

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**A REVIEW OF THE CONTRACTING OPERATIONS
OF THE LOS ANGELES COUNTY
DEPARTMENT OF MENTAL HEALTH**

**A Review of the Contracting Operations of the
Los Angeles County Department of Mental Health**

P-979, November 1990

**Office of the Auditor General
California**



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P-979

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning our review of the contracting operations of the Los Angeles County Department of Mental Health. Our report indicates a need for the Los Angeles County Department of Mental Health to ensure that contractors correct previously identified deficiencies. Furthermore, we recommend that the department reaudit the costs claimed by a specific contractor that provided no services.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kurt Sjoberg".

KURT R. SJOBERG
Auditor General (Acting)

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Summary

Results in Brief The Los Angeles County Department of Mental Health (department), in cooperation with the State Department of Mental Health (SDMH), is responsible for providing public mental health services in Los Angeles County. The department contracts for a portion of its mental health services. Although the department periodically reviews the contractors to determine whether contractors comply with statutes, regulations, policies, and contract terms, we found the following weaknesses in the department's monitoring of its contractors for mental health services:

- The department did not always clearly require contractors to submit corrective action plans when deficiencies were identified during program and fiscal reviews;
- The department did not always ensure that contractors provided corrective action plans by the dates requested; and
- The department did not always follow-up to ensure that contractors corrected identified deficiencies.

Additionally, during fiscal year 1986-87, the department did not enforce contract terms allowing it to withhold portions of advance payments to a contractor that did not provide at least 75 percent of the projected amounts of service. As a result, the county advanced a total of \$250,000 to a contractor that provided no services at two facilities. Moreover, the department's contracted auditor did not disallow the costs claimed by the contractor. As a result, the department did not recover all of the funds paid to this contractor that provided no services.

Background Public mental health treatment programs in California are administered through the shared responsibilities of the SDMH and the 58 counties. The SDMH directs and coordinates statewide efforts to treat and prevent mental disabilities, distributes state funds to counties, and provides direct services to mental health clients in state hospitals. The counties provide or contract to provide services directly to mental health clients. These services include 24-hour care, "day" treatment, short- or long-term counseling, and other support services.

Improved Follow-up Necessary The department needs to improve its monitoring of contracted providers of mental health services. In particular, the department needs to improve its follow-up on deficiencies identified during reviews conducted by program and fiscal monitors. To test the effectiveness of the department's contractor monitoring, we reviewed 70 program and fiscal review reports issued for 24 contractors from July 1, 1988, through July 31, 1990. The department required contractors to submit corrective action plans in response to 41 of the program and fiscal review reports that cited deficiencies. As of August 31, 1990, 24 (59 percent) of the required plans either were late or had not been received by the department. Further, the corrective action plans the department received did not always address all deficiencies cited in the reports, and personnel responsible for following up to ensure that contractors correct deficiencies frequently had not done so.

When the department does not follow-up to ensure that contracted providers of mental health services correct identified deficiencies, there is reduced assurance that mental health clients are receiving high-quality, effective care at a reasonable cost. Our review of reports and visits to three contractors determined that contractors did not always correct deficiencies cited in the reports. The weaknesses we found with the department's monitoring of mental health contractors were caused by a lack of centralized planning and control.

**Terms of a
Contract
Not Fully
Enforced**

During fiscal year 1986-87, the department paid a contractor to provide services at two mental health facilities although the contractor provided no services at the facilities during this year. Under the terms of the contractor's cost reimbursement contract, the department could advance the contractor monthly payments. However, if the contractor provided less than 75 percent of the projected amounts of service, the department could withhold portions of the contractor's advances. The department advanced the contractor payments totaling the maximum contract amount of \$250,000 even though the contractor submitted invoices showing that it provided no services.

In addition to not stopping advance payments to this contractor, the department did not recover all the funds it had paid to the contractor. The department recovered the \$37,484 difference between the advance payments totaling \$250,000 and the \$212,516 in costs claimed by the contractor. Also, department records indicate that it recovered furniture, appliances, and other types of household items that were purchased with part of the \$212,516 provided by the department. However, although the department's contracted auditor reviewed the \$212,516 in costs claimed by the contractor and could have disallowed the costs, the auditor did not disallow any of the costs, relying on an internal department memorandum that waived certain time limits for incurring costs. According to the department's director, the purpose of this memorandum was to allow the county to pay the contractor for start-up costs incurred in August 1986. He did not intend this memorandum to allow the contractor to incur start-up costs up to the maximum contract amount. Without the costs being disallowed, the department could not take steps to recover all of the \$212,516 paid to the contractor.

**The
Department's
Contract With
a Corporation**

To reduce the incidence of seriously mentally disordered persons being inappropriately placed in the criminal justice system, the department contracted with a corporation to operate a mental health facility at Metropolitan State Hospital. We were asked to determine whether the contract with the corporation was correctly approved and found that, as required, the Los Angeles County Board of Supervisors approved the contract in April 1986, and the SDMH approved the amount of the contract in August 1986. We were also asked whether the funds allocated to the corporation were monitored. We found that the department's contracted auditor reviewed the costs claimed by the corporation for fiscal year 1986-87 through fiscal year 1988-89. In answer to the question of whether the department had reimbursed the State's General Fund for any revenue lost from operating a county facility on the grounds of a state hospital, we found that the department has not reimbursed the General Fund because the SDMH has not formally requested reimbursement.

Finally, we were asked how the State had monitored Los Angeles County's administration of its program to reduce the incidence of mentally disordered persons being inappropriately placed in the criminal justice system and whether the oversight had been sufficient. According to the acting chief deputy director of the SDMH, in general, the SDMH has not specifically monitored the county's program, and limited oversight is consistent with the intent of Chapter 1327, Statutes of 1984.

**The
Department's
Budget
for Fiscal
Year 1988-89**

In the department's budget for fiscal year 1988-89 that it submitted to the SDMH, the department budgeted over \$5 million to eight contractors that were not providing the types of mental health services at the facilities described in the budget. The department's director stated that these eight contractors were included in its budget because the budget for fiscal year 1988-89 was a near duplicate of the prior year's budget. At the time the department submitted its budget for fiscal year 1988-89, it was under a court order not to close clinics or reduce mental health services. The department submitted a near duplicate of the prior year's budget,

according to the department's director, to avoid violating the court order and to continue receiving advance funding from the State. The department informed the SDMH that it was submitting a near duplicate of its prior year budget and of its reasons for doing so, and the SDMH accepted the department's budget. Although the department did not have readily available records that show the programs to which it reallocated the funds originally budgeted to these eight contractors, department records indicate that it did spend or had budgeted to spend all the funds allocated to it by the State for fiscal year 1988-89.

**Payments
to Eleven
Contractors**

During fiscal years 1985-86 and 1986-87, the department paid amounts to 11 contractors that resulted in costs of more than \$200 per unit of service. Because of the types of contracts these 11 contractors had and because allocations for start-up costs were included in some of the contracts, such payments do not necessarily indicate that the department paid these contractors more than was appropriate.

**Corrective
Action**

The department is taking steps to gain greater control over the amount of funds it pays to contractors. During fiscal year 1989-90, of the 130 contracts administered by the department, 111 (85.4 percent) were negotiated rate contracts. Contractors with negotiated rate contracts are paid an agreed-upon rate for each unit of service provided. Therefore, the county does not pay contractors with negotiated rate contracts when they do not provide mental health services.

Recommendations

To improve its program and fiscal monitoring of contractors for mental health services, the department should more effectively plan and control its contract monitoring by taking the following actions:

- Require contractors to prepare and submit corrective action plans when review staff identify deficiencies;
- Develop comprehensive, written procedures for all phases of the contractor monitoring; and
- Ensure that staff in all monitoring units are aware of their roles and responsibilities.

To ensure that the county does not advance funds to contractors that do not provide adequate levels of mental health services, the department should take the following actions:

Enforce contract terms related to withholding advance payments when contractors do not provide adequate levels of service; and

- Continue to limit the issuance of cost reimbursement contracts.

Concerning the \$212,516 in costs claimed by the contractor for the two facilities that did not provide services in fiscal year 1986-87, the department should take the following actions:

- Reaudit this contractor to determine the allowability of the costs claimed in light of the director's interpretation of the internal memorandum; and

Take steps to recover from this contractor any costs found not to be allowable.

**Agency
Comments**

The Los Angeles County Department of Mental Health generally agrees with our recommendations. The department's director states that the department will develop detailed follow-up procedures for personnel responsible for this function. The director further states that the department is revising certain monitoring procedures and replacing the current contract monitoring process with a strong, centralized contract monitoring process that will eliminate the weaknesses noted in the review. Finally, the director states that the department will seek the advice of the Los Angeles County Counsel concerning reauditing a particular contractor and will proceed based on that advice.

Introduction

Public mental health treatment programs in California are administered through the shared responsibilities of the State Department of Mental Health (SDMH) and California's 58 counties. The SDMH directs and coordinates statewide efforts to treat and prevent mental disabilities, distributes state funds to counties, and provides direct services to mental health clients in state hospitals. The counties provide or contract to provide services directly to mental health clients. These services include 24-hour care, "day" treatment, short- or long-term counseling, and other support services.

Funding for mental health services comes from many sources. For example, the SDMH receives an appropriation from the State's General Fund and then allocates funds to the counties. Other funding sources include federal grants, county funds, fees collected from clients, and payments made on behalf of clients by Medicare, Medi-Cal, or insurance companies.

**The
Los Angeles
County
Department of
Mental Health**

For fiscal year 1989-90, the SDMH allocated \$547.5 million to local governments for the provision of mental health services. The Los Angeles County Department of Mental Health (department) received \$158.5 million (28.9 percent) of this allocation. For fiscal year 1989-90, the budget for the department was \$236.7 million, of which \$202.2 million came from noncounty sources, \$34.2 million came from Los Angeles County, and \$334,000 came from the transfer of funds from other county

departments. According to the department's director, noncounty sources include the state and federal governments and mental health clients. The department was budgeted for 1,375 positions.

