COUNTY OF LOS ANGELES

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DEPARTMENT OF MENTAL HEALTH

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September 29, 2009

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF PARTIAL DEFERMENT OF REPAYMENT OF CASH FLOW ADVANCES FOR LEGAL ENTITY PROVIDERS AND AUTHORIZATION TO EXTEND THE DATE FOR INITIATING RECOVERY OF CASH FLOW ADVANCE FUNDS FOR FISCAL YEARS 2007-08 AND 2008-09
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)

SUBJECT

Request approval for the Department of Mental Health to extend the date upon which it will initiate the recovery of certain Cash Flow Advance funds owed by legal entity providers for Fiscal Years 2007-08 and 2008-09 and defer collection of remaining balances until the completion of the State Short-Doyle/Medi-Cal Cost Report Reconciliation and Settlement for the applicable fiscal year.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve and instruct the Director of Mental Health, or his designee, to initiate Cash Flow Advance (CFA) recovery of $9,267,625 from Legal Entity (LE) providers for Fiscal Year (FY) 2007-08, and to defer recovery of an additional $18,503,157 until the State's completion of the FY 2007-08 State Short-Doyle/Medi-Cal (SD/MC) Cost Report Reconciliation and Settlement, which is anticipated in May 2010, with final settlement with the providers anticipated in FY 2010-11.

2. Approve and instruct the Director of Mental Health, or his designee, to delay the initiation of recovery of FY 2008-09 CFA from LE providers until March 31, 2011, and, if necessary, defer recouping a portion of such CFA funds in amounts to be determined after said providers submit their FY 2008-09 SD/MC Cost Reports, until after the State's completion of the FY 2008-09 State SD/MC Cost Report

Reconciliation and Settlement, which is anticipated in May 2011, with final settlement with the providers anticipated in FY 2011-12.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

The purpose of the recommended actions are to waive certain contractual provisions pertaining to CFA, which are funds advanced in anticipation of services by Department of Mental Health (DMH) LE providers, in order to avoid the potential immediate and severe negative financial impact on the LE providers, to reduce the potential for significant service reduction to clients, and to account for statutory allowances related to the processing of claims after the close of a fiscal year.

Under the SD/MC program, most LE providers are cost reimbursement providers who are paid based on provisional rates, with final payment determined at the time of the State's SD/MC Cost Report Reconciliation and Settlement. Final payment is determined based on the final rates related to contractor's actual costs. When the provisional rates used for payments during the fiscal year are lower than a provider's actual costs, DMH's internal financial records will indicate an outstanding CFA until the reconciliation and settlement process is completed.

Until FY 2007-08, the LE Agreement did not specifically address when DMH would recoup CFA funds from LE providers. DMH's practice was to wait until the completion of the State SD/MC Cost Report Reconciliation and Settlement to recoup any amounts still owed. This was primarily due to the fact that historically although the DMH internal accounting records indicated outstanding CFA funds, contractors would ultimately earn most or all of these funds at the time of the SD/MC Cost Report Reconciliation and Settlement.

Beginning with the FY 2007-08 LE Agreement, the CFA recovery language was changed and called for the CFA amounts shown as outstanding as of September 30 of the following fiscal year to be recovered in accordance with the agreement provision related to the recovery of amounts owed to the County. The language governing the recovery of amounts owed requires that recovery begin after DMH sends written notice to the contractor of the amount owed.

DMH determined that the September 30 date specified in the agreement does not accommodate the full adjudication of claims through the State because approvals of SD/MC claims may continue for up to one year after the end of the fiscal year. Indeed, DMH was still receiving approved SD/MC claims for some providers for FY 2007-08 services in May and June of 2009. Therefore, DMH has deferred sending written CFA

recovery notices to the contractors until it determined the actual amounts that will be unearned based on all approved claims.

In the interim, DMH staff performed a preliminary analysis to estimate the likely FY 2007-08 settlement amounts based on the contractors' submitted SD/MC Cost Reports for FY 2007-08. The SD/MC Cost Reports, which determine the ultimate amounts that will be owed to the County or paid to the contractor at the time of SD/MC Cost Report Reconciliation and Settlement, indicate that nearly two-thirds of the CFA shown as outstanding on DMH's internal records will ultimately be earned by the contractors.

