



The County of El Dorado

Chief Administrative Office

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Date: November 14, 2008

To: Board of Supervisors

From: Gayle Erbe-Hamlin, Chief Administrative Officer
Concurrence: Neda West, Health Services Director

A handwritten signature in blue ink that reads "Gayle Erbe-Hamlin".

Re: Mental Health Cash Flow / Budget Report

Background

On November 4, 2008 the Board of Supervisors directed the Chief Administrative Officer and the Health Services Director to provide a written report listing the specific steps taken to address the cash flow issue in the Mental Health Special Revenue Fund. The attached summary and report are submitted to respond to this request as well as provide the Board with an update on other budget related information and efforts.

Summary
Mental Health Cash Flow / Budget Report
November 18, 2008

Cash Status

Date	Cash Balance w/out GF Loan	Cash Balance with GF Loan	Notes
08/29/08	-\$3.3 M	\$0	negative balance at fiscal year end, loan from the General Fund brings cash balance to \$0
10/31/08	-\$6.4 M	-\$3.1 M	four months of expenses incurred with no State reimbursement for those expenses
11/11/08	-\$4.6 M	\$-1.3 M	\$1.8M improvement from receipt of cash payments from the State following the adoption of the State budget

Steps Taken

- Eliminated extra help positions – \$159,000 savings
- Eliminated one filled permanent position – \$30,000 savings
- Proposed elimination of four additional positions (one management) - \$150,000
- Restricted overtime to Crisis/PHF activities
- Terminated designated contracts - \$183,000
- Eliminated training/travel (non-MHSA) - \$17,200

Next Steps – Near Term

Additional Budget Reductions

- Reconstruct the budget with updated revenue projections, correct errors/omissions
- Proposed phased reductions of staff to ensure revenues are not negatively impacted
- Develop cash flow, revenue accrual and budget monitoring reports to control the budget
- Clarify budget monitoring and management responsibilities for all staff (fiscal and program)

Billing/Cash Flow Improvements

- Revenue identification and prioritization
- Collection of one time and prior year amounts due
- CFO project oversight for next phase of Avatar billing system, accurate/timely billings
- Staff billing entry brought current, new billing/cost allocation process concurrent with payroll

Contracts

- Identify contracts for termination, reduction or other modifications to improve cost control
- Implement an automated contract tracking and monitoring system for fiscal and program staff
- Revise contracts with multiple vendors to prevent expenditures exceeding approved budget

Next Steps – Mid-Term

System/Process Improvement

- Implement processes that streamline the combined business operations of the Public Health and Mental Health divisions
- Improve current cost accounting and billing systems to ensure costs are tracked accurately and billed timely
- Staff reductions can occur as system/process improvement occurs

Next Steps – Longer Term

- Review historical billing practices and explore other allowable methodologies that may produce cash flow advantages
- Restore fund balance and establish an operating reserve to prevent negative cash balances

Report to Board of Supervisors – November 18, 2008
Steps Taken to Address Mental Health Cash/Budget Issues

On November 4, 2008 the Board of Supervisors directed the Chief Administrative Officer and the Health Services Director to provide a written report listing the specific steps taken to address the cash flow issue in the Mental Health Special Revenue Fund. The following report is submitted to address the steps taken as well as provide the Board with an update on other budget related information and efforts.

Background

On October 14, 2008 the Board of Supervisors approved the merger of the Public Health Department and the Mental Health Department into a single Health Services Department, with new leadership to be provided by a Director of Health Services and a Chief Fiscal Officer (CFO). The CAO's Principal Administrative Analyst assigned to the new Department is also dedicating a significant portion of time in support of the transition to a more efficient/effective restructured department.

The primary focus of this newly appointed leadership team has been to rapidly understand and improve the Mental Health Division's cash flow situation and current year budget. Timely corrective action is required to ensure a fiscally viable organization, thus preventing a reoccurrence of the FY 2007-08 year-end experience (which saw the Mental Health sub-fund 001, non-MHSA, close with a \$1.3M negative fund balance and a \$3.3M negative cash balance, requiring a General Fund loan). Mental Health Division staff have cooperated and provided valuable resource materials to the new Department leadership; however, source materials (contracts, legislation, regulations, etc.) are also being researched in order to validate information/assumptions and ensure consistency with applicable requirements.