The department is divided into four sections: program services, which includes the children and adult services bureaus and the contracts and grants administration division; administrative services, which includes the department's personnel bureau and information systems support bureau; the office of the public guardian, which includes the conservatorship services division; and the office of the medical director.

The department provides mental health services to a variety of clients, including children, adults, mentally ill offenders, and homeless individuals.

Section 5600 et seq. of the Welfare and Institutions Code (also known as the Short-Doyle Act) encourages counties to contract for the provision of mental health services. For services provided during fiscal year 1989-90, the department had 130 contracts totaling \$62.6 million with 77 contractors. Generally, it issues contracts for a one-year period although the Short-Doyle Act allows contracts to be issued for up to three years.

The department maintains periodic contact with these contractors to provide technical assistance, troubleshooting, and oversight of mental health services. Its oversight responsibilities include program and fiscal reviews, utilization reviews, peer reviews, and medication monitoring. Utilization reviews ensure effective and efficient use of mental health services; peer reviews ensure the adequacy and appropriateness of mental health care; and medication monitoring ensures the effective use of certain drugs.

Scope and Methodology

The purposes of this audit were to review the department's procedures for selecting contractors and granting contracts for the provision of mental health services for fiscal year 1989-90; determine whether the department adequately reviews its contractors for mental health services; and determine whether it adequately follows up to ensure that contractors correct deficiencies identified during program and fiscal reviews.

Additionally, the Legislature asked us to determine whether the department continued to pay contractors that did not provide services in fiscal years 1987-88 and 1988-89. We also reviewed selected aspects of the department's contract with a corporation to operate a mental health facility at Metropolitan State Hospital. Finally, we were asked to determine whether the department paid rates of more than \$2,000 per unit of service to contracted providers of mental health services and to determine whether the department transferred to other programs funds that were originally allocated to nonoperational contractors in fiscal year 1988-89.

Within the scope of our review, we identified no situations or transactions that were indicative of abuse or illegal acts by staff of the department.

Contract Issuance

To determine whether the department was required to competitively bid its contracts for the provision of mental health services, we reviewed the Public Contract Code, the Welfare and Institutions Code, the California Code of Regulations, the State Administrative Manual, and the Los Angeles County Code. We also reviewed policies and interviewed staff of the Los Angeles County Chief Administrative Office, the Los Angeles County Department of the Auditor-Controller, and the SDMH. We found no legal provisions requiring the department to competitively bid all contracts for the provision of mental health services. The appendix describes the department's general procedures for issuing contracts.

We also analyzed department information concerning the characteristics of contracts for the provision of mental health services in fiscal year 1989-90.

Contractor Reviews To identify the procedures the department and its two contracted audit firms use to review contracted providers of mental health services, we interviewed staff of the department and of the two audit firms and obtained documentation of the steps used to select contractors for program and fiscal reviews and of the checklists or guidelines used during the reviews. All three review organizations had standardized guidelines to follow during the review and issued written reports citing the findings of the review. Also, the two contracted audit firms had procedures for selecting contractors for review.

Monitoring of Contractors To determine whether the department adequately followed up on deficiencies cited in program or fiscal reviews to ensure that contractors corrected identified problems, we reviewed the department's monitoring procedures. We selected 24 of the county's 77 contractors and reviewed 70 program or fiscal review reports issued to these contractors by the department and by the department's contracted audit firms from July 1, 1988, through July 31, 1990. In fiscal year 1989-90, these 24 contractors had contracts totaling \$42.3 million, 60.9 percent of the total value of the contracts in effect during this year. Of the 70 reports, 51 cited a total of 763 deficiencies. We reviewed department records to ensure that the department had effectively followed up on the deficiencies cited in these reports through its contractor monitoring activities. We did not evaluate the adequacy of the review reports, nor did we review the working papers for these reports.

Additionally, we asked the department to provide a written list of deficiencies that it classified as severe or not severe or, in the absence of such a list, to provide us with a written system for classifying the severity of identified deficiencies. This information

would enable us to determine whether department staff followed appropriate methods when following up on deficiencies cited in review reports. The department did not provide us with this information, so we reviewed the department's follow-up on all deficiencies cited in the 51 reports in our sample. Furthermore, we were unable to identify the specific department staff responsible for following up on deficiencies cited in fiscal and program review reports issued from November 1, 1988, through December 1, 1989.

We also reviewed available plans submitted by the contractors to correct identified problems. However, we did not evaluate the adequacy of these plans. Finally, we interviewed department staff responsible for monitoring the contractors, reviewed prior program and fiscal review reports, and visited three contracted providers of mental health services in Los Angeles County to determine whether contractors had corrected identified deficiencies.

**Allegations of
Payments for
No Services**

To determine whether the county inappropriately paid contractors that did not provide services in fiscal years 1985-86 and 1986-87 and to determine whether the department still does this, we reviewed allegations that a contractor received payment for two facilities that did not provide services. In addition, we reviewed invoices and cost reports and accounting records to verify payments to this contractor during fiscal years 1985-86 and 1986-87, and we reviewed audit reports issued by one of the department's contracted audit firms. We also interviewed staff of the department and of the department's contracted audit firm.

**A Contract for
Services
at a State
Hospital**

To determine whether the department's contract with a corporation to operate a mental health facility at Metropolitan State Hospital was correctly approved, we reviewed the contract with the corporation and interviewed officials of the SDMH and the department.

To determine whether the funds for the county's program to purchase alternative treatment for mentally disordered persons inappropriately placed in the criminal justice system were adequately accounted for, we reviewed reports issued by one of the department's contracted audit firms for fiscal years 1986-87 through 1988-89. We did not review the auditor's working papers.

To determine whether the State was reimbursed for any revenue losses incurred because of a lease between the State and Los Angeles County, we reviewed the Budget Acts of 1986 and 1987, reviewed the lease, and interviewed staff of the department, the SDMH, and the Office of the Legislative Analyst. We did not verify the amount of the estimated revenue losses.

We interviewed SDMH staff to identify how the SDMH monitored the department's administration of the department's program to purchase alternative treatment for mentally disordered persons inappropriately placed in the criminal justice system. We also interviewed SDMH staff to determine whether the SDMH exercised sufficient oversight over the program.

**Allegations
of Budget
Allocations to
Nonoperational
Providers**

We were told that the department received a \$400,000 per month allocation from the State for eight contractors that were no longer operational. To determine whether the department transferred funds that were originally allocated for these eight contractors to other contractors, we reviewed the SDMH's requirements for submitting budgets by counties. We also reviewed budgets submitted by the department to the SDMH for fiscal years 1987-88 and 1988-89, reviewed cost reports prepared by the department for fiscal year 1988-89, and interviewed staff of the department and the SDMH.

Payments of Rates Over \$200 Per Unit of Service

To determine whether the department paid rates of more than \$200 to contracted providers of mental health services, we reviewed allegations that 7 contractors in fiscal year 1985-86 and 7 contractors in fiscal year 1986-87 were paid more than \$200 per unit of service when the normal cost of providing services was between \$40 and \$80 per unit of service. Two of these 14 total contractors allegedly were paid more than \$2,000 per unit of service. We also reviewed cost reports filed with the department by 12 of the 14 contractors alleged to have been paid over \$200 per unit of service (the department could not provide the cost reports for two contractors), reviewed contracts for 11 of the 12 contractors, and interviewed department staff. We did not determine the “normal costs” of providing services.

Chapter 1 The Los Angeles County Department of Mental Health Did Not Always Follow Up To Ensure That Contractors Corrected Identified Deficiencies

Chapter Summary

The Los Angeles County Department of Mental Health (department) needs to improve its program and fiscal monitoring of contracted providers of mental health services. In particular, the department needs to improve its follow-up on deficiencies identified during its monitoring reviews. To test the effectiveness of the department's contractor monitoring, we reviewed 70 program and fiscal review reports issued for 24 contractors from July 1, 1988, through July 31, 1990. The department required corrective action plans for 41 of these reports. Of these required plans, 24 (59 percent) either were sent late or, as of August 31, 1990, had not been received by the department. Further, the corrective action plans it received did not always address all deficiencies cited in the reports, and personnel responsible for following up to ensure that contractors correct deficiencies frequently had not done so.

When the department does not follow up to ensure that contracted providers of mental health services correct identified deficiencies, there is reduced assurance that mental health clients are receiving high-quality, effective care at a reasonable cost. Based on our review of reports and our visits to three contractors, we determined that contractors did not always correct the deficiencies cited in the reports. The weaknesses with the department's monitoring of mental health contractors were caused by a lack of centralized planning and control.

Background Section 5600 et seq. of the Welfare and Institutions Code encourages counties to issue contracts for the provision of mental health services. The director of the department stated that, in recent years, the department has been shifting away from providing mental health services directly. According to the department's director, the department's budget for fiscal year 1989-90 reflects a trend toward more contracts for mental health services. The director further stated that this trend is consistent with policies of the Los Angeles County Board of Supervisors.

The trend toward contracting for mental health services makes it increasingly important for the department to effectively monitor its contractors to ensure that high-quality mental health services are provided to clients at a reasonable cost.

Contractor monitoring consists of the following four basic steps. First, the monitoring organization conducts an on-site visit to the contractor's facility and reviews the operations for compliance with terms of the contract, pertinent laws, or other applicable criteria. Second, the monitoring organization notes all deficiencies identified during the on-site visit and notifies the contractor of the deficiencies by issuing a report. Third, the monitoring organization asks for prompt corrective action. Fourth, the monitoring organization follows up to ensure that the contractor has taken the corrective action required and that the deficiencies are corrected.