As the ultimate amount earned by the contractors is based on actual costs incurred in delivering the services, repayment of CFA that has, in fact, been earned would have an adverse impact on the financial position of the contractors in that they have already incurred the expense. Accordingly, the recommended action would allow DMH to request repayment only of the CFA portion that, based on the preliminary analysis, has been determined to exceed the amount that will be ultimately owed to the contractors for FY 2007-08. The estimated amounts are provided in Attachment I.

In addition, the recommended action would allow DMH to use a similar methodology for the recovery of CFA in FY 2008-09. The contractors will file their FY 2008-09 SD/MC Cost Reports with DMH in September 2009, after which DMH will review the cost reports and request any changes prior to their finalization in December 2009. Accordingly, DMH is requesting Board authority to take the same action for FY 2008-09 contractors' CFA balances as requested for FY 2007-08. DMH staff will perform a preliminary settlement analysis and defer collection of any amounts of CFA that are determined to likely be earned by the contractors until the FY 2008-09 SD/MC Cost Report Reconciliation and Settlement is completed. In order to accommodate this process, and the continuing adjudication of claims after September 30, 2009, DMH would initiate recoupment of the remaining balances on or about March 31, 2010.

Implementation of Strategic Plan Goals

The recommended Board actions are consistent with the County Strategic Plan Goal 4, Health and Mental Health.

FISCAL IMPACT/FINANCING

These actions will have no impact on DMH's net County cost for FY 2009-10 as it involves prior year activity for FYs 2007-08 and 2008-09. Costs incurred in providing the CFAs are expensed during the applicable fiscal years.

However, as reimbursement from Federal and State funding is also based on the provisional rates utilized to adjudicate and pay contract providers, there will continue to be a negative impact on the County's cash flow position as DMH will not receive the State and Federal funds to offset the deferred CFA until after the State completes the SD/MC Cost Report Reconciliation and Settlement process.

Furthermore, by adjusting the amount of recovery of the CFA to reflect the amount DMH ultimately believes the contractors will earn, potential adverse impacts on the quality and amount of client services being provided by the contractors will be mitigated by avoiding the need for contractors to reduce expenditures further to absorb the financial impact of recouping funds that have been earned through actual expenses.

Deferring the recovery of estimated amounts earned by the providers places the cash flow burden created by the contractors' provisional rates being too low on the County instead of the providers to the extent that the deferred amounts will ultimately be reimbursed by State or Federal funds. Based on gross contract funding, it is anticipated that approximately 84 percent of the deferred amounts will ultimately be reimbursed by Federal and State revenues. Based on the recommended level of deferment for FY 2007-08, the estimated cash flow impact is approximately $15.5 million. DMH estimates that the County will be required to carry this cash flow impact until the beginning of FY 2010-11 when the State and Federal funding for FY 2007-08 SD/MC Cost Report Reconciliation and Settlement will be received.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

CFA is a disbursement of funds to the contractor for working capital purposes. Such advances are fiscal year specific and are made to provide funds for the contractor to operate during the period of time from the delivery of the services to the DMH payment of the claims. CFA is contractually restricted to the mental health programs. Earned interest, if any, is required to be expended on mental health programs. The recovery of the CFA is made as either offsets to the contractor's reimbursement claims or by cash repayment.

The DMH LE Agreement beginning in FY 2007-08 specified that repayment of CFA to DMH is to be made no later than September 30 following the close of the fiscal year and

that any outstanding amount would be recouped by DMH in accordance with the LE provision related to the Repayment of Amounts Owed to the County. However, the September 30 date specified in the LE Agreement did not take into account the fact that claims could be submitted to and approved by the State for up to 12 months after the close of the fiscal year.

Beginning with the LE Agreement for FY 2009-10, which the Board approved on June 9, 2009, language related to the CFA provisions has been modified to provide additional clarification of how repayment will be handled. It is anticipated that these modifications will reduce the need to return to the Board for this authority in the future. In addition, modifications allow for more rapid adjustment of provisional rates during the fiscal year to allow DMH and the contractors to better align amounts paid during the fiscal year with actual costs.

DMH anticipates that implementation of these and other changes in the financial provisions of the LE Agreement for FY 2009-10 will significantly reduce discrepancies in the amounts that are paid to the contractor during the fiscal year and the amounts ultimately earned and as a result will limit the outstanding CFA amount and the delay in receiving State and Federal funding.

