



DEPARTMENT OF MENTAL HEALTH POLICY/PROCEDURE

SUBJECT: RECOVERY OF CASH FLOW ADVANCES FOLLOWING RECEIPT AND PROCESSING OF THE TWELFTH MONTH CLAIMS	POLICY NO. 412.1	EFFECTIVE DATE 02/01/05	PAGE 1 of 3
APPROVED BY:  <div style="text-align: right;">Director</div>	SUPERSEDES	ORIGINAL ISSUE DATE	DISTRIBUTION LEVEL(S) 2

PURPOSE

- 1.1 To provide collection guidelines in the event a Legal Entity does not meet the contracted service levels. This means that the Legal Entity has failed to completely repay the cash flow advances by the time the Legal Entity's twelfth (12th) month of claims have been received and processed. The 12th month of claims are normally processed; and the results of the State and County adjudication are known three months following the close of each fiscal year, i.e., October.

BACKGROUND

- 2.1 The County issues cash flow advances to the Legal Entities to provide cash flow pending the rendering, billing, and processing of claims for eligible services/activities. The Department identifies, in accordance with the provision of the Legal Entity's agreement, whether the Legal Entity meets the contracted service levels, and if otherwise, initiates recovery of cash flow advances to ensure the Legal Entity completes repayment of the cash flow advances that have remained unpaid by the time the 12th month of claims have been received and processed.

DEFINITIONS

- 3.1 Cash Flow Advance – Disbursements of County General Fund to a Legal Entity for purposes of providing cash flow pending the rendering, billing, and processing of claims for eligible services/activities.
- 3.2 Director – County Director of Mental Health or his/her authorized designee.
- 3.3 Department – The Los Angeles County Department of Mental Health.
- 3.4 Legal Entity – The legal organization structure under California law.



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POLICY

- 4.1 Pursuant to the terms of the Legal Entity Agreement, the Department shall recover cash flow advances from the Legal Entities. This includes the collection of interest charges on delinquent payments. The Director shall determine if the Legal Entity failed, without good cause, to repay the cash flow advances by the agreed upon due date. If so, in his/her sole discretion, and after written notice to the Legal Entity, the Department may assess interest charges on the amount due to County in accordance with the provisions of the Legal Entity Agreement.

PROCEDURE

- 5.1 Upon identification that the cash flow advances have not been recovered by the time of the receipt and processing of the Legal Entity's twelfth (12th) month of claims, the Provider Reimbursement Unit (PRU) shall notify the Legal Entity of the amount due to the County.
- 5.2 The Legal Entity shall, within ten (10) days from written notification by the County, notify the County of the method of repayment. See the Legal Entity Agreement for the six (6) payment method options.
- 5.3 Upon receipt of the notification of the Legal Entity's payment method, the PRU shall determine the final due date for the recovery of the cash flow advance. The PRU shall advise the Accounting Division's Accounts Receivable Desk (ADARD) to allow this information to be included in the weekly Accounts Receivable Aging/Collection Report.
- 5.4 The ADARD shall monitor the repayment/collection activities to ensure that the final due date for the recovery/collection of the cash flow loan is met.
- 5.5 In the event that the final due date is not met, the ADARD shall initiate collection activities as specified in the County Fiscal Manual. The ADARD shall notify the Legal Entity that the account is past due.
- 5.6 If payment is not received within thirty (30) days, the ADARD shall send a second notice to the Legal Entity indicating that the account is thirty (30) days past due, and that



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interest charges may begin to accrue if the account is not paid by the sixty-first (61st) day following, providing the Director (or his/her designee) specifies that interest shall be assessed. ADARD will continue the collection process consistent with the County Fiscal Manual.

- 5.7 If the Director (or his/her designee) determines that the Legal Entity does not have a good cause as to why the cash flow advance has not been paid to the County within sixty (60) days, interest shall begin to accrue on the immediate day following.
- 5.8 On the 61st day that the Legal Entity has not paid the cash flow advance in full, interest begins to accrue. The ADARD shall calculate interest using the simple interest method. Simple Interest is: Interest = Principal x Rate x Time.
 - 5.8.1 The principal is the amount owed. The rate is the interest rate. Time is the number of days/months the balance of the cash flow advance remains outstanding after the sixtieth (60th) day following the final due date.
 - 5.8.2 The interest rate to be used, as specified in the Legal Entity Agreement, is the County's pool rate as determined by the Auditor-Controller. The ADARD shall contact the Auditor-Controller's Accounting Division Accounts Receivable Desk to obtain the County's pool rate.
 - 5.8.3 Interest accrued should be calculated upon receipt of final payment. This is to determine the amount of time (number of days/months) the advance was outstanding. In the event of a partial month, the pool rate should be prorated.
- 5.9 The ADARD shall prepare and send an invoice for the amount of accrued interest to the Legal Entity.
- 5.10 The Legal Entity shall pay the interest charges upon demand, or, at the sole discretion of the Director (or his/her designee), the Department may deduct the interest charges from any amounts due by County to the Legal Entity.

REVIEW DATE

This policy shall be reviewed on or before March 2010.