



HEALTH SERVICES DEPARTMENT

PUBLIC HEALTH & MENTAL HEALTH DIVISIONS

Neda West, Director

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DATE: July 23, 2009

TO: Board of Supervisors and
Chief Administrative Officer

FROM: Neda West, Director
Health Services Department

SUBJECT: FY 09-10 Fiscal and Operational Updates and Recommendations

Background

At the Board of Supervisor's budget workshop meeting on June 23, 2009, the Health Services Department presented FY 09-10 fiscal uncertainties resulting from potential, significant State funding cuts and/or deferrals impacting both the Public Health and Mental Health Divisions. The Department also presented various recommendations for managing anticipated fiscal and contractual impacts.

At the June 23rd meeting, the Board requested the Health Services Director to report back to the Board regularly during FY 09-10 with fiscal and operational updates, with the next update in July 2009. This letter provides updated information.

Updated Information and Recommendations for Public Health Division

- ***Continuing to monitor anticipated State cuts***

The Public Health Division still anticipates funding cuts in the range of \$300K to \$1.2M. Details relative to the latest State budget plans continue to be sketchy; however, we know with certainty that funding reductions will occur and that late State contracts and payments will continue to impact our risk and cash flow. We continue to believe it is prudent to implement cost savings measures within programs/services considered highly likely to be impacted by State cuts and for non-mandated services that are dependent upon funding from discretionary special revenue fund sources; therefore, we are proceeding with the previously recommended/approved strategies.

- ***Implementing approved reduction in force (RIF)***

On June 23rd, the Board approved a reduction of 8.9 position allocations, all assigned within the Public Health Division. The RIF letters were delivered to impacted employees on July 16, 2009. The classification of Program Assistant was not a classification identified for reduction; however, we now anticipate this classification to be impacted through displacement (per Article 12.D.(1) of the MOU between the County and Local 1. As a result, we are now requesting that the Board approve a

Deviation from Retention Points in accordance with Article 12.E of the MOU in order to retain employees with bilingual skills. The contract funding for these positions (from First 5) is dependent upon retention of employees with bilingual skills.

- ***Implementing other approved cost savings measures***

- Alerted providers that we are holding (not issuing) previously anticipated contracts relating to Prop 36 Drug Court, Offender Treatment Program, and HIV/AIDS prevention.
- Sent out notices to families with children who will be dis-enrolled from the CaliforniaKids insurance product (and we'll stop payment of premiums at the end of the 60-day notice period).
- Delivered termination notices for two leased facilities and arranging for elimination of associated service/supply costs; staff moves will occur by the end of August.
- Eliminating other services/supply costs associated with staff impacted by RIF.

- ***Met Tier 1 and 2 reduction targets established by CAO***

The CAO provided reduction targets applicable to Public Health functions supported by General Funds (i.e., Animal Services and the Emergency Medical Services Agency) and reduction plans were submitted as requested, with a total savings of approximately \$80,000.

- ***Identified and documented mandated services***

Departments were requested to submit documentation addressing mandated services to the CAO's office by 7/20/09; this information was developed and forwarded as requested.

- ***Continuing work to close FY 08-09 and develop FY 09-10 addenda budget and cash flow plan***

An accurate close (establishing final year-end revenues, expenditures, and fund balances) is essential to identify special revenue funding that may be available to offset predicted FY 09-10 funding cuts or deferrals impacting mandated services. Significant effort is underway to properly complete the close per direction of the Auditor's Office. Final fund balances, carry-over funding, and information relative to State budget actions will be reflected in the Division's recommended Addenda budget, along with changes associated with the cost savings measures described above. A preliminary FY 09-10 cash flow plan will be submitted to the CAO by the end of July; any necessary updates to this plan will be provided with the Division's addenda budget submittal.

Updated Information and Recommendations for Mental Health Division

- ***Continuing to monitor anticipated State cuts***

The Mental Health Division still anticipates funding cuts in the range of \$800K to \$1.4M. Much uncertainty remains relative to potential total cuts/deferrals, as well as the methodology that will be used to determine the specific cuts within individual counties. On June 23rd, the Board approved one-time supplemental funding recommendations (involving plans to use Public Health Realignment and Tobacco Settlement fund balance) to off-set anticipated State funding impacts affecting mandated services, such as the deferred AB 3632 and SB 90 funding for Government Code 26.5 services. We continue to anticipate the need for this supplemental funding and will reflect detailed recommendations during the FY 09-10 budget addenda process.

- ***Identified and documented mandated services***

As noted in the Public Health summary above, Departments were requested to submit documentation addressing mandated services to the CAO's office by 7/20/09; this information was developed and

forwarded as requested. The Mental Health Division is also continuing to work with County Counsel, who is further researching/verifying this information and identifying potential legal options to address unfunded or under-funded mandates.