Cash Status
Mental Health Special Revenue Fund
 (Sub Fund 001, non-MHSA)

Date	Cash Balance w/out GF Loan	Cash Balance with GF Loan	Notes
08/29/08	-\$3.3 M	\$0	negative balance at fiscal year end, loan from the General Fund brings cash balance to \$0
10/31/08	-\$6.4 M	-\$3.1 M	four months of expenses incurred with no State reimbursement for those expenses
11/11/08	-\$4.6 M	\$-1.3 M	\$1.8M improvement from receipt of cash payments from the State following the adoption of the State budget

Now that the State budget has been adopted, we anticipate the resumption of regular Medi-Cal payments, positively impacting the cash balance. The new Department leadership has developed this

initial status report and will follow with regular cash flow updates to the CAO, Auditor and BOS. Future status reports will include comprehensive cash flow projections addressing the full fiscal year (and will also reflect revised budget assumptions as addressed later in this report).

Steps Taken to Improve Cash Flow

Cost Reductions

Cost cutting measures established in the Final Budget have been implemented:

- 1) Eliminated 6.85 FTE Extra Help positions for a projected savings of \$159,000 for the remainder of this fiscal year.
- 2) Eliminated one filled permanent allocation (termination effective 11/21/08) for a projected savings of \$30,000 for the remainder of this fiscal year.
- 3) Proposed elimination of four additional permanent allocations 11/18/08 (includes one management position). Projected savings of \$150,000 for the remainder of this fiscal year.
- 4) Restricted overtime to Crisis and PHF staff only. A new report is being created to detail overtime costs and ensure compliance with this requirement.
- 5) Terminated designated contracts (New Morning, Tahoe Youth and Family Services, and SLT Family Resource Center) for a projected savings of \$183,000 for the remainder of the fiscal year.
- 6) Eliminated nearly all non-MHSA Training/Travel for a savings of \$17,200.

Next Steps – Near Term

Additional Budget Reductions

The leadership team has initiated the following actions and will bring further budget reductions to the Board in December 2008.

- 1) *Reconstructing the budget* - The team is scrutinizing the Mental Health Division budget and operations and as a result is rebuilding the budget to reflect updated revenue information and to correct identified errors/omissions. Revenue estimates are being updated and reapplied at the program level to allow determination of appropriate staffing and contract levels by program.

Admin/fiscal staffing reductions will be recommended in a phased approach. Restructuring will be implemented as quickly as possible; however, implementation of reliable cost accounting processes are necessary to achieve efficiencies and enable the right sizing of Admin/Fiscal units without impacts on revenue.

Reductions to clinical and associated support staff could have unintended negative consequences if not carefully planned and implemented. New reports are currently being developed to track clinician performance in terms of revenue recovery and to determine the appropriate level of staffing consistent with funding.

- 2) *Cash Flow Dependent on Revised Budget* - With these revisions/corrections to the budget plan, it will be possible to prepare a more accurate and reliable cash flow projection for the balance of the fiscal year.
- 3) *Bi-Weekly Revenue Accrual Reports* - Reports are being developed to monitor staff charges on a bi-weekly basis to verify that charges to billable activities are consistent with ratios assumed in the budget. Revenue accruals (off-line of FAMIS) will be estimated from billing data, thereby enabling management to monitor estimated revenue being generated on a real time basis. This information will be utilized to monitor and validate cash flow projections.
- 4) *Budget Monitoring and Internal Controls* – Required processes and controls are being identified to ensure effective on-going monitoring and management of budgets; new direction is being given to staff relative to budget monitoring and management responsibilities.

Billing and Cash Flow Improvements

The leadership team is evaluating processes used to claim funding from all sources, especially Medi-Cal. Recent steps to improve future cash flow include:

- 1) A *Cash Flow – Revenue Prioritization Matrix* has been developed as a means of identifying revenue sources that require immediate action by the Department in order to expedite receipt. The priority and initial focus will be:
 - a. One-time / prior period revenue collections (follow-up contact with the State has been initiated)
 - b. Medi-Cal and State EPSDT on-going billing processes
 - c. Medi-Cal Cost Report Settlement for FY 06-07
 - d. Medi-Cal Cost Report for FY 07-08 submitted by Dec 31 deadline
- 2) *Annual Utilization Review* costs of approximately \$250,000 historically have not been billed throughout the year; instead costs have been reimbursed through the cost report settlement process resulting in the payment of this amount being delayed for over a year. Going forward, these amounts will be billed on a monthly basis to improve cash flow.
- 3) *Billing System and Process Improvements*
 - a. The CFO has assumed responsibility as the Health Services Project Manager for AVATAR (the Medi-Cal billing system); clear expectations and priorities are being established for staff.
 - b. The JPA implementing the AVATAR billing system has hired a JPA Program Manager, now housed in the Mental Health Placerville Drive office. This resource has been deployed to resolve outstanding issues related to the billing system as well as to support installation of the AVATAR Medical Records component.
 - c. Staff has been directed to enter all prior-period data necessary for retroactive Medi-Cal billings or allocations to MHSA and other funded programs no later than November 14th and to keep billing entry current thereafter. To ensure this, the CFO is implementing new procedures requiring staff to submit all billing and cost allocation data concurrent with their payroll timecard. This will enable Admin/Finance staff to reconcile cost accounting with actual time paid and it will ensure that data entry required for cost recovery remains current.

