SUMMARY

In Fiscal Year (FY) 2017-2018, the budget for the Behavioral Health Division (BHD) went badly awry, showing a major shortfall initially estimated at 19 million dollars.

Sonoma County’s BHD is required to deliver vital services to Sonoma County adults and children with mental illness and/or substance abuse disorders, within an honest and balanced budget. Budget creation requires knowledge and understanding of past expenditures, projected revenues, services and programs, current service level maintenance, and administrative costs. Ongoing forecasting and recalibration of the budget continues throughout the fiscal year. Interlocking parts of the budgeting system must merge in a timely and coherent fashion.

Citizen complaints led the Sonoma County Civil Grand Jury to take a closer look at the factors involved in the budget shortfall. No money is missing, it was never really there; however, the Grand Jury discovered a number of serious issues which created a “perfect storm.”

Through a series of budget transfers and accounting reconciliations, the 19 million-dollar shortfall was reduced to 10 million dollars. However, this 10 million-dollar shortfall impacted BHD and other Sonoma County agencies. The causes of the shortfall lay in the lack of consistent and approved policies and procedures within the BHD system. These deficiencies included:

- hopeful but inaccurate budget forecasting
- failure to provide feedback mechanisms to correct widening budget gaps
- the lack of appropriately-trained personnel
- the delay in implementation of a new medical record, billing, and claiming system (Avatar)
- critical failures in compliance oversight
- leadership’s failure to understand complex, government finance systems

It is worth noting that state and federal funding are insufficient to meet Sonoma County Behavioral Health Services’ needs.

GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACA</td>
<td>Affordable Care Act. Health insurance mandate effectual 2014</td>
</tr>
<tr>
<td>ACCRUAL</td>
<td>Accounting system recording revenues and expenditures as occurred</td>
</tr>
<tr>
<td>AVATAR</td>
<td>Medical billing, claims and management system</td>
</tr>
<tr>
<td>BHD</td>
<td>Behavioral Health Division</td>
</tr>
<tr>
<td>BOS</td>
<td>Sonoma County Board of Supervisors</td>
</tr>
<tr>
<td>CBO</td>
<td>Community based organization contracted by BHD to provide services.</td>
</tr>
<tr>
<td>CLIENT</td>
<td>a client of BH services</td>
</tr>
<tr>
<td>COMPLIANCE PROGRAM</td>
<td>Internal policies and procedures of the state to guide compliance with state policies, laws, rules and regulations</td>
</tr>
</tbody>
</table>
CSU  
Crisis Stabilization Unit. Acute care psychiatric inpatient unit providing rapid assessment and brief treatment and referral

DHS  
Health Services Department oversees BHD and Public Health Division.

FISCAL SERVICES  
Units within both DHS and the BHD with responsibility for budgets, billing and revenue

FY  
Fiscal Year runs July 1 to June 30

FUND BALANCE  
Remaining funds after assets are used to meet liabilities.

MHSA  
Mental Health Services Act

REALIGNMENT FUNDS  
State funds transferred to the counties to provide state-mandated services

ZERO-BASED BUDGETING  
A method of budgeting in which all expenses must be justified and approved for each new period

BACKGROUND

The Sonoma County Civil Grand Jury received numerous citizen complaints regarding the BH budget shortfall in FY 2017-18. This led the Grand Jury to examine how budgets were and are developed, and to determine whether such a shortfall is likely to recur.

METHODOLOGY

The Grand Jury conducted interviews with the following:

- Health Services Department
- Behavioral Health Division
- Fiscal Services, Health Services
- Sonoma County Auditor’s Office
- Mental Health Board
- Complainants

The Civil Grand Jury reviewed a wide range of sources:

- Written material regarding budget development
- Local news articles
- State and federal regulations and guidelines
- County Organizational Chart
- Independent auditors’ reports
- Published budgets
- Mission statements

DISCUSSION

*The Budget Process*

The budget must balance resources with expenditure appropriations. The County must live within its own means and avoid disturbing other local jurisdictions’ revenue sources to resolve its deficiencies. Furthermore, any deviation from a balanced budget is not permitted by the California State Government Code, which states: “In the recommended, adopted, and final budgets the funding sources shall equal the financing uses” [Grand Jury emphasis] (Government Code §29009).
In a structurally balanced budget, beginning fund balance may not be used as a financing source for ongoing expenditures. As noted in the Long-Range Planning section... the County’s goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated annual revenues. **Ongoing expenditures shall be provided based on sound anticipated ongoing revenue and not include “one-time” items such as capital outlay, projects, or temporary program funding**” [Grand Jury emphasis]

The BHD budget relies primarily on revenue streams from state and federal governments. State and federal governments contract with counties to deliver mandated mental health services. Counties, in turn, bill the state and federal governments for services performed. These services generally encompass mental health care and drug rehabilitation, and are delivered by county employees and county-contracted, community-based organizations (CBO).

