities of \$1.5M, as of January 31, 2017. Since the March 2017 report, liabilities have decreased to \$1.2M. The decline is largely due to the payment of several liabilities, partially offset by two new liabilities incurred during the fiscal period under review.

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 \$1.2M in the current year.

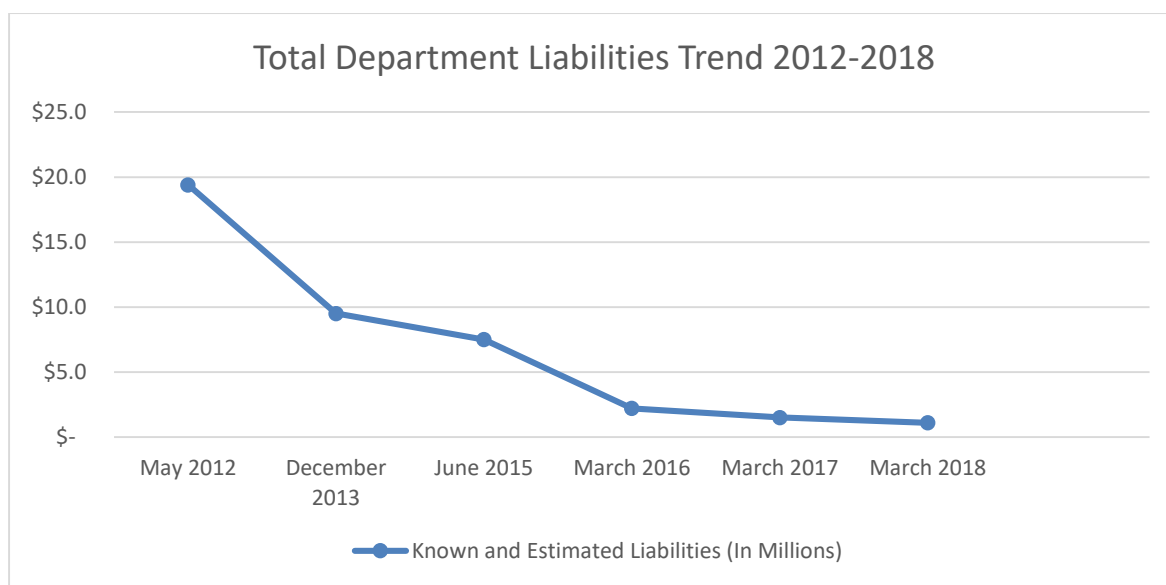
This board letter provides an update on extinguished, known and estimated liabilities as of February 28, 2018.

Background:

Behavioral Wellness has many external funding sources that account for approximately 86-90% of revenue received. As a result, there is high audit exposure as each funding source has specific guidelines and restrictions and is audited separately. Funding sources have both financial and programmatic audits. The Department is often challenged with lengthy delays to receive funds, as well as delays in cost settlements and the audit appeals process. Four mental health audit appeals (FY 2002/03-2005/06) have been resolved by settlement with an average time of 7.3 years from the respective fiscal year end close. There are currently four years (FY 2006/07 – FY 2009/10) of unresolved appeals for Mental Health and one year (FY 2011/12) for the Alcohol and Drug Program (ADP). These appeals are in various stages of the appeals process, ranging from the informal hearing level to judicial review. All of the Department's prior appeals that are now closed were settled and did not receive a formal judicial decision, therefore there has been no determination on the validity of State audit adjustments, which are often recurring in cost report years.

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 February 28, 2018 all primarily relate to cost report settlements and audits for prior periods.

The Department's total liabilities have steadily declined each reporting year due to implementation of fiscal and programmatic internal controls as seen in the chart below.



The following table presents changes in the known and estimated liabilities from January 31, 2017 through February 28, 2018, 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 2017	New	Extinguished/ Paid	Adjustments	As of February 2018	Funded	Unfunded
Total Liabilities for Cost Report & Audit Settlements	\$1.5	\$1.0	-\$1.3	\$0.0	\$1.2	\$1.2	\$0.0

After adding new liabilities (\$1.0M), extinguishing liabilities (-\$1.3M) and accounting for adjustments (net \$0), Behavioral Wellness has known and estimated liabilities totaling \$1.2M as of February 28, 2018. The predominant change between the 2017 update and the present update is that several liabilities were paid off however this was partially offset by the addition of new liabilities.

New Liabilities:

Behavioral Wellness has \$1.0 million in new liabilities, including:

- A FY 2013/14 Medicare Cost Report Desk Review indicated that \$730,949 is due to the Centers for Medicare and Medicaid Services (CMS) resulting from an overpayment of Medicare outlier payments for inpatient services. A high cost to charge ratio in the CMS provisional payment system triggered the outlier payments in error. Minimal outlier payments have been paid in subsequent years therefore future exposure is low for similar repayments.
- A FY 2011/12 ADP Cost Report Audit Settlement resulted in a repayment of \$288,253 as a result of the restatement of County administrative costs. This audit is currently under appeal.

Extinguished/Paid Liabilities:

\$1.3 million in liabilities were extinguished, including:

- The remaining liabilities associated with the FY 2009/10 Medi-Cal Cost Report (\$897,572).
- Various ADP cost report audits for contract providers (\$80,293).
- The FY 2014/15 outpatient chart review of County operated clinics (\$35,118).
- The FY 2011/12 ADP Cost Report Audit Settlement (\$288,253).