Follow-up to ensure correction of problems can consist of telephone calls, correspondence, or other off-site contact with the contractor. In some cases, however, follow-up can consist of additional visits to the contractor's facility. Such visits may be announced in advance or they may be unannounced. Unannounced follow-up visits offer the benefit of ensuring that operations are functioning properly at any time, not just when a scheduled visit occurs.

The information obtained from monitoring can ultimately be used to make decisions regarding decreasing the scope and amount of the contract, imposing sanctions or penalties against the contractor, or even terminating the contract. The monitoring

organization may also use monitoring to identify methods to correct deficiencies, such as technical assistance or training.

The Department's Program and Fiscal Monitoring Operations

The department's contracts include provisions requiring contractors to comply with sections of the Welfare and Institutions Code, the California Code of Regulations, the State Department of Mental Health's (SDMH) Cost Reporting/Data Collection Manual, and policies and procedures developed by the county and the SDMH, as well as the basic terms of the contract. The department recognizes the need for effective contractor monitoring and attempts to ensure that contractors are operating as expected by conducting both program and fiscal reviews of contractors.

Program reviews include analyses of the contractors' compliance with contract requirements and are designed to ensure that high-quality care is provided to clients. For example, program monitoring staff review contractor records to ensure that staffing patterns are consistent with certification requirements and standards and that each client receives an intake evaluation that includes a clinical diagnosis and treatment plan appropriately addressing problems identified in the client's assessment. Fiscal monitoring generally concentrates on compliance with financial requirements of the contract. This monitoring includes reviews of the contractor's internal accounting controls for fiscal integrity and examinations of cost reports to ensure that costs were properly incurred.

From July 1, 1988, through July 31, 1990, the period of our review, the department generally used the four steps described on page 10 although it both increased its review role and reassigned the follow-up responsibility from some units to others.

Monitoring in Fiscal Year 1988-89

From July 1988 through October 1988, program reviews of contractors were conducted by contract monitors from the department's Contracts and Grants Administration Division. Fiscal audits of contractors were conducted by an accounting firm under county contract. When either organization found instances of noncompliance with requirements, the department informed the contractor of the deficiencies through written reports and generally required corrective action plans that identified the steps necessary to correct the deficiencies. The department required contractors to submit corrective action plans within 20 days of their receipt of program review reports. The department's director stated that the department requested contractors to submit corrective plans to its Contracts and Grants Administration Division for follow-up on deficiencies cited in these reports.

Changes in Monitoring in Fiscal Year 1989-90

From July 1989 through June 1990, the department increased its reviews of contractors and reassigned the responsibility for following up on contractors' deficiencies to other organizational units. In July 1989, the county contracted with a second accounting firm to conduct additional fiscal reviews of mental health contractors. These reviews were to be more comprehensive in scope than the fiscal audits the department was already receiving.

In December 1989, the department began to modify its follow-up activities with the development of its Program Liaison system. Under this system, the department assigned responsibility for following up on all deficiencies (whether fiscal or program) to its Office of the Assistant Director of Program Services. According to the assistant director, he assigned this responsibility to "program liaisons" who are staff of specialized program areas in the department such as childrens' services and adult services. The assistant director responsible for the system delegated the program liaison responsibility to his subordinates. Program liaisons began their follow-up activities in April 1990.

Lastly, according to the assistant director of Program Services, the department initiated its unannounced site visits program in June 1990. The assistant director stated that these visits to contractors will occur approximately six months following the initial review visit.

**The
Department
Needs To
Improve Its
Program and
Fiscal
Monitoring**

To test the effectiveness of the department's contractor monitoring, we reviewed 70 program and fiscal reports issued for 24 contractors between July 1, 1988, and July 31, 1990. Of these 70 reports, 35 were program review reports, 29 were fiscal audit reports, and 6 were fiscal review reports. We judgmentally selected the 24 contractors to ensure that we included different types of mental health services offered, as well as contractors these or previous reports had found to have deficiencies, contractors we had visited, contractors that had received unannounced visits, and contractors the department had reviewed since March 1990.

Of the 70 reports we obtained, 51 cited a total of 763 deficiencies. We reviewed department records and contacted department staff to determine whether the 24 contractors cited for deficiencies had submitted corrective action plans in response to these 51 reports, whether the plans were submitted by the deadline requested, whether the plans responded to all deficiencies cited in the reports, and whether the department effectively followed up to ensure that the contractors had taken corrective action. In reviewing the department's follow-up, we considered any form of evidence as an indication of the department's having followed up on deficiencies.

Our review disclosed that the department needs to improve its program and fiscal monitoring of contracted providers of mental health services, particularly in its follow-up of deficiencies.

Monitoring Weaknesses

The first weakness we identified was that the department did not specifically require contractors to submit corrective action plans for the ten fiscal audit reports in our sample issued in fiscal years 1988-89 and 1989-90 that identified deficiencies. One of these reports identified four deficiencies, including staffing levels that did not meet the minimum levels specified in the contract.

For the three reports issued in fiscal year 1988-89 that identified 15 deficiencies, the department did not require contractors to submit corrective action plans. For the seven reports issued in fiscal year 1989-90 that identified 13 deficiencies, the department issued letters to the contractors telling them to review their report for any "findings" that required corrective action and to submit a corrective plan "if one was required" because of operational or other deficiencies. However, the department did not clarify which "findings" were deficiencies requiring corrective action. The department provided us with only one corrective plan submitted in response to these ten reports.

Additionally, the department did not always ensure that contractors provided corrective action plans by the required date. Specifically, the department required 41 corrective action plans in the reports we reviewed; however, 24 (59 percent) of the required plans either were sent late or had not been received by the department as of August 31, 1990. For the 14 plans that were late, the elapsed time ranged from two days to 8 months beyond the due date. Three were more than 4 months late. Contractors had not submitted 10 corrective action plans from 7 days to over 19 months after being required to do so by the department. Four corrective action plans were more than one year late. Contractors that had not responded included one that had 21 deficiencies, including failure to evaluate residents for infectious diseases within 30 days of admission. In addition, the contractor was cited for failing to assess clients' psychological and educational limitations and failing to document results in the clinical records. As of August 31, 1990, this contractor was more than 15 months late submitting a corrective action plan.

Further, the corrective action plans the department received did not always address all deficiencies cited in the reports. Of the 31 corrective action plans we reviewed, 8 (26 percent) failed to address at least one deficiency. Overall, the 8 plans, submitted by eight different contractors, omitted 18 (9 percent) of the 195 deficiencies cited in the reports. One contractor failed to address 3 of 8 deficiencies cited in a program review report. These deficiencies included the failure to assess current levels of psychological, educational, and vocational limitations or to assess the clients' capacities for meal planning, shopping, or budgeting. The department notified three of the eight contractors that the plans were inadequate but was unable to provide evidence that the contractors had revised the plans. Also, although the department acknowledged receipt of the plans from two other contractors, it did not notify them that specific deficiencies had not been addressed. Finally, the department did not acknowledge receipt of the corrective action plans submitted by the three remaining contractors.

Other weaknesses concerned the department's follow-up to ensure that contractors took action to correct cited deficiencies. Department staff responsible for following up frequently did not do so. We reviewed the files of two contract monitors who were responsible for following up on deficiencies identified during three reviews conducted between February 1988 and August 1988. We also asked the contract monitors to provide any evidence outside their files--for example, correspondence or telephone calls--that would indicate they had followed up on the deficiencies. We obtained evidence of follow-up on one report. However, this follow-up addressed only 2 of 61 deficiencies identified in the report.

Using the same technique, we requested evidence of follow-up by 13 program liaisons and additional department personnel responsible for following up on 15 reports issued between April 1, 1990, and July 31, 1990, after implementation of the Program Liaison system. We obtained evidence of follow-up on only 4 of the 15 reports. For the period from November 1, 1988, to December 1, 1989, we were unable to identify the individuals

responsible for following up on deficiencies cited in the reports. However, we reviewed the files and contacted 11 current and former contract administrators in the Contracts and Grants Administration Division for evidence of follow-up over the entire two years of our review. Four of the 11 contract administrators could provide evidence of follow-up on at least one deficiency.

Finally, the department's unannounced site visit team did not always review contractors to ensure that deficiencies found in the initial review visits had been corrected by the contractor. The team issued reports for 5 of the 24 contractors in our sample. Of the reports for the 5 contractors, only three reports indicated that the team had followed up on deficiencies cited in the earlier reports.

**Uncorrected
Deficiencies**

When the department does not follow up to ensure that contractors correct identified deficiencies, there is reduced assurance that mental health clients are receiving high quality, effective care at a reasonable cost. To determine if contractors were correcting identified deficiencies despite the lack of follow-up, we visited three contractors in our sample after notifying them one to two days before our visit.

We visited these contractors to determine whether they had corrected a deficiency concerning incomplete or out-of-date client financial information forms. Client financial information forms are used to determine whether the client or other responsible persons have the financial ability to pay for mental health treatment. The department had issued review reports for the three contractors from two months to almost nine months before our visit; however, it had not followed up on this deficiency for any of these three contractors. Our review determined that none of the three contractors had corrected the deficiency concerning client information forms.

In one case, the department's Quality Assurance Bureau had issued a report to the contractor in November 1989. In the almost nine-month interval between the bureau's report and our visit, the

contractor had submitted no corrective action plan for the 27 deficiencies noted. However, on the day of our visit, the contractor gave us a corrective action plan dated the previous day. The corrective action plan indicated that the contractor had not corrected most of the deficiencies but planned to do so. The contractor indicated that it had only recently reviewed the department's report because it had never received the original. The uncorrected deficiencies included failure to complete client financial information forms on all clients and failure to prepare treatment plans and discharge summaries within identified time limits.