Pending such action, the Department is maintaining these mandated services for our County's seriously mentally ill adults and seriously emotionally disturbed children in order to provide the required safety net for this population and avoid the potential, serious (unintended) consequences that result from an insufficient mental health system of care. These consequences include not only the devastating human effects associated with decompensation of clients, but also the increased costs of caring for these clients in other high cost systems (including hospitals, criminal justice systems, etc.). An insufficient mental health system of care will result in cost shifting to these other systems, rather than real cost savings.

- ***Completed formal assessment of accounting practices and implementing corrective actions***

As discussed during prior meetings with the Board, there were numerous factors contributing to prior operating losses within Mental Health; although some specific billing issues were identified, the significant losses were not just the result of a simple billing problem. The Department's report to the Board on June 9, 2009 identified numerous other contributing factors. Among the serious problems identified were inadequate fiscal systems, processes, and controls. The Department's Chief Financial Officer recently completed and submitted to the Auditor a formal report of our findings, as well as the corrective actions being implemented. Effective July 1st, a new Health-Cost Accounting System (H-CAS) was implemented within the Mental Health Division. Primary features include:

- DOT electronic timecard, adapted to Mental Health services, to account for 100% of employee time by individual mental health program
- Electronic interface between mental health systems, including: InterTrac, where billable clinical time and client case notes are recorded; the E-timesheet, where all billable and non-billable time is recorded; and AVATAR, where electronic billings are generated for Medi-Cal and other pay sources. (The interface between I-Trac and AVATAR is being implemented in phases.)
- Resource centers to enable monitoring of and accountability for staff productivity (direct vs. indirect) and achievement of revenue targets (billable vs. non-billable services)
- Comprehensive program code structure, enabling monitoring and accountability at the program budget level, as well as more detailed levels as needed
- Cost accounting pools to properly capture and allocate indirect costs
- Billing rates established in conformance with OMB-A87 methodologies
- Availability of management reports (by resource center, by program, by clinician, and by normal FAMIS groupings)

Recently, the Chief Financial Officer submitted comprehensive written reports to the Auditor-Contoller addressing the following:

- ✓ Findings relative to Mental Health accounting systems and practices
- ✓ Corrective actions implemented or in-process to remedy deficiencies
- ✓ Journal entry and supporting documentation to implement accounting corrections for FY 08-09
- ✓ Detailed documentation of the new cost accounting system implemented for FY 09-10

Communications between the Department and the Auditor are continuing in an effort to ensure that future accounting practices conform to government accounting standards.

- ***Continuing work to close FY 08-09 and develop FY 09-10 addenda budget and cash flow plan***

Significant effort is underway to properly complete the close per direction of the Auditor's Office. The year-end closure of the books for FY 08-09 is particularly challenging for Mental Health given the data integrity issues resulting from prior deficiencies in accounting systems, processes, and controls. The FY 08-09 data rebuild and associated journal entries (to true-up costs and more accurately allocate costs/revenues to appropriate programs) are currently under review by the Auditor's Office as part of the year-end closure process. Successful posting of requested journal entry corrections is critical for the Division to achieve its prior year-end projections.

Final information relative to State budget actions, and plans to offset funding cuts/deferrals, will be reflected in the Division's recommended Addenda budget. A preliminary FY 09-10 cash flow plan will be submitted to the CAO by the end of July; any necessary updates to this plan will be provided with the Division's addenda budget submittal.

- ***Continuing transition to MHSA approved programs and services***

Extensive work is continuing to transform programs and service delivery in a manner that allows effective use of available MHSA funding. Fiscal systems and controls are being implemented to ensure that costs associated with MHSA services are being properly collected and charged within the MHSA subfund. Efforts were largely focused on transforming adult services during the latter half of FY 08-09. Significant effort is now underway to transform children's services, as well as to develop plans for new MHSA components, such as Prevention and Early Intervention, so that funds available for these components can be utilized.

The leadership of the Health Services Department remains committed to pursuing every reasonable way to control costs and maximize revenues in the Department, while ensuring appropriate and quality services that are consistent with mandates.

Board Action Requested

1. Adopt Resolution authorizing Deviation from Retention Points in accordance with Article 12.E. of the Memorandum of Understanding between the County and Local 1 in order to retain employees in the Program Assistant classification with bilingual skills.
2. Take action on any other Department or Board recommendations relative to managing the Department's budget in FY 09-10.
3. Recommend that the Director of Health Services continue to report back to the Board on a regular basis during FY 09-10 with fiscal updates and any additional recommendations for maintaining an operationally and fiscally sound Health Services Department, with the next update to coincide with the County's FY 09-10 budget hearings in September 2009.