Improvements in Contract Processing

The following steps have been initiated to improve contract processing and monitoring:

- 1) Identification of any contracts that may need to be terminated, reduced, or otherwise revised to allow greater cost control.
- 2) Implementation of an appropriate contract tracking and reporting system to provide greater control of the contracting process. Timely availability of complete and accurate information will improve the development of amendments or new contracts in order to prevent retroactivity, as well as inform fiscal and program staff of the status of ongoing contracts.
- 3) Business needs require that contracts with multiple vendors be established for some services; with the combined not-to-exceed (NTE) amounts potentially exceeding budget appropriations. There are currently insufficient processes/controls in place to ensure that work is not authorized through these contracts in excess of budget. Appropriate processes/controls have been identified and are being implemented.

Next Steps – Mid Term

System and Process Improvement

The leadership team has initiated the evaluation of different processes used in Public Health and Mental Health Divisions with an initial focus on admin/fiscal functions. These differences will be reconciled and standardized where business needs allow. The goal will be to not simply select and adopt existing processes but instead, to implement processes that streamline combined business operations.

Accounting processes impacting cash flow have been reviewed in the Mental Health Division with the following primary findings:

1. Current cost accounting and billing systems in Mental Health are inefficient and labor intensive, requiring extensive data entry. Much of the inefficiency will be eliminated with the installation of the Medical Records component of the AVATAR software system; however, this system may not be fully operational for another two to three months at best (allowing for a parallel testing period). Once this system is operational, staffing reductions will be able to be made without impacting the Department's ability to generate claims to Medi-Cal.
2. Although the AVATAR system will streamline Medi-Cal billings, other cost accounting functions will not be improved by AVATAR. Currently costs are allocated to individual programs in an inefficient and time consuming manner. There is tremendous opportunity for improvement in this area; however, some time will be required to implement available, in-house applications and associated processes. When planned changes are made, it will be feasible to reduce staff without a negative impact to the processing of transactions that support the generation of revenue.

For the reasons stated above, admin/fiscal staffing reductions will be recommended in a phased approach. Restructuring will be implemented as quickly as possible; however, implementation of reliable cost accounting processes are necessary to achieve efficiencies and enable the right sizing of Admin/Fiscal units without impacts on revenue.

Additionally, initial evaluation confirms that reductions to clinical and associated support staff could have unintended negative consequences if not carefully planned and implemented. Clinicians have the ability to generate revenue (specifically Medi-Cal) and/or are required to fulfill mandates and contractual obligations to the State related to allocated funding such as State Managed Care and Mental Health Services Act (MHSA) monies. For these positions to be funded it is critical that their time be charged consistent with the assumptions in the budget. New reports are currently being developed to track clinician performance in terms of revenue recovery and to provide tools to enable managers to determine the appropriate level of staffing consistent with funding.

Next Steps – Longer Term

- ✓ A critical goal, moving forward, will be to restore fund balance in the Mental Health special revenue fund 11-110-001 and create an operating reserve that would provide cash for a three month period. The delay between the time the Department incurs expenses and the time the State provides the reimbursement (in some cases, only at 50%) will always cause a structural negative impact on cash flow. An operating reserve of cash would prevent a negative cash balance.
- ✓ Further evaluation is needed to determine if historical billing practices are most appropriate, or if other allowable methodologies may produce cash flow advantages. For example, the current practice of billing Medi-Cal is based on provisional rates that are lower than State maximum allowable rates. Use of maximum allowable billing rates would provide for optimum up-front cash payment instead of receiving reimbursement through the annual cost report settlement process; however, a reserve would need to be established to ensure the ability to pay back any over applied cost if deemed necessary through the final cost report settlement process. To-date, it has not been determined if penalties or interest charges may be applied in this scenario.