To further determine whether contractors corrected cited deficiencies, we compared deficiencies cited in the program and fiscal audit reports with those cited in earlier reports. Of the 16 cases in which the contractor received subsequent site visits, 11 cases (69 percent) had one or more deficiencies that were the same as those from the previous visit. In one case, a contractor with 61 deficiencies cited in a September 1988 monitoring review had 10 of the same deficiencies 14 months later during the next visit. These deficiencies included failure to complete discharge summaries, intake evaluations, and service plans that include specific goals, objectives, and responsibilities of staff and clients for achieving goals. In another case, a contractor with 22 deficiencies cited in a March 1989 monitoring review had 10 of the same deficiencies 14 months later during the next visit. These deficiencies included failure to complete intake evaluations on all clients and to ensure that treatment plans are updated or reviewed in accordance with county or Short-Doyle/Medi-Cal guidelines. In a third case, a contractor that failed to submit a corrective action plan in response to the initial visit was subsequently cited again for deficiencies concerning staffing levels and assessments of clients' ability to pay for mental health services.

In one of the five reports issued by the unannounced site visit team, the team indicated that the contractor had not corrected all deficiencies. However, the team reported that the contractor was in the process of correcting charting deficiencies.

Prior audits have also identified problems with the department's monitoring of mental health contractors. In 1986, the Los Angeles County Department of the Auditor-Controller found that the department needed to develop monitoring systems to ensure that providers promptly submit corrective action plans. The report also stated that the department needed to develop a formal system of follow-up reviews to ensure correction of contractor deficiencies. In 1988, an accounting firm that had reviewed the department's contract and grant monitoring activities reported that the department had not implemented all of the recommendations made by the previous audit report, including requiring plans of corrective action or scheduling follow-up visits.

**Centralized
Planning
and Control
Needed**

The problems we found with the department's program and fiscal monitoring of mental health contractors were caused by a lack of centralized planning and control. Until the department began modifying its follow-up system in December 1989, planning and control were fragmented, with separate units responsible for program and fiscal reviews and follow-up. While contractors were required to submit plans of correction to these units, there was no central tracking system by which management could track the status of contractors' corrective action. In addition, when the department transferred program review staff from the Contracts and Grants Administration Division to the Quality Assurance Bureau in November 1988, it did not include contractor follow-up as one of the transferred duties. Consequently, from November 1988 to December 1989, we were unable to identify individuals responsible for following up on deficiencies cited in reports.

The department has recognized the need for centralized control over contractor monitoring. In December 1989, the department formed a Contract Issues Task Force to resolve contractor problems. This task force is chaired by the assistant director of Program Services. In addition, the department assigned responsibility for follow-up on both program and fiscal monitoring reviews to the assistant director of Program Services. The assistant director has started a tracking system.

Although the above steps are a beginning, the department's controls over its contractor monitoring still need improvement because problems continued even after the department began the Program Liaison system. For example, program liaisons did not have written procedures for follow-up, and some program liaisons appeared uncertain as to their roles. In addition, the compliance checklist the department developed for the unannounced site visit team did not contain steps for following up on the deficiencies found in the prior site visits.

Conclusion The Los Angeles County Department of Mental Health needs to improve its program and fiscal monitoring of private contractors that provide mental health services. In particular, the department needs to improve its follow-up on deficiencies identified in initial visits by program and fiscal monitors. To test the effectiveness of the department's contractor monitoring, we reviewed the program and fiscal monitoring reports issued on 24 contractors during our review period. The department required corrective action plans in response to 41 program and fiscal review reports sent to contractors; 24 (59 percent) of the required plans either were sent late or had not been received by the department as of August 31, 1990. Further, the corrective action plans the department received did not always address all deficiencies cited in the reports, and personnel responsible for following up to ensure that contractors correct deficiencies frequently had not done so. When the department does not follow up to ensure that contractors for mental health services correct identified deficiencies, there is reduced assurance that mental health clients are receiving high-quality, effective care at a reasonable cost. Based on our review of consecutive years of monitoring reports and our visits to three contractors, we determined that contractors did not always correct deficiencies cited in the initial reports. The problems we found with the department's monitoring of mental health contractors were caused by a lack of centralized planning and control.

Recommendations

To improve its program and fiscal monitoring of contractors for mental health services, the Los Angeles County Department of Mental Health should more effectively plan and control its contractor monitoring by taking the following actions:

- Require contractors to prepare and submit corrective action plans when review staff identify deficiencies;
- Develop comprehensive, written procedures for all phases of contractor monitoring, including follow-up by program liaisons and the unannounced site visit team;
- Ensure that staff in all monitoring units are aware of their roles and responsibilities; and
- Continue to develop a tracking system that will allow management to track the status of contractors' corrective action.

Chapter 2 The Los Angeles County Department of Mental Health Did Not Fully Enforce the Terms of a Specific Contract

Chapter Summary

During fiscal year 1986-87, the Los Angeles County Department of Mental Health (department) paid a contractor to provide services at two mental health facilities although the contractor provided no services at these two facilities during this year. Under the provisions of the contractor's cost reimbursement contract, the contractor could receive advance payments on a monthly basis; however, the department could withhold portions of advances if the contractor provided less than 75 percent of the projected amounts of service. The department advanced payments totaling the maximum contract amount of \$250,000 to the contractor even though the contractor submitted invoices showing that no services were provided.

In addition to not stopping advance payments to this contractor, the department did not recover all the funds it had paid to the contractor. Counties that receive state funds are required to audit or obtain an audit of the cost reports submitted by contracted providers of mental health services. An auditor can disallow costs claimed by a contractor with a cost reimbursement contract if the contractor does not provide services. Although the department's contracted auditor reviewed the \$212,516 in costs claimed by the contractor that did not provide services and to whom the department had advanced \$250,000, the auditor did not disallow any of the costs because the auditor relied on an internal department memorandum waiving certain time limits for incurring costs. Without the costs being disallowed, the department could not take steps to recover the \$212,516 paid to the contractor.

Background On July 22, 1986, the Los Angeles County Board of Supervisors approved an amendment to a contract between the county and a contractor to enable the contractor, among other things, to provide services to the homeless mentally ill at two facilities. This was a cost reimbursement contract, under which the department agrees to reimburse the contractor for the actual cost of the services provided. The amendment became effective retroactive to April 1, 1986.

The contract, as amended, included several provisions defining the conditions under which the county would pay the contractor. For instance, the contract stated that the county would pay the contractor up to \$80,516 for start-up and other related costs incurred from April through June 1986 and up to \$250,000 for mental health services in fiscal year 1986-87. According to the terms of the contract, it would be automatically extended for five months, or until November 30, 1987, unless either the county or the contractor provides notice to the other of its intent not to renew the contract at least 30 days before June 30, 1987. However, the contract also allowed the department to terminate the contract immediately if the contractor failed to comply with the terms of the contract.

The provisions of the contract further stated that the county would advance payments to the contractor on a monthly basis if the contractor submitted requests to the department for such advances. However, if the contractor provided less than 75 percent of the projected amounts of service, the county could withhold portions of further advance payments and receive reimbursement from the contractor. According to the contract, the county would pay the contractor for allowable and necessary costs up to the maximum amount of the contract, with allowable costs determined by an audit conducted by the county or the State. The State Department of Mental Health (SDMH) defines allowable costs as those necessary, proper, and reasonable to develop and maintain commonly accepted mental health activities.

Finally, the contract required the contractor to submit copies of all appropriate licenses and permits to the department.

**Failure to
Enforce the
Terms of the
Contract**

During fiscal year 1986-87, the department did not enforce all the contract terms for the contractor concerning withholding portions of advance payments when at least 75 percent of the projected levels of service are not provided, nor did it enforce the terms concerning termination of the contract as a result of noncompliance.

By January 1987, the department knew that two of this contractor's facilities had not provided services. Nevertheless, it continued to advance payments to the contractor from January through June 1987 even though the contractor was submitting invoices showing that neither facility was providing services. The department eventually advanced the maximum contract amount of \$250,000 to this contractor.

Additionally, the licenses for both facilities were not effective during most of fiscal year 1986-87. The license for one of the facilities became effective on June 10, 1987, just three weeks before the end of fiscal year 1986-87. The license for the other facility became effective on October 19, 1987, more than three and one-half months after the end of the fiscal year. The department, however, did not terminate the contract during fiscal year 1986-87 because of this noncompliance.

During fiscal year 1987-88, the department began to take action against the contractor. For instance, department records indicate that, effective August 1987, the department had stopped advancing payments to the contractor for one of the facilities. Moreover, the contractor submitted status reports for this facility to the department from July 29, 1987, through September 10, 1987, concerning its efforts to obtain appropriate certificates and licenses. The contractor ultimately received a license for the facility, effective October 19, 1987.

Department records also indicate that the other facility became operational on July 1, 1987, and provided 474 units of service (68.1 percent of the projected units of service) from July through October 1987.

According to the director, the department continued to advance payments to the contractor during fiscal year 1986-87 and did not terminate the contract for various reasons. For example, the contractor was having difficulty starting up the facilities because of licensing problems. The director stated that the contractor was to provide mental health services to the homeless in two facilities located in residential areas of the county. Contractors, he stated, often incur problems securing residential properties where they can provide such services. These problems can include opposition by current residents and the contractor's inability to obtain clearance by the fire marshal or water department or to obtain necessary licenses. The director stated that, at the time this contract was executed, the department was not aware of the types of problems such contractors could incur.

Additionally, the department continued to advance payments, according to the director, because the contractor would be audited to determine allowable costs. If the audit disclosed any unallowable costs, the department could take steps to recover those costs. According to the director, it was the department's intention to pay the contractor only for those costs determined to be allowable.