IMPACT ON CURRENT SERVICES

The recommended actions are intended to reduce potential negative impacts on client services that may result from recouping CFA that has been earned by the providers during a time when most providers will be required to reduce services as a result of declining funding attributable to the current economic climate. By adjusting the amount of recovery of the CFA to reflect the amount DMH ultimately believes the contractors will earn, potential adverse impacts on the quality and amount of client services being provided by the contractors will be mitigated by avoiding the need for contractors to reduce expenditures further to absorb the financial impact of recouping funds that have been earned through actual expenses.

Respectfully submitted,

Robin Kay for

Marvin J. Southard, D.S.W.
Director of Mental Health

MJS:VAR:RK:LTI

Attachment

c: Chief Executive Officer
Auditor-Controller
Chairperson, Mental Health Commission
Acting County Counsel
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF MENTAL HEALTH
RECOMMENDED AMOUNTS TO RECOUP FOR CASH FLOW ADVANCE
FISCAL YEAR 2007-08

L.E. #	L.E. NAME	CASH FLOW ADVANCE IN ACCOUNTING RECORDS FY 07-08	AMOUNT OF CASH FLOW ADVANCE RECOMMENDED TO RECOUP	AMOUNT DEFERRED TO COST SETTLEMENT
00177	Alcott Center	115,070	$ 102,814	$ 12,256
00180	Amanecer Community Counseling services	518,046	107,511	$ 410,535
00409	ASC Treatment Group dba The Anne Sippi Clinic	34,689	$ -	$ 34,689
00173	Alma Family Services	286,586	1,415	$ 285,171
00274	Braswell Rehabilitation Institute for Development of Growth and Education Svcs., Inc. (B.R.I.D.G.E.S.)	-	$ -	$ -
00860	Bienvenidos Children's Center, Inc.	237,649	$ 227,808	$ 9,840
01149	California Hispanic Commission on Alcohol and Drug	-	$ -	$ -
01209	Center for Integrated Family and Health Services	39,548	$ -	$ 39,548
00207	Child and Family Guidance Center	1,271,104	869,152	$ 401,952
00783	ChildNet Youth and Family Services	49,757	$ 49,757	$ -
00327	Clontarf Manor, Inc.	85,164	$ -	$ 85,164
00181	Community Family Guidance Center	491,687	$ -	$ 491,687
00779	Counseling & Research Associates, Inc. dba Masada Homes	4,921		$ 4,921
00778	D' Veal Family and Youth Services	20,676	$ 20,676	$ -
01227	David & Margaret Home, Inc.	39,306	$ 39,059	$ 247
00183	Didi Hirsch Psychiatric Service	420,035	$ 84,479	$ 335,556
01181	Drew Child Development Corporation	145,577	145,577	$ -
00184	Dubnoff Center for Child Development and Educational Therapy	88,984	$ -	$ 88,984
00185	El Centro de Amistad, Inc.	78,791	$ -	$ 78,791
00156	FamiliesFirst, Inc.	-	$ -	$ -
00188	ENKI Health and Research Systems, Inc.	1,595,570	$ -	$ 1,595,570
00995	Ettie Lee Homes, Inc.	-	$ -	$ -
00527	Exodus Recovery, Inc.	211,523	$ 52,275	$ 159,248
00993	FH & HF-Torrance, dba sunnyside	162,100	$ -	$ 162,100
00647	Five Acres - The Boys' & Girls' Aid Society of Los Angeles County	61,942	$ -	$ 61,942
00724	Foothill Family Service	58,357	$ 58,357	$ 0
00300	For The Child, Inc.	56,262	$ -	$ 56,262
00190	Gateways Hospital & Mental Health Center	1,208,734	$ 2,398	$ 1,206,336
00846	Gay and Lesbian Adolescent Social Services, Inc.	34,686	$ -	$ 34,686
00174	Hamburger Home, Inc. dba Aviva Center	284,075	284,075	$ -
00206	Harbor View Rehabilitation Center	-	$ -	$ -
00192	Hathaway-Sycamores Child and Family Services	-	$ -	$ -
00193	Health Research Association	13,825	$ -	$ 13,825
00965	Heritage Clinic	140,347	$ 140,347	$ -
00321	Hillside (Church Home)	681,175	$ 636,993	$ 44,182
00194	Hillview Mental Health Center,Inc.	538,438	$ -	$ 538,438
00508	Homes for Life Foundation	2,005	$ 2,005	$ -
00699	Institute for Multicultural Counseling & Education Services	181,731	$ -	$ 181,731
00195	Intercommunity Child Guidance Center	139,115	$ 136,372	$ 2,743
01521	Jewish Family Service of Los Angeles	4,699	$ -	$ 4,699
01184	Kayne Eras Center	-	$ -	$ -
00197	Kedren Community Health Center, Inc.	1,349,104	$ 118,230	$ 1,230,874
00317	Lamp, Inc.	33,605	$ -	$ 33,605
00697	Leroy Haynes Center for Children and Family Services	169,811	$ 46,114	$ 123,697
00199	Los Angeles Child Guidance Clinic	1,981,221	$ 801,361	$ 1,179,860
00971	McKinley Children's Center	46,379	$ -	$ 46,379
00200	Mental Health America of Los Angeles	519,915	$ 419,748	$ 100,167
01142	New Directions, Inc.	232	$ -	$ 232
01170	New Horizons Family Center	150,280	$ 50,259	$ 100,021
00781	Optimist Boys' Homes and Ranch, Inc.	221,443	$ -	$ 221,443
00579	Pacific Asian Counseling Services	315,836	$ 161,341	$ 154,494
00203	Pacific Clinics	3,536,929	$ 1,043,102	$ 2,493,827
01228	Pasadena Unified School District	-	$ -	$ -
00201	Penny Lane Centers	374,924	$ 69,511	$ 305,414
00805	Phoenix Houses of Los Angeles, Inc.	262	$ -	$ 262
00838	PROTOTYPES, Centers for Innovation in Health, Mental Health and Social Services	144,811	$ -	$ 144,811