State and federal funding is unpredictable, complex and volatile. Counties must rely on projected revenue numbers based on long-term historical records as they build their budgets. Dedicated funding streams fluctuate based on the source. For example, MHSA funding is dependent on revenues from the “millionaires’ tax.” Projected expenditures are also based on historical data and are equally volatile. Actual revenues and expenditures are reviewed periodically throughout the year and, hopefully, appropriate adjustments are made.

**Revenue Sources**

**BHD Primary Funding Sources**

Behavioral Health’s major funding sources:

- **FFP (Federal Financial Participation)** - Approximately 37% of the BHD budget. FFP represents the federal government’s share of the county’s MediCal (Medicaid) expenditures. County mental health plans are reimbursed in interim amounts based on approved MediCal services.

- **MHSA (Mental Health Services Act)** - Approximately 22% of the BHD budget. California Prop 63 (2004) created a one-percent tax on personal income over one million dollars. Received directly from the state, BHD spends these funds on programs based on community input as required by the MHSA. It is a flexible funding source designed to encourage counties to develop a broad continuum of programs. This included prevention, early intervention and service needs, and the necessary infrastructure technology and training elements (not covered by
insurance or federally supported programs) to effectively support this system. These state funds were also intended to ensure that expenditures for these programs were cost-effective and that services provided followed best practices.

- 1991 Realignment Fund - Approximately 16% of the BHD budget.
  An allocation designed to provide a funding source from the state directly to BHD for designated programs, formerly run by the state. The amount is based on the previous year plus a five-percent annual year growth. This source is funded through vehicle license fees, and a one-half percent sales tax.

- 2011 Realignment Fund - Approximately 17% of the BHD budget.
  An extension of the 1991 Realignment. Additional funding came from vehicle license fees, an increase in sales tax to a total of one percent, and a one-time transfer of MHSA funds.

- Matching grants and various funding - Approximately 8% of the BHD budget. Some funding relies on matching funding from several sources, such as the Affordable Care Act (ACA), the Whole Person Grant, etc.

Expenditures

Expenditures fall into two primary categories, direct and indirect.

Direct costs include staff salary and benefits, administration, in-patient care costs, and new program development. These may vary widely during the budget year despite preliminary projections. Salary and benefits, comprising a significant portion of the budget, are negotiated annually. Treatment costs include the number of staff positions, which varies by client number and needs. New program development and implementation require projections for both administrative costs and costs for program infrastructure. Some grants limit administrative costs.

Indirect or fixed costs include information technology and support (ITS), Human Resources (HR), Fiscal Services (FS) and overhead expenses (rent, utilities, etc.). Fixed costs are usually settled at the beginning of a budget year and do not vary widely during that year, so budget projections for these categories are relatively predictable.

The Budget Cycle

- January - March: The Governor releases the proposed state budget for the upcoming fiscal year. BOS approves budget development process. Departmental budget requests are submitted to the County Administrator. Staff prepares the Recommended Budget, working with departments to incorporate established policy direction and fiscal targets.

- April – May: County Administrator staff reviews department submitted budgets requests and balances the Recommended Budget as verified by the Auditor-Controller-Treasurer-Tax-Collector in preparation for budget hearings. Third quarter budget estimates and adjustments are presented and adopted, as needed. Governor releases the “May Revision”
budget, which may impact County departments/agencies that significantly rely on state funding.

- June – August: BOS conducts budget hearings and adopts the recommended budget with changes as determined at the budget hearings. The County Administrator and the Auditor-Controller-Tax-Collector request delegated authority to make administrative budget adjustments to close out the fiscal year.

- September-November: County Administrator and Auditor-Controller-Tax Collector compile the Adopted Budget, which includes changes approved by the Board during budget hearings. Current year first quarter budget adjustments are presented and adopted as needed. The County Administrator’s Office and the Auditor-Controller-Treasurer-Tax-Collector establish fund level targets.