**The
Department's
Auditor
Did Not
Disallow
Costs**

In addition to not stopping advance payments to this contractor or terminating the contract, the department did not recover all the funds advanced to the contractor. Section 5712.1 of the Welfare and Institutions Code requires counties that receive funds under the Short-Doyle Act to audit or obtain an audit of the cost reports submitted by contracted providers of mental health services. The county contracts with an accounting firm to conduct these audits. The contracted auditor can disallow costs claimed by contractors for a variety of reasons, including the contractor's failure to provide mental health services. The department can then take steps to recover the disallowed costs from the contractor.

In November 1987, the contractor reported to the department that the two facilities incurred \$212,516 in costs during fiscal year 1986-87 but that the facilities provided no services during that year. In a preliminary settlement with the contractor in July 1988, the department recovered the \$37,484 difference between the advance payments to the contractor totaling \$250,000 and the \$212,516 in costs claimed by the contractor.

Although the department's contracted auditor reviewed the costs claimed by the contractor for these two facilities in fiscal year 1986-87, the auditor did not disallow any of the \$212,516 in costs even though neither facility provided services. According to a managing partner of the accounting firm, the auditor did not disallow the costs because of an internal department memorandum. This memorandum, dated October 8, 1987, from the department's director to the department's finance specialist, waived the contractor's time limits for incurring start-up costs at the two facilities and allowed payment to the contractor for actual costs incurred during fiscal year 1986-87.

According to the director, because the contract stated that start-up costs could be incurred in fiscal year 1985-86 and because the Los Angeles County Board of Supervisors approved this contract after fiscal year 1985-86 had ended, the purpose of this memo was to allow the county to pay the contractor for \$35,688 in start-up costs incurred by these two facilities in August 1986. He said that he did not intend this memo to allow the contractor to incur start-up costs up to the \$250,000 maximum contract amount for fiscal year 1986-87 for these two facilities or beyond the \$80,516 for start-up costs authorized by the contract for fiscal year 1985-86.

Department records show that it recovered furniture, appliances, and other types of household items that were purchased with part of the \$212,516 provided by the department for these facilities. However, as a result of the department's auditor not disallowing any of the costs claimed by the contractor for these two facilities during fiscal year 1986-87, the department has not taken steps to recover the rest of the \$212,516 in costs claimed by the contractor for the two facilities.

Corrective Action The department is taking steps to gain greater control over the amount of funds it pays to contractors. For instance, according to the director, until 1986, the county issued cost reimbursement and negotiated net amount contracts for the provision of mental health services. Under a cost reimbursement contract, allowable costs are determined by an audit; with negotiated net amount contracts, the department can pay the contractor regardless of the amount of services provided. Beginning with fiscal year 1985-86, according to the director, the department began converting its cost reimbursement and negotiated net amount contracts to negotiated rate contracts to give the department greater control over the costs paid to contractors. Contractors with negotiated rate contracts are paid an agreed-upon rate for each unit of service provided. Therefore, the department does not pay contractors with negotiated rate contracts when they do not provide mental health services.

As shown on Table 2 on page 52, during fiscal year 1989-90, of the 130 contracts administered by the department, 111 (85.4 percent) were negotiated rate contracts. Only 17 (13.1 percent) were cost reimbursement contracts. The remaining two contracts (1.5 percent) were negotiated net amount contracts.

Conclusion During fiscal year 1986-87, the Los Angeles County Department of Mental Health paid a contractor to provide services at two mental health facilities even though the contractor provided no services at these two facilities. Under the provisions of the contract, the contractor could receive advance payments on a monthly basis; however, the department could withhold portions of future advances if the contractor provided less than 75 percent of the projected amounts of service. Although the department knew by January 1987 that the contractor had not provided services at either facility, the department did not withhold portions of future advances and eventually advanced the maximum contract amount of \$250,000 to the contractor.

In addition to not stopping advance payments to this contractor, the department did not recover all the funds it had advanced. Counties that receive funds under the Short-Doyle Act are required to audit or obtain an audit of the cost reports submitted by contracted providers of mental health services. An auditor can disallow costs claimed by a contractor with a cost reimbursement contract if the contractor does not provide services. Although the county's contracted auditor reviewed \$212,516 in costs claimed by the contractor, the auditor did not disallow any of those costs, relying on an internal department memorandum that waived certain time limits for spending money. Because the costs were not disallowed, the department could not take steps to recover all of the \$212,516 from the contractor.

Recommendations

To ensure that it does not advance funds to contractors that do not provide adequate levels of mental health services, the Los Angeles County Department of Mental Health should take the following actions:

- Enforce contract terms related to withholding advance payments when contractors do not provide adequate levels of service; and
- Continue to limit the issuance of cost reimbursement contracts.

Concerning the \$212,516 in costs claimed by the contractor that did not provide services at two facilities during fiscal year 1986-87, the department should take the following actions:

- Reaudit this contractor to determine the allowability of the costs claimed in light of the director's interpretation of his memorandum; and
- Take steps to recover from this contractor any costs found not to be allowable.

**Chapter 3 The Los Angeles County Department of
Mental Health's Contract With a Corporation
To Operate a Mental Health Facility
at Metropolitan State Hospital**

**Chapter
Summary**

To reduce the incidence of seriously mentally disordered persons being inappropriately placed in the criminal justice system, the Los Angeles County Department of Mental Health (department) contracted with a corporation to operate a mental health facility at Metropolitan State Hospital, and Los Angeles County entered a lease with the State. We were asked whether the contract with the corporation was correctly approved, and we found that, as required, the Los Angeles County Board of Supervisors approved the contract in April 1986, and the State Department of Mental Health (SDMH) approved the contract amount in August 1986. We were also asked whether the funds for the program were adequately accounted for and found that the department's contracted auditor reviewed the cost reports of the corporation for fiscal years 1986-87 through 1988-89. Only the report for fiscal year 1986-87 identified an issue related to the costs claimed by the corporation. The department's director stated that the department, however, did not pursue the issue because of the type of contract the corporation had for that fiscal year. Another question we were asked concerns whether the State has been reimbursed for any revenue losses suffered under the lease, as required by the Budget Act of 1986. According to the acting chief deputy director of the SDMH, the SDMH has not formally required reimbursement from the department to the State's General Fund for lost revenues. The SDMH has not done so because the lease was executed before the Budget Act of 1986, which requires the reimbursement, was enacted. Finally, we were asked how the SDMH had monitored Los Angeles County's administration of its program to reduce the incidence of mentally disordered persons being

inappropriately placed in the criminal justice system, and whether the oversight had been sufficient. We found that the SDMH exercised limited oversight over the department's program.

Background Section 18 of Chapter 1286, Statutes of 1985, allowed the use of certain savings from the SDMH budget for fiscal year 1985-86 to reduce the incidence of seriously mentally disordered persons being placed in the criminal justice system rather than receiving needed mental health treatment.

In response to the above section, the SDMH agreed to a proposal by the department to use its share of the savings to, among other things, take over the operation of a mental health facility with 136 beds at Metropolitan State Hospital in Norwalk, California. The director stated that, by taking over the facility from the State, the department hoped to obtain a larger allocation of other beds from the SDMH that the department could use to reduce the incidence of mentally disordered persons being inappropriately placed in the criminal justice system in Los Angeles County.

On June 3, 1986, the county entered a 37-month lease with the State for a portion of Metropolitan State Hospital. Additionally, the department developed a negotiated net amount contract with a corporation to operate the mental health facility at Metropolitan State Hospital. Under this contract, the county agreed to pay the corporation up to \$908,801 for fiscal year 1985-86 and up to \$4,710,152 for fiscal year 1986-87.

We were asked whether the contract with the corporation was correctly approved, whether the funds were adequately accounted for, and whether the State has been reimbursed for any revenue losses suffered under the lease, as required by the Budget Act of 1986. We were also asked how the State had monitored Los Angeles County's administration of its program to reduce the incidence of mentally disordered persons being inappropriately placed in the criminal justice system and whether its oversight had been sufficient.

Approval of the Contract

We identified two approvals that are necessary for negotiated net amount contracts between Los Angeles County and contractors. First, according to the department's director, the county board of supervisors is the authority that approves contracts for Los Angeles County. Second, the SDMH must approve the dollar amount of negotiated net amount contracts.

On April 29, 1986, the Los Angeles County Board of Supervisors approved the negotiated net amount contract with a corporation to operate a mental health facility at Metropolitan State Hospital. On August 25, 1986, the SDMH approved the amount of the negotiated net amount contract between the county and the corporation.

Accounting for the Funds

Section 5712.1 of the Welfare and Institutions Code requires counties that receive funds under the Short-Doyle Act to audit or obtain an audit of the cost reports submitted by contracted providers of mental health services. The county contracts with an accounting firm to conduct these audits.

The department's contracted auditor issued reports based on its reviews of the corporation's cost reports for fiscal years 1986-87, 1987-88, and 1988-89. Only the auditor's report concerning the corporation's costs for fiscal year 1986-87 identified an issue that related to the costs claimed by the corporation. The report issued for fiscal year 1986-87 showed that the total expenses stated on the corporation's cost report were more than \$189,000 higher than the total expenses it reported on its audited financial statements.

The department's director stated that the department did not seek to recover the \$189,000 difference from the corporation because the contract was a negotiated net amount contract. Under the terms of negotiated net amount contracts, the county pays the contractor for the capacity to provide services, regardless of the quantity of services ultimately provided. The department's contracted auditor stated that the costs claimed by the corporation agreed with the amount of the contract.

Reimbursement for Lost Revenue

In May 1986, the Office of the Legislative Analyst reported that Los Angeles County's proposal for taking over operation of a unit of Metropolitan State Hospital would result in a revenue loss to the State's General Fund totaling \$1,464,000 beginning in fiscal year 1986-87.