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FISCAL YEAR 2007-08

L.E. #	L.E. NAME	CASH FLOW ADVANCE IN ACCOUNTING RECORDS FY 07-08	AMOUNT OF CASH FLOW ADVANCE RECOMMENDED TO RECOUP	AMOUNT DEFERRED TO COST SETTLEMENT
00801	Providence Community Services, LLC	-	$ -	$ -
00848	Rosemary Children's Services	-	$ -	$ -
00217	St. John's Hospital and Health Center	184,741	$ -	$ 184,741
00208	San Fernando Valley Community Mental Health Center, Inc.	1,534,801	$ -	$ 1,534,801
00320	San Gabriel Children's Center, Inc.	158,942	$ -	$ 158,942
00558	Shields for Families, Inc.	100,058	$ -	$ 100,058
00212	Social Model Recovery Systems, Inc.	318,047	$ -	$ 318,047
00213	South Bay Children's Health Center Association, Inc.	43,807	$ -	$ 43,807
00506	South Central Health and Rehabilitation Program	594,680	$ 320,032	$ 274,648
00214	Special Service for Groups, Inc.	1,634,787	$ 1,360,891	$ 273,896
00218	St. Joseph Center	4,889	$ 649	$ 4,240
00784	St. Francis Medical Center	-	$ -	$ -
00543	Star View Adolescent Center, Inc.	916,347	$ 859,956	$ 56,390
00215	Step Up On Second Street, Inc.	142,795	$ -	$ 142,795
00108	Telecare Corporation	671,687	$ -	$ 671,687
00171	The Institute for the Redesign of Learning dba Almansor Center	407,149	$ -	$ 407,149
00191	The Guidance Center	794,186	$ 473,147	$ 321,039
00198	The Help Group Child and Family Center	1,155,307	$ -	$ 1,155,307
00221	Verdugo Mental Health	240,900	$ 94,873	$ 146,026
01044	VIP Community Mental Health Center, Inc>	452,820	$ 219,426	$ 233,394
00171	California Institute of Health & Social Services, Inc.	64,680.16	64,680.16	$ -
00191	Counseling4Kids	107,465.43	107,465.43	$ -
00198	Maryvale	342.00	342.00	$ -
00984	Olive Crest Treatment Centers, Inc	14,478.49	14,478.49	$ -
01554	Stirling Academy, Inc.	119.34	119.34	$ -
00221	The Regents of UCLA - TIES for Adoption Program	552.05	552.05	$ -
01044	USC Care Medical Group, Inc.	80,274.63	80,274.63	$ -
	TOTAL	**$ 27,770,782**	**$ 9,267,625**	**$ 18,503,157**