**Budget Shortfall**

The BHD operated at a deficit in which expenses exceeded budgeted expenses for many years. Although an accrual-based accounting system (formerly used by the county) enabled BHD to present a balanced budget to the Board of Supervisors, funds budgeted to close the prior year were projected as income for the ensuing year. Other county sources to close the end-of-year deficit were also used: Public Health, one-time and matching grants, fund balances, anticipated federal and state reimbursements, and speculative potential sources. These end-of-year money transfers created the appearance that all services were covered by the “official” budgeted revenue sources, when, in reality, there was a yearly shortfall.

Historically, the budget was developed through ongoing communications between DHS Fiscal and BHD, consistent with estimates calculated by BHD. However, the leadership and system did not support collaborative communication. In FY 16-17 and FY 17-18, the revenue projections from DHS Fiscal, related to federal reimbursements, were dramatically different than the amounts developed by BHD, and incorrect numbers were entered into the budget. The estimate of future revenues was based on flawed assumptions.

State and federal government systems also impacted budget development. The state contracts with the counties to provide services. Counties are funded by the state based on a formula that takes into account actual expenses billed for services two years prior, augmented by a consumer price index adjustment (similar to COLA). This is a predictable revenue source and not considered reimbursement. The county is responsible for providing services and accurate documentation of services.

BHD program oversight of the billing process was lacking. The Avatar electronic charting and billing system, which should have increased efficiency and accuracy in billing, was never fully implemented. Division under staffing resulted in overworked employees prioritizing good client care above electronic charting. Errors in billing led to required “payback” liabilities to the state and federal agencies. Consequently, revenues projected on the basis of state and federal contributions were flawed. No funding was set aside to reconcile these liabilities. Auditing of
expenses and billing by the state and the federal government of actual expenses may lag by as much as five years. This will continue to distort revenue projections.

Revenue received from Prop 68, the 2004 Mental Health Services Act, was intended to provide increased funding, personnel and other resources to encourage innovation, support county mental health programs, and monitor the county’s progress toward goals consistent with statewide goals. These revenues were also intended to ensure that expenditures were cost-effective and that services provided followed best practices. County programs were determined through targeted public input. Innovation was encouraged. Expecting increased MHSA funding each year, statewide BHD budgets projected unrealistic annual increases, failing to take into account actual revenues.

Funding received from the federal government often requires matching funds from the county. The county’s share of these matching funds comes from state Realignment Funds. Expected increases from the 1991 Realignment funding were diverted to the Social Services Department; however, the division continued to claim the additional revenue in budget development.

MediCal reimburses only the first 20 hours of a client’s stay in the mandated Crisis Stabilization Unit (CSU), which treats psychiatric emergencies. Exceeding the reimbursable time resulted in the county shouldering the excess expense. These expenses are unpredictable and unavoidable due to a lack of appropriate post-CSU treatment facilities for client transfer. The lack of in-county enhanced treatment facilities for long-term care requires Sonoma County to place clients out-of-county. The fiscal impacts of these transfers include client placement in locked facilities providing 24-hour care, and transportation costs. It was not clear to the Grand Jury whether expenses would decline if clients remained in-county.

BHD failed to adequately oversee all CBO contracts and ensure that contractual numbers were met. The job of maintaining accuracy in billing falls both to the biller (CBO) and the Behavioral Health Compliance Officer. The Compliance Officer ensures that each billing is legitimate for the purpose mandated by law. The lack of sufficient training for CBO personnel caused Compliance personnel to assist with billing which they were then required to audit. This led to possible conflicts of interest. It also posed an independence issue for the Compliance Program staff in any oversight audits. The failure of the county to conduct due diligence in auditing CBOs led to loss of revenue and exposed the county to risks of fraud, waste and abuse. A public report requested by the department noted that “The Compliance Program’s scope and functioning [was] not fully understood and operationalized across the department.” Nearly half of the budget is paid to community-based organizations (CBOs).

During the FY 17-18 budget crisis, BHD was instructed to reduce contract amounts across the board by 15%, but failed to follow through, exacerbating the budget shortfall. In addition, BHD failed to establish and audit CBO performance standards on a regular basis. DHS failed to support a Compliance Program critical to audits required for all counties by the state.

