

COUNTY OF LOS ANGELES – DEPARTMENT OF MENTAL HEALTH

F A C T S H E E T

**APPROVAL OF SETTLEMENT AGREEMENTS WITH
PACIFIC CLINICS
AND
STIRLING ACADEMY, INC.
(SUPERVISORIAL DISTRICTS 3 AND 5)**

REQUEST

Request Board approval and delegate authority to the Director of Mental Health to prepare, sign, and execute Settlement Agreements with Pacific Clinics (Agreement No. DMH-02343) to repay a debt of \$972,009 owed to the County of Los Angeles - Department of Mental Health (DMH), and with Stirling Academy, Inc. (Stirling) (Agreement No. DMH-02363) to repay a debt of \$78,679 owed to DMH. Upon Board approval, the Settlement Agreements will allow both contractors to repay DMH over a period of 12 months, beyond the three (3) months stipulated in the contract's financial provisions.

INTENT/JUSTIFICATION

Board approval of the Settlement Agreements will establish a 12-month repayment plan for the recovery of payments made by County to Pacific Clinics and Stirling based on submitted billings that were subsequently determined by audits to be in excess of actual earned amounts for services rendered in Fiscal Year (FY) 2001-2002.

Because the repayment period does not exceed 12 months, DMH is recommending that interest be waived. This extension will mitigate an immediate adverse cash flow impact on the subject contractors so as to enhance the probability of recovery of County funds and to avoid any potential adverse impact on the level of services that they provide.

Effective upon Board approval, the County will receive from Pacific Clinics a monthly payment of \$81,001 for the first 11 months and \$80,998 for the 12th month, for a total repayment of \$972,009, and from Stirling a monthly payment of \$6,557 for the first 11 months and \$6,552 for the 12th month, for a total repayment of \$78,679, with no interest charges.

CONTRACTOR

Both Pacific Clinics and Stirling are current DMH Legal Entity mental health services contractor providers.

FISCAL SUMMARY

There is no fiscal impact on DMH's FY 2005-2006 Adopted Budget. Effective upon Board approval, Pacific Clinics and Stirling will repay amounts of \$972,009 and \$78,679 respectively in installments over 12 months. It should be noted that County General Funds (CGF) in the amount of \$972,009 and \$78,679 have already been expended to pay back the State for the FY 2001-2002 Short-Doyle Medical (SD/MC) and Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program Settlement. The State recovered their funds by offsetting against DMH's current year Medi-Cal revenue. This is the State's customary method of recovering their funds resulting from audit settlement. Accordingly, DMH will restore department funds through collection from the contractors.

FACTS AND PROVISIONS

The State SD/MC reconciliation demonstrated that these contractors' billings were in excess of their actual earned amount for services rendered in FY 2001-2002. The State Department of Mental Health (SDMH) requires an annual cost report from each contractor who provides SD/MC mental health services. Based on the submitted cost report, a SD/MC Reconciliation Settlement Report is issued by the State, which determines the amount earned by the contractor based on final approved SD/MC allowable units of services.

Provider audits may result in units of service being disallowed or adjustments in the amount of reimbursement for services provided. In this instance, these Settlement Agreements with Pacific Clinics and Stirling for repayment represents recovery of funds paid in excess of the cost of actual Medi-Cal services provided as well as services that were disallowed by State auditors.

This Settlement Agreement does not include interest charges pursuant to the joint departmental Board memo dated February 3, 2003, as DMH deems that interest charges would impose an additional financial burden on these contractors, who will initiate a good faith effort to repay DMH monthly.

Your Board is hereby informed that Stirling has an existing previously Board approved Settlement Agreement No. DMH-01886, with a debt balance of \$54,682, and an estimated repayment period of two more (2) months. The proposed Settlement will add a second Settlement with Stirling. The two (2) settlements will run concurrently for the first two (2) months, with a combined monthly collection of \$33,898. Stirling's monthly claims for its current services has been determined to be more than sufficient to cover its debt repayment offset.

In cognizance of Stirling's recurring over-billing problems, DMH is committed to take appropriate actions to assist the Contractor to avoid future such problems. The Department's corrective action will begin with close monitoring of Stirling's billing practices to ensure its monthly claims approximate its actual costs, and follow up with regular monitoring of Stirling's business practices throughout the remainder of the fiscal year. Should over-billing problem persists, DMH will consider reduction of Stirling's contract amount for future fiscal years.

IMPACT ON CURRENT SERVICES

The extension of repayment period will mitigate an immediate cash flow impact on the contractors and, thus, avoid potential adverse change on the level of services being provided.

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