The Budget Act of 1986 (Chapter 186, Statutes of 1986, enacted June 25, 1986) stated, among other things, that the SDMH was authorized to enter an agreement with a county to operate programs on state hospital grounds only if the agreement stated that the county would be fiscally responsible for any revenue shortfall to the State's General Fund as a result of the agreement. Additionally, the Budget Act of 1987 (Chapter 135, Statutes of 1987, enacted July 7, 1987) stated, among other things, that the SDMH was authorized to continue an agreement with Los Angeles County if, among other things, the agreement stated that the county would be fiscally responsible for the difference between any increased costs to the General Fund as a result of the agreement and the net cost to the General Fund incurred in fiscal year 1985-86.

Efforts To Seek Reimbursement

The acting chief deputy director of the SDMH stated that, as of July 25, 1990, aside from informal efforts to convince or persuade the department, the SDMH has not initiated formal action to obtain reimbursement from the department for lost revenues, as specified in the Budget Act of 1986. According to the acting chief deputy director of the SDMH, the SDMH did not pursue formal action because the department's legal counsel advised that the language at issue in the Budget Acts of 1986 and 1987 was unenforceable in relation to the three-year lease between the State and the county since the lease was executed by the State and the county before the Budget Acts of 1986 and 1987 were enacted.

**State
Monitoring
and Oversight
of the County's
Program**

The SDMH exercised limited oversight over the department's program to purchase alternative treatment for mentally disordered persons inappropriately placed in the criminal justice system. According to the acting chief deputy director of the SDMH, in general, the SDMH has not specifically monitored the administration and implementation of the county's program to purchase this alternative treatment.

The acting chief deputy director of the SDMH stated that the limited oversight is consistent with the intent of Chapter 1327, Statutes of 1984, which gave counties control over the administration of local mental health programs. She added that counties, based on their local needs, are responsible for developing appropriate resources to meet those needs and are accountable to the State for the cost of such services.

The acting chief deputy director also stated, however, that although SDMH's audit staff has not directly reviewed the operations of the corporation, its staff has reviewed the audit reports for fiscal years 1986-87 through 1988-89 issued by the accounting firm under contract with Los Angeles County. According to the supervisor of the SDMH's Field Audits Section in Santa Ana, the SDMH has taken no specific action to follow up on the reports. He stated that the SDMH's review of state-funded contractors is limited because of audit responsibilities to other funding sources, such as Medi-Cal and block grants.

Conclusion

To reduce the incidence of seriously mentally disordered persons being inappropriately placed in the criminal justice system, the Los Angeles County Department of Mental Health contracted with a corporation to operate a mental health facility at Metropolitan State Hospital, and Los Angeles County entered a lease with the State. In response to specific questions concerning the department's contract with the corporation and the resulting lease, we found that the contract was adopted by the Los Angeles County Board of Supervisors, and the contract amount was approved by the State Department of Mental Health, as required. Additionally, the department's contracted auditor reviewed the corporation's

cost reports for fiscal years 1986-87 through 1988-89. Only the report for fiscal year 1986-87 identified an issue related to the costs claimed by the corporation. The department, however, did not pursue the issue because the contract with the corporation was for the capacity to provide services. We also found that the department has not reimbursed the State's General Fund for lost revenue incurred as a result of the lease between the State and the department because the SDMH has not formally required the department to do so. The SDMH has not formally required reimbursement because the lease was executed before the enactment of the Budget Act of 1986, which requires such reimbursement. Finally, the SDMH has not specifically monitored the department's program because, according to the acting chief deputy director of the SDMH, it exercised limited oversight consistent with the intent of Chapter 1327, Statutes of 1984.

Chapter 4 The Los Angeles County Department of Mental Health's Budget for Fiscal Year 1988-89

Chapter Summary

Section 5714 of the Welfare and Institutions Code requires the State Department of Mental Health (SDMH) to advance to counties an amount not to exceed 95 percent of the counties' annual state allocation and to make these advances monthly in 12 equal increments. In the budget that the Los Angeles County Department of Mental Health (department) submitted to the SDMH, for fiscal year 1988-89, dated November 1, 1988, the department budgeted over \$5 million to eight contractors that were not providing the types of mental health services at the facilities described in the budget. This allocation could result in a monthly advance to the county totaling almost \$400,000. These eight contractors were included in its budget because, according to the department's director, the department submitted a near duplicate of the prior year's budget. At this time, the department was under a court order not to close clinics or reduce mental health services and so requested funding similar to the previous year's. The department informed the SDMH that it was submitting a near duplicate of the prior year's budget and of its reasons for doing so, and the SDMH accepted the department's budget. Although the department did not have readily available records showing the programs to which it reallocated the funds originally allocated for the eight contractors, the records indicate that it spent or budgeted to spend all the funds allocated to it by the State for fiscal year 1988-89.

Background Section 5650 of the Welfare and Institutions Code generally requires each county to submit an annual plan to the SDMH for mental health services in the county. This plan is called the county Short-Doyle plan and includes a description of the mental health services to be provided in a county. Additionally, this plan provides the basis for the SDMH to reimburse a county.

Section 5714 of the Welfare and Institutions Code requires the SDMH to advance to counties an amount not exceeding 95 percent of the counties' annual allocation. This section also requires the SDMH to make these advances monthly in 12 equal increments.

The SDMH requires counties to submit a budget as part of their county Short-Doyle plans. The department refers to this budget as the Initial Cost Reporting/Data Collection Budget (initial budget). Identified in this budget are the services and related operating costs of locally operated and administered mental health programs in the county. The SDMH requires the initial budget to be based on the State's allocation of funds and to be submitted by October 1 of each year or within 90 days following the State's initial allocation, whichever is later.

The department also prepares a Final Cost Reporting/Data Collection Budget (final budget). This budget is to be submitted to the SDMH by June of each fiscal year and reflects amendments to the initial budget.

**The
Department's
Initial Budget
for Fiscal Year
1988-89**

The department's initial budget for fiscal year 1988-89 was dated November 1, 1988. In this budget, the department included at least eight contractors that were not providing the type of service at the facilities described in the budget. These eight contractors were budgeted to receive \$5,028,989 during fiscal year 1988-89. This could result in monthly advances to the county of \$398,128.

According to the department's director, the department submitted a near duplicate of its final budget for fiscal year 1987-88 to the SDMH as its initial budget for fiscal year 1988-89 to avoid violating a court order forbidding the reduction of mental health services. As a result, these eight contractors were included in the department's initial budget for fiscal year 1988-89.¹

In August 1988, the Los Angeles County Board of Supervisors (board) and the department's director were placed under a temporary restraining order of the Superior Court of the State of California for the County of Los Angeles. This order prohibited the board and the director from closing mental health clinics and from reducing mental health services. In September 1988, the temporary restraining order was changed to a preliminary injunction.

According to the department's director, the original initial budget contained reductions in mental health services in Los Angeles County. The director believed that, if the department had submitted its original initial budget for fiscal year 1988-89 to the SDMH as intended, the department may have been charged with violating the court order not to reduce mental health services.² Consequently, according to the department's director, the department had to submit its initial budget for fiscal year 1988-89 to the SDMH to continue receiving advances of state mental health funds.

¹The department included only two of these eight contractors in its final budget for fiscal year 1988-89, dated June 1, 1989. One of these two contractors was budgeted for only \$2,081 because it was operational only until August 1988. Although the department included the remaining contractor in the final budget to provide certain services, it did not budget this contractor to provide a type of service for which it was originally budgeted.

²In May 1989, according to the county counsel for Los Angeles County, the preliminary injunction was lifted.

The department informed the SDMH that it would be submitting a near duplicate of its final budget for fiscal year 1987-88 as its initial budget for fiscal year 1988-89 and of its reasons for doing so. According to the chief of the SDMH's Los Angeles Area County Operations, the SDMH subsequently accepted the department's submission of its initial budget for fiscal year 1988-89.

**Department
Spending in
Fiscal Year
1988-89**

Because department records did not readily identify the specific programs to which the department transferred the funds originally allocated to the eight contractors, we reviewed the records to determine whether the department spent all the funds the State allocated to it during fiscal year 1988-89. During this year, the State allocated \$152.7 million to Los Angeles County for the provision of mental health services for seven categories of programs. According to cost reports prepared by the department, the department spent \$159.2 million in fiscal year 1988-89 for the seven categories.

Department records indicate that the department spent exactly the amount that was allocated from the State for four of the seven categories. These records also indicate that the department spent more than the amount that was allocated from the State for one of the seven categories. According to the director, the additional funds came from sources other than the State. Finally, the records indicate that the department spent \$2.3 million less than the amount that was allocated from the State for two of the seven categories.

Department records indicate that the department budgeted the \$2.3 million in unspent funds from fiscal year 1988-89 for mental health services to be delivered in fiscal year 1989-90. The department received approval from the SDMH to spend \$1.5 million of the \$2.3 million of unspent funds in fiscal year 1989-90. In a letter dated January 12, 1990, the SDMH stated that, if certain procedures were followed, the department did not need the SDMH's approval to spend the remaining unspent funds.

Conclusion Section 5714 of the Welfare and Institutions Code requires the State Department of Mental Health to advance to counties an amount not to exceed 95 percent of the counties' annual state allocation and to make these advances monthly in 12 equal increments. In its budget for fiscal year 1988-89, the Los Angeles County Department of Mental Health budgeted over \$5 million to eight contractors that were not providing the types of services at the facilities described in the budget. This allocation could result in monthly advances to the county totaling almost \$400,000. The department included these eight contractors in its budget because, according to the department's director, the department submitted a near duplicate of the prior year's budget. At this time, the department was under a court order not to close clinics or reduce mental health services and so requested a similar level of funding. The department informed the SDMH that it was submitting a near duplicate of the prior year's budget and of its reasons for doing so, and the SDMH accepted the department's budget. Although department records do not readily identify the specific programs to which the department reallocated the funds, the records indicate that it spent or budgeted to spend all the funds allocated to it by the State for fiscal year 1988-89.