Adjusted Liabilities:

The net adjustment to liabilities is \$0, however the following adjustments to liabilities occurred during the time period:

- The 2010/11 Cost Report Audit estimated liability was initially increased from \$12,686 to \$636,151 at fiscal year-end close (June 30, 2016) as a result of probable audit disallowances. Behavioral Wellness was able to mitigate the audit disallowances before

the audit was finalized which resulted in a final audit liability of \$66,822, and almost a complete offset of the initial increase to the liability.

Funding Sources for Current Liabilities:

Behavioral Wellness has \$1.2 in total liabilities as February 28, 2018. \$1.1M will be funded by balance sheet reserves and the remaining \$0.1M will be covered by 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:

- Quarterly rate reviews of contractor costs.
- Aligning interim provisional claiming and cost report processes.

Some level of cost settlement should be anticipated each year due to normal fluctuations between provisional, which are estimated, and final rates which are based upon actual cost incurred.

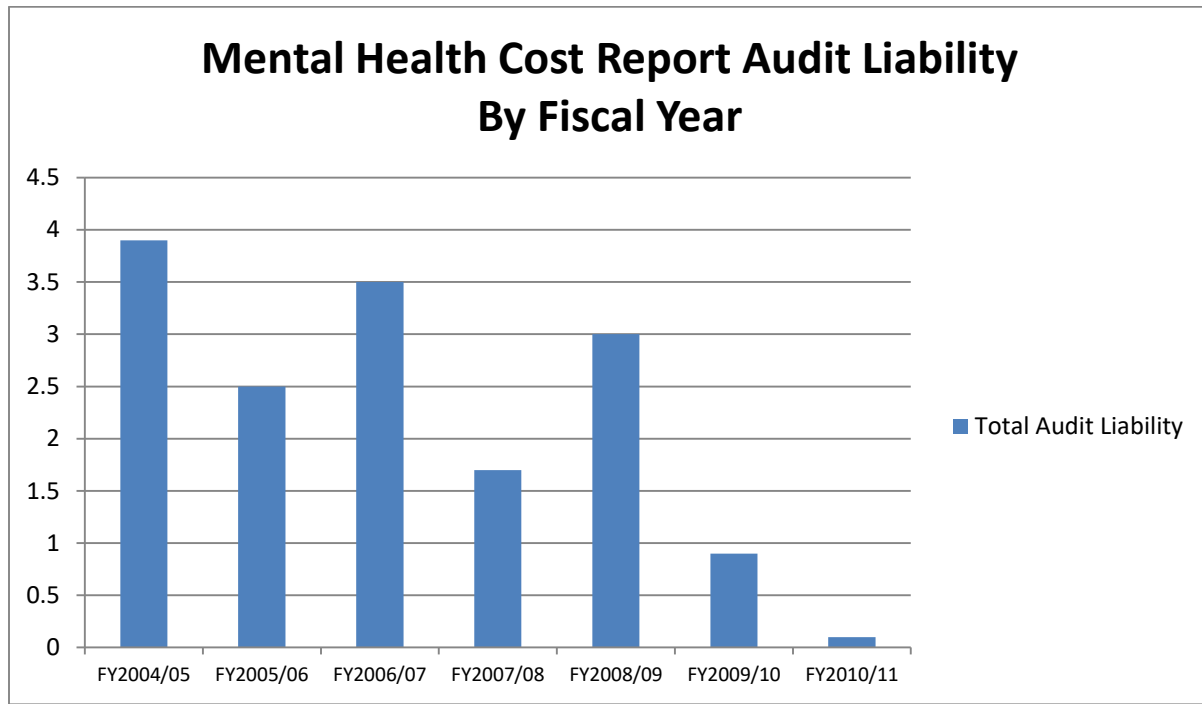
The last cost report settlement with the State was for FY 2010/11. FY 2011/12 is estimated at \$0.4M and is included in the \$1.2M known liabilities. Settlements for FY 2012/13 and beyond are anticipated to be positive as of the date of this report; however final cost reports have not yet been filed for fiscal years 2011/12 through 2016/17, 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. One additional staff responsible for cost report preparation has achieved CPA certification.
- Held regular 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.

As demonstrated in the table below, liabilities for Mental Health Cost Report Audits, a subset of total liabilities, have decreased from a high of \$3.9M in FY 2004/05 to a low of \$66K in FY 2010/11, a 98% reduction.



The Department anticipates that future audit settlements will be lower than levels seen in FY 2009/10 and prior; 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 Mental Health Division has six years (FY 2011/12 - FY 2016/17) that are still subject to State audit while the ADP division has five open years (FY 2012/13 - FY 2016/17). The State has three years from the date of final cost report filing to audit these cost reports so many of the audits likely won't start until after 2020. The Department continues to work closely with County Counsel to challenge audit findings through appeals, as deemed necessary, and to attend hearings on outstanding appeals.

Barring any unforeseen liability, the Department anticipates that exposure to new liabilities will be minimal over the next two years as the State focuses on finalizing and settling cost reports rather than auditing. Accordingly, the frequency of liability updates will be reduced to every two years with the next update occurring in Spring 2020.

Performance Measure:

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:

None

Authored by: Christie Boyer, CPA