

COUNTY OF LOS ANGELES-DEPARTMENT OF MENTAL HEALTH

F A C T S H E E T

**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.

REQUEST

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 after 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.

Approve and instruct the Director of Mental Health, or his designee, to extend 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

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 provisionally based on provisional rates, with final payment not determined until the time of the State's SD/MC Cost Report Reconciliation and Settlement. Final payment is not determined until this time because it is during this process that final rates are determined based on the 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 notice to the contractors while it determined the actual amounts that would still 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 portion of the CFA 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.

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 staff 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 it has proposed in this Board Letter for FY 2007-08; that is DMH staff would 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.

BACKGROUND

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 30th 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 have 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 amount of CFA outstanding and the delay in receiving State and federal funding.

DMH Contact:

Kimberly Nall, Chief Finance Officer
Financial Services Bureau
Telephone Number: (213) 738-4669
Email Address: knall@dmh.lacounty.gov

Approved By:

DMH Contracts – Leticia Torres-Ibarra
Chief Executive Officer – David Seidenfeld
County Counsel – Stephanie Farrell