Chapter 5 The Los Angeles County Department of Mental Health's Payments to 11 Contractors

Chapter Summary

It was alleged that, during fiscal years 1985-86 and 1986-87, the Los Angeles County Department of Mental Health (department) inappropriately paid rates of more than \$200 per unit of service to 14 contracted providers of mental health services when the normal cost of providing such services was between \$40 and \$80 per unit. Department records indicate that the department did, in fact, pay 11 of the 14 contractors amounts that resulted in costs of more than \$200 per unit of service. However, because the 11 contractors had either negotiated net amount or cost reimbursement contracts and because the contracts for 9 of the 11 contractors included allocations for start-up costs, payments resulting in costs of more than \$200 per unit of service do not necessarily indicate that the department inappropriately paid these contractors.

Allegation of Excessive Payments

It was alleged that, in fiscal years 1985-86 and 1986-87, the department inappropriately paid rates in excess of \$200 per unit of service to 7 contractors in each fiscal year when the normal cost per unit of service was between \$40 and \$80. Two of these 14 total contractors allegedly were paid more than \$2,000 per unit of service.

A unit of service is a measure used to identify a specific quantity of services. For example, if a contractor provides two therapy sessions to each of 15 mental health clients, the contractor has provided 30 units of service. Depending on the type of mental health service provided, one of four basic types of units of service

can be used: patient days, visits, client contacts, or staff hours. For instance, units of service for group therapy and individual therapy are measured in “visits” while acute inpatient hospital service is measured in “patient days.”

Contractors that have negotiated rate contracts are paid specific rates for each unit of the various types of mental health services provided. For instance, a contractor with this type of contract that provides both individual therapy and acute inpatient hospital services may be paid \$76 per visit per client for individual therapy and \$402 per day per patient for acute inpatient hospital services.

Payment Rates

We reviewed the cost reports for 12 of the 14 contractors against which the allegation was made. (The department could not provide the cost reports for 2 of the 14 contractors.) According to these cost reports, 11 of the 12 contractors were paid amounts that resulted in costs of more than \$200 per unit of service. The cost per unit of service for these 11 contractors ranged from \$217 to \$2,120.

For two reasons, a cost of more than \$200 per unit of service for these 11 contractors does not necessarily indicate that the department inappropriately paid these contractors. First, the contracts for 9 of the 11 contractors included allocations for start-up costs. Start-up costs can include activities such as facility acquisition and appliance and furniture purchases. To include amounts for start-up costs in a calculation of a cost per unit of service provided is not appropriate because services may not be provided during the start-up period and because start-up costs can include nonrecurring expenditures such as appliances.

Second, the type of contract defines how the department pays its contractors, and payments resulting in costs of more than \$200 per unit of service did not violate the terms of the contracts with these 11 contractors. For example, one of the 11 contractors had

a negotiated net amount contract totaling \$420,196. The contractor claimed reimbursable costs of \$341,291 for providing 161 units of service. This resulted in a cost per unit of service of \$2,120. However, since allowable costs for negotiated net amount contracts are negotiated between the department and contractors, these contractors can be paid the total dollar amount of the contract for the capacity to provide services, regardless of the amounts of service actually provided. The State Department of Mental Health (SDMH) defines allowable costs as those necessary, proper, and reasonable costs to develop and maintain commonly accepted mental health activities.

The remaining 10 contractors had cost reimbursement contracts. Allowable costs for contractors with cost reimbursement contracts are determined through a settlement with the county after the end of the fiscal year. This settlement is subject to an audit.

Six of these 10 contractors were audited either by the SDMH or the department's contracted auditor. In two of the six audits, neither auditor disallowed any costs claimed by the contractors. Moreover, in one of these two audits, the SDMH identified \$25,293 in additional allowable costs. These additional allowable costs increased the cost per unit of service from \$1,499 to \$2,510.

For the remaining 4 of the 6 contractors, either the SDMH or the department's auditor identified disallowances. For example, the SDMH disallowed over \$4,000 claimed by one contractor. However, the SDMH also increased the units of service claimed by this contractor from 550 to 3,410, thus reducing the cost per unit of service from \$305 to \$48.

The department's director stated that, with its existing resources, the department cannot audit every contractor for all services every year. The director further stated that the department audits contractors at least once every three years.

Because the department did not audit the costs claimed by 4 of the 10 contractors with cost reimbursement contracts, the department does not know whether the payments resulting in costs of more than \$200 per unit of service were appropriate.

The department is taking steps to gain greater control over the amount of funds it pays to contractors. For instance, according to the department's director, until 1986, contracts for the provision of mental health services were cost reimbursement and negotiated net amount contracts. The director stated that, in fiscal year 1985-86, the department began converting contracts from cost reimbursement or negotiated net amount contracts to negotiated rate contracts to give the department greater control over the amounts paid to contractors. Under a negotiated rate contract, the county pays contractors an agreed-upon rate for each unit of service provided.

As we show on Table 2 on page 52, of the 130 contracts issued for the provision of mental health services during fiscal year 1989-90, only 17 (13.1 percent) were cost reimbursement contracts. These 17 contracts had a total value of \$8.7 million, 14.0 percent of the total \$62.6 million value of the 130 contracts. Additionally, only 2 (1.5 percent) of the 130 contracts were negotiated net amount contracts. These 2 contracts had a total value of \$647,730, or 1.0 percent of the total value of the 130 contracts.

Conclusion It was alleged that, during fiscal years 1985-86 and 1986-87, the Los Angeles County Department of Mental Health inappropriately paid more than \$200 per unit of service to 14 contractors. Department records indicate that the department did, in fact, pay 11 contractors amounts that resulted in costs of more than \$200 per unit of service. Because these 11 contractors had either negotiated net amount or cost reimbursement contracts and because the contracts for 9 of the 11 contractors included allocations for start-up costs, payments resulting in costs of more than \$200 per unit of service do not necessarily indicate that the department inappropriately paid these contractors. Moreover, the department is taking steps to reduce the number of negotiated net amount and cost reimbursement contracts.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJOBERG
Auditor General (Acting)

Date: November 13, 1990

Staff: Samuel D. Cochran, Audit Manager
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**Appendix The Contracting Practices of the
Los Angeles County Department of Mental Health**

Section 5600 et seq. of the Welfare and Institutions Code (also known as the Short-Doyle Act) encourages counties to issue contracts for the provision of mental health services. We attempted to review the policies and procedures used by the Los Angeles County Department of Mental Health (department) but found that the department has few written policies and procedures governing the issuance of mental health contracts. Therefore, unless otherwise indicated, the following description of the department's contracting practices is based on interviews with the department's director and other department staff. The department's director has reviewed the following information and agreed to its content.

**Department
Responsi-
bilities**

The board of supervisors for Los Angeles County (board) is the authority that approves mental health contracts and amendments to those contracts. Before the board approves a contract for the provision of mental health services, the department must, among other tasks, identify potential contractors, select the contractor and the type of contract to issue, negotiate service rates and contract amounts, and recommend contract approval to the board.

Responsibilities of the department after the board approves a contract for the provision of mental health services include administering the contract and reviewing the operations of the contractors.

Selection of Contractors

According to the acting director of the State Department of Mental Health (SDMH), the SDMH does not require counties to competitively bid their contracts for the provision of mental health services either at the time the contract is initially issued or at any time after it is issued. Furthermore, the department is required to competitively bid only those contracts issued under the provisions of Proposition A. Proposition A is a county proposition adopted in 1978 by the voters of Los Angeles County. In part, this proposition allows the county board to contract for services provided by county employees if it is more cost-effective to do so.

In addition to competitively bidding Proposition A contracts, the department will consider competitively bidding contracts under other circumstances. For instance, if the county receives additional funding for mental health services, the department will consider competitively bidding any contracts that the additional funding would support.

Several factors, however, can preclude the department from competitively bidding contracts that might be paid for from additional funding. These factors include a short time in which to spend the funds. For example, if the department receives additional funds in March but must spend the funds by June 30, the department will not competitively bid the contracts that result from this additional funding because of the time necessary to prepare requests for proposals, develop scoring criteria, and evaluate proposals. Relatively small amounts of additional funds may also preclude the department from competitive bidding. Although these factors may preclude the department from competitively bidding some contracts, the department has not specified the minimum lengths of time that funds are available for spending nor the minimum amounts of funds below which it will not competitively bid contracts.

Instead of competitively bidding all its contracts for mental health services, the department generally renews contracts from one fiscal year to the next with an existing contractor if the

department is satisfied with the quality of the mental health services provided by the contractor, if the department desires the contractor to continue providing mental health services, and if funds remain available for the services.

For the provision of mental health services in fiscal year 1989-90, we identified 130 contracts administered by the department with 77 contractors. Of these 130 contracts, the board approved at least 16 new contracts worth \$4.2 million for the provision of mental health services and renewed, from fiscal year 1988-89, as many as 114 contracts worth \$58.4 million for the provision of mental health services.

Of the 130 contracts in force during fiscal year 1989-90, most began on July 1, 1989, and terminated on June 30, 1990. In addition, 34 contracts extended from fiscal year 1988-89 into fiscal year 1989-90. We found that the terms of contracts allowed contract time periods to be automatically extended for up to one year. The department provided the extension period to allow the county and the contractor sufficient time to prepare for and renegotiate the contract. While 18 of the 34 contracts were extended for one month, 4 were extended for six months, and 2 for periods longer than six months. The dollar value of these extensions totaled \$6.9 million. (We did not include these 34 contract extensions in the count of the department's contracts in force during fiscal year 1989-90, nor did we include the \$6.9 million value in the total dollar value of the 130 contracts.)

While the department allows contracts to extend beyond the end of the fiscal year, it may also issue contracts that exceed one fiscal year in length. For example, during fiscal year 1989-90, the department administered a 35-month contract with a mental health provider. (For the purposes of our examination, we included only those dollar amounts allocated for fiscal year 1989-90.)