CONCLUSION
Behavioral Health Division has a history of annual budget shortfalls. Starting with Fiscal Year (FY)14/15 the budget deficit was 8.09 million, FY 15/16 was 5.0 million, FY 16/17 was 11.0 million and FY 17/18 was 10 million. Current estimates for FY 19/20 indicate an approximate 8.5 million dollar shortfall. In earlier years, the shortfall was mitigated by revenue from fund balances. In FY 17-18, fund balances were insufficient to meet revenue shortfalls.

The Civil Grand Jury consistently and repeatedly requested fiscal policies and procedures within BHD. None were forthcoming.

Leadership’s lack of knowledge and understanding of government finance systems contributed to inaccurate forecasts of revenues and expenditures. Significant turnover in Fiscal Service employees in key positions, without replacing them with persons with equivalent knowledge, experience and training, contributed to lack of understanding of vital budget and accounting processes. Section and program managers were excluded from budget development, contributing to inaccurate projections of service needs. This exclusion interfered with the ability to control program expenditures. Professional communication was limited by management. This led to a lack of transparency between Fiscal and BHD.

COMMENDATIONS

The Grand Jury commends the Department of Health Services leadership in addressing the structural problems of past budget development methods and instituting robust and timely changes to ensure that this process remains transparent, accurate and responsive to change.

The new cash-based accounting system adopted by Sonoma County in FY 17-18 requires that revenue only be recorded when received.

We acknowledge the employees of the BHD who continue to provide quality services to the residents of Sonoma County despite challenging circumstances.

FINDINGS

The Sonoma County Civil Grand Jury has determined that:

F1: The Department of Health Services Fiscal Department lacked formal, written policies and procedures congruent with industry-standard budget development.

F2: BHD failed to establish and audit all CBO performance requirements.

F3: Projected revenue from anticipated programs and contracts continually failed to materialize, but remained in the budget.

F4: CSU costs exceeded anticipated revenues for those clients staying longer than the time reimbursable (20 hours) from MediCal for CSU services.

F5. Lack of adequate personnel compromised the Compliance Office’s effectiveness. It also posed an independence issue for the Compliance Program staff in any oversight audits.
F6. The failure to fully implement the medical record, claims and billing software, Avatar, continues to result in lost revenues.

F7. Although current leadership understands government finance and budgeting process, the Grand Jury found that past BHD and DHS leadership lacked understanding.

F8. Budget development process lacked transparency and staff participation. Section and program managers were not included in budget development.

F9. Professional communication was limited by management. This led to a lack of transparency between Fiscal and BHD.

F10. Inadequate staffing and insufficiently trained staff in DHS Fiscal led to a severely flawed budget for both FY 16-17 and 17-18.

F11. The budget shortfall caused BHD to reduce vital staffing.

F12. Auditing procedures designed to detect incorrect revenue information were not evident.

RECOMMENDATIONS

The Sonoma County Civil Grand Jury recommends that:

R1. The CAO’s office create and maintain policy and procedure manuals for each DHS department, and desk manuals for all positions in Fiscal and Behavioral Health Divisions by Dec. 31, 2019 [F1]

R2. DHS prioritize implementation of the Avatar system by Dec. 31, 2019 [F6]

R3. BHD include all managers in budget development and review by Dec. 31, 2019. [F8]

R4. BHD institute procedures for effective and respectful staff communication and support at all levels by Dec. 31, 2019. [F8, F9]

R5. DHS continue and expedite the CBO contract evaluation and build performance metrics by Dec. 31, 2019. [F2, F5]


R7. DHS hire a CFO who is experienced in government finance and systems. [F7, F12]

R8. The County Auditor’s Office institute procedures for verifying actual revenue figures, rather than verifying that projected budgets balance, by Dec. 31, 2019. [F12]

R9. The Compliance Program be adequately funded and supported, by Dec. 31, 2019. [F5]

R10. We recommend the BOS review its budget oversight responsibilities by Dec. 31, 2019
REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the Grand Jury requires responses as from the following county officials:

- Sonoma County Assessor-Auditor [R9]
- Sonoma County Board of Supervisors [R1, R10]
- CAO [R1]
- Director of Health Services [R2, R4, R5, R6, R7, R8, R9]
- Director of Human Resources [R6, R7]

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.

BIBLIOGRAPHY

Sonoma County Department of Health Services “Compliance Program Review” Dec. 2017