As shown on Table 1, although 71 (54.6 percent) of the 130 contracts had a value of less than \$250,000 each, these contracts accounted for only 12.4 percent of the total dollar value of the contracts. Conversely, 16 (12.3 percent) of the 130 contracts had a value of more than \$1 million each and accounted for 56.1 percent of the total dollar value of the contracts.

Table 1 **Distribution by Dollar Value of Contracts for Mental Health Services in Los Angeles County Fiscal Year 1989-90**

Range	Number of Contracts	Percentage of Contracts	Total Dollar Amount	Percentage of Total Dollar Amount
Less than \$250,000	71	54.6%	\$ 7,793,192	12.4%
\$250,000-\$500,000	30	23.1	10,481,855	16.7
\$500,000-\$1 million	13	10.0	9,208,942	14.7
More than \$1 million	16	12.3	35,121,220	56.1
Totals	130	100.0%	\$62,605,209	99.9%^a

^aThe percentages do not total 100.0% because of rounding.

Types of Contracts

The county issues three different types of contracts for the provision of mental health services: cost reimbursement contracts, negotiated net amount contracts, and negotiated rate contracts. With few exceptions, the county can issue any of the above three types of contracts to any mental health contractor.

Cost Reimbursement Contracts

Contractors with cost reimbursement contracts are reimbursed for the allowable costs of providing mental health services up to the maximum dollar amount stated in the contract. The SDMH defines allowable costs as those necessary, proper, and reasonable

costs to develop and maintain commonly accepted mental health activities. Costs claimed by contractors with this type of contract are subject to an audit by the department or by the SDMH to determine allowability.

For the provision of mental health services in fiscal year 1989-90, we found that the department administered 17 cost reimbursement contracts totaling \$8.7 million. The department issued these contracts under one of three circumstances. First, the SDMH required the department to issue this type of contract in 14 instances. For example, the SDMH required the department to issue cost reimbursement contracts to 11 contractors because the contracts were at least partially funded by federal block grants. Also, the SDMH required the department to issue cost reimbursement contracts for 3 contractors funded by a demonstration grant from the SDMH. Second, for 2 contracts, the department issued cost reimbursement contracts to provide start-up funds for new mental health facilities. Finally, the department amended one existing contract to obtain additional services from the contractor.

Negotiated Net Amount Contracts

Section 5705.2 of the Welfare and Institutions Code allows counties to issue negotiated net amount contracts. The amounts negotiated for these contracts are subject to approval by the SDMH and become part of the contracts. The SDMH defines a negotiated net amount as the fixed amount of state funds committed to the contractor for the provision of a dedicated capacity of service. Therefore, contractors with negotiated net amount contracts can be paid the amount of the contract regardless of the amount of mental health services they provide.

The county issues negotiated net amount contracts to reserve the availability of adequate services. For instance, the county may issue a negotiated net amount contract for a contractor to make available up to a certain number of beds per day for inpatient mental health services. For the provision of mental health services in fiscal year 1989-90, we found that the department administered two negotiated net amount contracts totaling \$647,730.

Negotiated Rate Contracts

Section 5705.2 of the Welfare and Institutions Code also allows counties to issue negotiated rate contracts. The rates negotiated for these contracts are subject to approval by the SDMH and become part of the contracts. The SDMH defines a negotiated rate as a specific dollar amount negotiated between the county and the contractor for delivery of a specific unit of service. Contractors with negotiated rate contracts are paid an agreed-upon amount for each unit of service provided.

For the provision of mental health services in fiscal year 1989-90, we found that the department administered 111 negotiated rate contracts totaling \$53.2 million. Table 2 shows the distribution of contracts by type of contract for fiscal year 1989-90 for Los Angeles County.

Table 2 Distribution By Contract Type of Contracts for Mental Health Services in Los Angeles County Fiscal Year 1989-90

Type of Contract	Number of Contracts	Percentage of Contracts	Total Value of Contracts	Percentage of Total Value of Contracts
Negotiated rate	111	85.4%	\$53,219,700	85.0%
Cost reimbursement	17	13.1	8,737,779	14.0
Negotiated net amount	2	1.5	647,730	1.0
Totals	130	100.0%	\$62,605,209	100.0%

LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH

OFFICE OF THE DIRECTOR

RESPONSE TO THE REPORT OF THE AUDITOR-GENERAL
OF THE STATE OF CALIFORNIA

At the request of the Joint Legislative Audit Committee the Auditor-General of the State of California conducted an extensive review of five specific areas of the contracting practices of the Los Angeles County Department of Mental Health. We are pleased that the report notes that the auditors identified no situations or transactions that were indicative of fraud or illegal acts by the department. Further, that after such a lengthy, detailed and meticulous audit, there were no findings in 3 of the five areas and only six recommendations involving the strengthening of contract monitoring procedures in the other two. It is those six recommendations that will be addressed as well as some brief comments on several other issues:

- "It is recommended that the department require contractors to prepare and submit corrective action plans when review staff identify deficiencies."

The department is in agreement with this recommendation. The department is in the process of revising its contract monitoring procedures to enforce tighter, centralized follow-up on the submission of corrective action plans.

- "It is recommended that the department develop comprehensive written procedures for all phases of contractor monitoring."

The department agrees with this recommendation. Written procedures for the contract auditors are presently specific. As noted in the 1988 audit of department monitoring practices discussed elsewhere in the report, the department at that time had developed a comprehensive procedures manual for contract monitoring. The department will develop further procedures for its unannounced site visit program. The department will also develop appropriately detailed follow-up procedures for personnel responsible for that function.

- "Ensure that staff in all monitoring units are aware of their roles and responsibilities".

The department agrees with this recommendation. The department's current decentralized process has led to some uncertainty as to individual's roles and responsibilities. We are in the process of replacing it with a strong, centralized

Response to the Report of the Auditor-General
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contract monitoring process that will eliminate the weaknesses noted in the review.

- "It is recommended that the department enforce contract terms related to withholding advance payments when contractors do not provide adequate levels of service."

The department is in agreement with this recommendation. As noted by the auditors, over 85% of the department's contracts have since been converted to the negotiated rate type in which the contractor is paid a previously agreed rate only after providing the service.

- "It is recommended that the department continue to limit its issuance of cost reimbursement contracts."

As noted in the auditors report, the department has no remaining cost reimbursement contracts except where that format is particularly appropriate (e.g. start-up costs) or mandated by the State (e.g. Federal Block Grants).

- "It is recommended that the department reaudit a particular contractor to determine the allowability of costs claimed in light of the director's interpretation of an internal memo."

As the contractor has already been audited by an independent CPA firm, hired by the County, without any disallowance being proposed, the department will seek the advice of County Counsel as to the proper course of action in implementing this recommendation and will proceed, based on that advice.

- "Take steps to recover from this contractor any costs found not to be allowable."

If County Counsel advises that a reaudit is permissible, the Department will take the necessary actions to recover those costs.

CHAPTER THREE "CONTRACTOR"

The department is pleased by the acknowledgement that the approval of this contract was proper. In fiscal year 1985-86, the department was under great pressure from the State to reduce overutilization of State hospital beds as well as to settle the Beltram lawsuit which involved increased bed capacity for jail inmates requiring psychiatric care.

In addition, beds were needed to prevent the inappropriate entry into the criminal justice system or into homelessness of those who continue deteriorating when denied entry into brief hospital care due to the shortage of acute beds.

One of the means available to increase bed capacity with limited funds was to remove long-term State hospital patients to a less expensive subacute program in return for gaining an equal number of acute beds.

At that time while many providers had experience in treating psychiatric patients ready for discharge from a State hospital or geriatric patients suitable for nursing home care, only one provider in the State of California had ever taken over the care of a group of gero-psychiatric patients not ready for discharge from the State hospital. That agency was the contractor who, on behalf of Alameda County and several others, had taken all of the gero-psychiatric patients from Napa State Hospital and had given them a rehabilitative program which reduced the length of stay and cost far less.

Cost Savings to the State

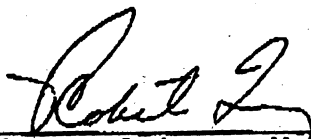
Department personnel familiar with the development and early operation of this program strongly believe that by creating a contract program to take responsibility for the patients in the gero-psychiatric unit the County gave the taxpayers a great benefit and provided the patients with a greatly improved program. It cost the State \$267 per patient each day to operate the program which was budgeted at \$10,605,440. The County's first year contract operation was budgeted at \$6,230,801 and had a unit cost or cost per day of \$138.50. In its second year of operation the cost was reduced to just over \$90 per day.

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The negotiated net amount form was used until it could be determined how much revenue generation could be accomplished in order to set the net rate properly. Previous revenue generation by the State could not provide the basis for an accurate prediction. Beginning with fiscal year 1987-88, this contract was a negotiated rate contract.

There were two unusual features affecting this net amount contract. Because the contractor was taking over existing patients, there was a reduced risk the capacity would go unused. In addition, the department placed a ceiling on the amount of revenue the provider could retain. Above that amount the revenue was to be returned to the department. Due to its attention to revenue generation, the contractor returned \$206,298 to the County. In the following year with a negotiated net rate contract in an amount reduced by \$196,555 and with an increased lease payment to the State, the contractor absorbed \$361,495 in reduced payments and increased charges by means of revenue generation.

In the first year of the contractor's operation of one of their programs, there was a notable decrease in the patients' mean length to stay from 3.4 years to five months. Due to the intensive rehabilitation provided, nearly one half of the original Metropolitan patients were discharged to lower levels of care within one year of opening this program.



Roberto Quiroz, M.S.W.
Director of Mental Health
County of Los Angeles

11/7/90
Date

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps