

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

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



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STATE OF CALIFORNIA
Office of the Auditor General

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December 18, 1989

P-929

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

Dear Mr. Chairman and Members:

To assist the Legislature in determining whether a full scope audit of the Los Angeles County Department of Mental Health (department) should be approved, we conducted a limited scope review of the department. The Legislature requested us to determine whether the department exceeded its budget in fiscal year 1988-89 and to review its budget for fiscal year 1989-90 and reports of prior audits and reviews of the department's operations. This letter presents the results of our review.

In fiscal year 1988-89, the department initially had a balanced budget totaling \$230.9 million. (A balanced budget is one in which projected revenues equal projected expenditures.) According to the department's director, this budget reflected several service reductions necessary to achieve a balanced budget. During fiscal year 1988-89, 11 adjustments increased the department's initial budget by \$15.7 million to \$246.6 million. Several of these adjustments either transferred funds from one budget category to another or, according to the department's director, were allocations of noncounty revenues that were not included in the original budget. However, the 2 largest single adjustments were allocations of additional county funds totaling \$12.3 million. Of this \$12.3 million, \$12.0 million was authorized to cover expenditures that the department made in response to a court order not to cut services. Although the director acknowledged that the department exceeded its initial budget, the director stated that it did so as a result of the court order and an agreement that the County of Los Angeles would cover any increased expenditures incurred because of the court order. As for the revised budget of \$246.6 million for fiscal year 1988-89, although expenditure data indicate that the department did not exceed the revised budget, revenue data indicate that the department also did not receive all the revenue it anticipated. As a result, the data indicate that the department's expenditures exceeded its revenues by approximately \$61,000.

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For fiscal year 1989-90, the department has a balanced budget of \$236.7 million. According to the department's director, this budget reflects a trend toward reducing department staff and increasing the number of contractors to provide services to mental health clients.

Finally, prior reports issued since 1986 concerning operations for which the department is responsible included a total of at least 95 recommendations regarding how the department could improve its monitoring of contractors or programs. Two departments within the county have taken steps to increase monitoring of mental health programs or contractors. According to the department's director, the department reestablished its program review division in November 1988, in part, because of the reports that pointed out weaknesses in the department's monitoring. The program review division's responsibilities include monitoring the quality control policies and procedures for certain programs. In addition to the department establishing the program review division, the Los Angeles County Department of the Auditor-Controller (county auditor-controller) engaged a contractor in July 1989 to monitor the financial integrity of contractors that provide mental health services. According to staff of the county auditor-controller, no noncounty organization has reviewed the department's program or fiscal monitoring operations since March 1988.

Because no noncounty organization has reviewed the department's program or fiscal monitoring operations since March 1988, because the department's budget for fiscal year 1989-90, according to the department's director, reflects a trend toward reducing staff and increasing contracting for mental health services, and because prior reports included recommendations for improving the department's monitoring of programs or contractors, we recommend that the Legislature authorize the Office of the Auditor General to audit the contracting functions of the department, including its granting of contracts, and the county's monitoring of programs and contractors that provide mental health services.

Background

Public mental health treatment programs in California are administered through the shared responsibilities of the State Department of Mental Health and the 58 counties. The State Department of Mental Health directs and coordinates statewide efforts to treat and prevent mental

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disabilities, oversees the programs that the counties develop, 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 instance, the State Department of Mental Health 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 department's budget is \$236.7 million, of which \$202.2 million will come from noncounty sources, \$34.2 million will come from the County of Los Angeles, and \$334,000 will come 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. Additionally, the department is budgeted for 1,375 positions, and according to the department's director, for fiscal year 1989-90, the department has over 500 contracts to provide services to mental health clients.

The department is divided into four sections: program services, which includes the children and adult services' bureaus and the contracts and grants 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.

Scope and Methodology

The purpose of our review was to determine whether the department exceeded its budget in fiscal year 1988-89, to review its budget for fiscal year 1989-90, and to review reports of prior audits and reviews of the department's operations.

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To accomplish these tasks, we reviewed the budgets of the department for fiscal year 1985-86 through fiscal year 1989-90 and expenditure data for fiscal year 1985-86 through fiscal year 1988-89. We did not review the department's budgeting procedures or its capital budgets, nor did we audit the expenditure and revenue information for accuracy.

We also interviewed staff of federal, state, and Los Angeles County audit organizations and staff of both the State and Los Angeles County Department of Mental Health. In addition, we obtained and reviewed 37 reports issued as a result of audits or reviews of the department's operations. These reports were issued from March 1986 through August 1989 by the Los Angeles County Grand Jury, the county auditor-controller, the State Department of Mental Health, the Office of the Auditor General, the federal Health Care Financing Administration, and accounting firms such as Coopers & Lybrand. We did not determine whether the department had corrected problems identified in these reports.

The Department's Budget for Fiscal Year 1988-89

For fiscal year 1988-89, the County of Los Angeles had a balanced budget of \$9.1 billion. For the same fiscal year, the department initially had a balanced budget totaling \$230.9 million. As noted on Table 1, which illustrates the budgets for the department for fiscal year 1985-86 through fiscal year 1989-90, in fiscal year 1988-89, \$197.9 million was budgeted to come from noncounty sources, \$33.0 million was budgeted to come from the County of Los Angeles, and approximately \$72,000 was budgeted to be transferred from other county departments. According to the department's director, this budget reflected several service reductions necessary to achieve a balanced budget.

TABLE 1
ANNUAL BUDGETS FOR THE
LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH
FISCAL YEAR 1985-86 THROUGH FISCAL YEAR 1989-90

	Fiscal Year				
	1985-86	1986-87	1987-88	1988-89	1989-90
Expenditures					
Employee salaries and benefits	\$ 56,893,664	\$ 65,045,171	\$ 68,086,885	\$ 70,045,875	\$ 60,317,000
Services and supplies	128,995,674	136,250,773	144,942,131	146,419,420	161,085,000
Other charges	10,556,890	12,521,180	13,002,016	14,102,927	15,242,000
Fixed assets - equipment	33,570	8,200	8,200	18,200	61,000
Fixed assets - buildings and improvements	--	--	--	328,000	--
Total Expenditures	<u>\$196,479,798</u>	<u>\$213,825,324</u>	<u>\$226,039,232</u>	<u>\$230,914,422</u>	<u>\$236,705,000</u>
Revenue					
Noncounty funds	\$165,574,769	\$185,557,183	\$189,892,779	\$197,887,858	\$202,206,000
County funds	24,132,632	28,188,141	36,060,853	32,954,528	34,165,000
Interfund transfers ^a	<u>6,772,397</u>	<u>80,000</u>	<u>85,600</u>	<u>72,036</u>	<u>334,000</u>
Total Revenue	<u>\$196,479,798</u>	<u>\$213,825,324</u>	<u>\$226,039,232</u>	<u>\$230,914,422</u>	<u>\$236,705,000</u>

Sources: Budgets for the County of Los Angeles.

^a According to the department's director, these are transfers from other county departments.

Budget Increases During Fiscal Year 1988-89

During fiscal year 1988-89, 11 adjustments were made to the department's budget for various reasons. These adjustments increased the department's initial budget by \$15.7 million, thus, providing the department with a revised balanced budget totaling \$246.6 million.

Several of the budget adjustments either transferred funds from one budget category to another or, according to the department's director, were allocations of noncounty revenues that were not included in the original budget. However, the two largest single adjustments were

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allocations of additional county funds. These two budget adjustments occurred in March and June of 1989 and increased the department's spending authority by \$12.3 million.

According to the director, the department's original budget for fiscal year 1988-89 reflected reductions in services to mental health clients, reductions that were necessary to achieve a balanced budget. The director acknowledged that the department exceeded this originally approved budget. In September 1988, the Superior Court of the State of California for the County of Los Angeles ordered the Los Angeles County Board of Supervisors and the department's director, among others, to not close facilities or cut services below the level in effect before July 14, 1988. According to the director, in response to the court order, the Los Angeles County Chief Administrative Office and the county auditor-controller agreed to allow the department to exceed its originally approved budget. The director further stated that these offices also had agreed to provide funds from the County of Los Angeles to cover spending by the department for services ordered by the court if this spending resulted in the department exceeding its original budget. According to the department's director, of the \$12.3 million from the two budget adjustments approved in March and June 1989, \$12.0 million was authorized to cover expenditures that the department made in response to the court order. The remaining \$0.3 million was authorized for security needs.

Expenditures in Fiscal Year 1988-89

According to the department's director, as of November 15, 1989, the auditors for the department had not yet started their review of the department's financial records for fiscal year 1988-89. However, information provided by the county auditor-controller indicates that the department spent \$6.010 million less than the \$246.6 million budgeted for expenditures. Additionally, other information provided by the county auditor-controller indicates that the department received \$6.071 million less than the \$246.6 million budgeted for revenues. As a result, the information indicates that the department's expenditures exceeded its revenues in fiscal year 1988-89 by an estimated \$61,000.

The Department's Budget for Fiscal Year 1989-90

For fiscal year 1989-90, the County of Los Angeles has a \$9.7 billion balanced budget. The department's budget for fiscal year 1989-90 is also balanced and totals \$236.7 million. Revenues totaling

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\$202.2 million are budgeted to come from noncounty sources, \$34.2 million will come from the County of Los Angeles, and approximately \$334,000 will come from transfers of funds from other county departments. The two largest items on which the department intends to spend funds in fiscal year 1989-90 are employee salaries and benefits (\$60.3 million) and services and supplies (\$161.1 million). Services include contracts between the County of Los Angeles and those organizations that provide mental health services to clients.

Comparison With Prior Budgets

Table 2 presents a comparison of the department's budget for fiscal year 1989-90 with the original and the revised budgets for fiscal year 1988-89. As Table 2 indicates, the budget for fiscal year 1989-90 shows increases of less than 5 percent in total expenditures, noncounty funds, and county funds when compared with the department's original budget for fiscal year 1988-89. Overall, the \$236.7 million budgeted for total expenditures in fiscal year 1989-90 represents an increase of \$5.8 million (2.51 percent) over the \$230.9 million originally budgeted for total expenditures in fiscal year 1988-89. Similarly, noncounty funds increased by \$4.3 million (2.18 percent) and county funds increased by \$1.2 million (3.67 percent).

TABLE 2
COMPARISON OF THE
LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH'S
BUDGET FOR FISCAL YEAR 1989-90
WITH THE ORIGINAL AND REVISED BUDGETS
FOR FISCAL YEAR 1988-89

	Fiscal Year			Difference From Fiscal Year 1988-89 Original Budget		Difference From Fiscal Year 1988-89 Revised Budget	
	1988-89 Original Budget	1988-89 Revised Budget	1989-90 Budget	Dollars Increase (Decrease)	Percent Increase (Decrease)	Dollars Increase (Decrease)	Percent Increase (Decrease)
Expenditures							
Employee salaries and benefits	\$ 70,045,875	\$ 70,881,479	\$ 60,317,000	\$(9,728,875)	(13.89)%	(\$10,564,479)	(14.90)%
Services and supplies	146,419,420	159,528,946	161,085,000	14,665,580	10.02	1,556,054	0.98
Other charges	14,102,927	15,743,927	15,242,000	1,139,073	8.08	(501,927)	(3.19)
Fixed assets - equipment	18,200	125,476	61,000	42,800	235.16	(64,476)	(51.39)
Fixed assets - buildings and improvements	328,000	348,000	--	(328,000)	(100.00)	(348,000)	(100.00)
Total Expenditures	\$230,914,422	\$246,627,828	\$236,705,000	5,790,578	2.51	(9,922,828)	(4.02)
Revenues							
Noncounty funds	\$197,887,858	\$201,351,264	\$202,206,000	4,318,142	2.18	854,736	0.42
County funds	32,954,528	45,204,528	34,165,000	1,210,472	3.67	(11,039,528)	(24.42)
Interfund transfers ^a	72,036	72,036	334,000	261,964	363.66	261,964	363.66
Total Revenues	\$230,914,422	\$246,627,828	\$236,705,000	5,790,578	2.51	(9,922,828)	(4.02)

Sources: Budgets for the County of Los Angeles and budget data provided by the Los Angeles County Department of the Auditor-Controller.

^aAccording to the department's director, these are transfers from other county departments.

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Table 2 also indicates that the budget for fiscal year 1989-90 shows increases in some areas and decreases in others when compared with the department's revised budget for the prior year. For instance, the \$236.7 million budgeted for total expenditures in fiscal year 1989-90 represents a decrease of \$9.9 million (4.02 percent) from the revised budget for fiscal year 1988-89. However, noncounty funds increased by \$0.9 million (0.42 percent) from \$201.4 million to \$202.2 million while county funds decreased by \$11.0 million (24.42 percent) from \$45.2 million to \$34.2 million. (Amounts do not total because of rounding.)

Although the amount budgeted for total expenditures for fiscal year 1989-90 shows an increase of less than 3 percent from the prior year's original budget and a decrease of less than 5 percent from the prior year's revised budget, larger changes have occurred within the individual budget categories. For example, as shown on Table 2, the \$60.3 million budgeted for employee salaries and benefits in fiscal year 1989-90 represents a \$9.7 million (13.89 percent) decrease from the prior year's original budget and a \$10.6 million (14.90 percent) decrease from the prior year's revised budget.

In addition to reviewing dollar and percent changes such as the above, we reviewed changes in the proportions of the budget comprising employee salaries and benefits and services and supplies for fiscal year 1985-86 through fiscal year 1989-90. From fiscal year 1985-86 through fiscal year 1988-89, employee salaries and benefits comprised from 28.96 percent to 30.42 percent of the department's budget. Additionally, for the same four fiscal years, services and supplies comprised from 63.41 percent to 65.65 percent of the department's budget. In fiscal year 1989-90, however, employee salaries and benefits decreased to 25.48 percent while services and supplies increased to 68.05 percent of the department's budget. In summary, the proportion of the budget for employee salaries and benefits is at its lowest point in five fiscal years while the proportion of the budget for services and supplies is at its highest point.

According to the department's director, the budget for fiscal year 1989-90 reflects a trend toward reducing department staff and increasing contracting for services provided to mental health clients. This trend is also visible when looking at the number of budgeted positions for the department. While the department's budgeted positions increased from 1,601 in fiscal year 1985-86 to 1,734 in fiscal year 1986-87, in fiscal years 1987-88, 1988-89, and 1989-90, the department was budgeted for 1,702, 1,588, and 1,375 positions,

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respectively. The director further stated that this trend is in compliance with a policy of Los Angeles County to contract for services when it is cost-effective to do so.

We also compared the department's expenditures and noncounty funds with the original budget amounts for fiscal year 1985-86 through fiscal year 1988-89. For each of these fiscal years, we noted no consistent pattern of over- or under-estimation of either expenditures or noncounty funds. In each of these five fiscal years, actual expenditures and noncounty funds were within 5 percent of budgeted expenditures and noncounty funds.

Prior Reviews of the Department's Operations

Since 1986, the department has been subject to numerous reviews by a variety of organizations. These organizations include accounting firms such as Coopers & Lybrand and public agencies such as the county auditor-controller, the State Department of Mental Health, and the Office of the Auditor General. In addition, accounting firms have reviewed the department for the Los Angeles County Grand Jury. Some of these reviews have had very narrow scopes, focusing on specific mental health centers. For instance, in one report, the county auditor-controller reviewed the disappearance of county property from one of the department's storerooms. Other reports have had very broad scopes. For example, an accounting firm reviewed grant and contract monitoring for not only the department but also for the Los Angeles County Department of Community and Senior Citizens Services and the Office of Alcohol Programs and the Drug Abuse Program Office within the County Department of Health Services.

Reports Concerning Contract or Program Monitoring

From the organizations mentioned above, we obtained and reviewed 37 reports that include a review of operations for which the department is responsible. Our review of these 37 reports found that 12 at least partially related to program or contract monitoring. Although one of the 12 reports contained no recommendations, 11 reports included a total of at least 95 recommendations concerning how the department could improve its monitoring of programs or contractors. For example, in September 1986, the county auditor-controller reported that significant deficiencies in the methods and procedures used in the department's monitoring program reduced the program's overall

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effectiveness. This report, which contained 74 total recommendations, contained at least 45 recommendations regarding program or contract monitoring.

In 9 of the 11 reports, the department responded that it had already taken steps to correct deficiencies or would be taking steps in the future. For example, in a report covering fiscal year 1987-88, the department responded to a concern regarding inadequate contract monitoring that it had reestablished its program review division in 1988 and would contract for its fiscal monitoring unit estimated to start in fiscal year 1989-90.

The department established its program review division in November 1988. According to the director, this division was reestablished, in part, because of reports that pointed out weaknesses in the department's monitoring of programs or contractors. This division's responsibilities include monitoring and reviewing management information system data and quality control policies and procedures for certain programs. Additionally, in July 1989, the county auditor-controller engaged a contractor to monitor mental health service providers. This contractor's responsibilities include monitoring the financial integrity of providers and ensuring that providers correctly apply billing and collection guidelines.

According to staff of the county auditor-controller, as of November 16, 1989, no noncounty organization has reviewed the department's fiscal or program monitoring functions since March 1988. Additionally, the county auditor-controller's reviews of the department have been limited to follow-ups of prior audit recommendations. For instance, the last report issued by the county auditor-controller concerning the department's program or contract monitoring operations was issued in January 1988, nearly two years ago. This report was a follow-up to a report issued in March 1986.

Because of the problems concerning the department's monitoring of programs or contractors cited in previous reports, because of the department's trend toward increased contracting for the provision of mental health services, and because the department's monitoring of programs and contractors has not been reviewed since March 1988, it would be appropriate to audit the department's contracting functions, including its granting of contracts, and the county's monitoring of contractors and programs.

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Conclusion

Although the director of the Los Angeles County Department of Mental Health acknowledges that the department exceeded its original budget in fiscal year 1988-89, it did so, according to the director, as a result of an order by the Superior Court of the State of California for the County of Los Angeles and an agreement between the Los Angeles County Chief Administrative Office and the Los Angeles County Department of the Auditor-Controller. The director further stated that these offices had agreed that the County of Los Angeles would provide funds to cover spending by the department for services ordered by the court if this spending resulted in the department exceeding its original budget. As for the revised budget of \$246.6 million for fiscal year 1988-89, although expenditure data indicate that the department did not exceed the revised budget, revenue data indicate that the department also did not receive all the revenue it anticipated. As a result, the data indicate that the department's expenditures exceeded its revenues by approximately \$61,000.

Additionally, the proportion of the budget for fiscal year 1989-90 for employee salaries and benefits is at its lowest point in five fiscal years while the proportion for services and supplies is at its highest. According to the department's director, this budget reflects a trend toward reducing department staff and increasing its contracting for services provided to mental health clients.

Finally, prior reports issued since 1986 concerning operations for which the department is responsible included recommendations regarding how the department could improve its monitoring of contractors or programs. Two departments within the county have taken steps to increase monitoring of mental health programs or contractors. According to the department's director, the department reestablished its program review division in November 1988, in part, because of the reports that pointed out weaknesses in the department's monitoring. The program review division's responsibilities include monitoring quality control policies and procedures for certain programs. Moreover, the county auditor-controller engaged a contractor in July 1989 to monitor the financial integrity of contractors. According to staff of the county auditor-controller, no noncounty organization has reviewed the department's program or fiscal monitoring operations since March 1988.

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Recommendation

Because Los Angeles County's program and fiscal monitoring of mental health service providers has not been reviewed by a noncounty organization since March 1988, because the Los Angeles County Department of Mental Health's budget for fiscal year 1989-90, according to the department's director, reflects a trend toward increased contracting for services provided to mental health clients, and because prior reports included recommendations for improving the department's monitoring of programs or contractors, we recommend that the Legislature authorize the Office of the Auditor General to audit the department's contracting functions, including its granting of contracts, and the county's monitoring of programs and contractors that provide mental health services.

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 letter.

Respectfully submitted,



KURT R. SJOBERG
Acting Auditor General

The Los Angeles County Department of Mental Health's response to this report

COUNTY OF LOS ANGELES

BOARD OF SUPERVISORS

ROBERTO QUIROZ, M.S.W.
Director

FRANCIS J. DOWLING
Chief Deputy Director

R. W. BURGOYNE, M.D.
Medical Director



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DEPARTMENT OF MENTAL HEALTH

2415 WEST SIXTH STREET, LOS ANGELES, CALIFORNIA 90057

Reply To:

December 13, 1989

Kurt R. Sjoberg, Acting Auditor General
660 J Street, Suite 300
Sacramento, California 95814

ATTN: Dale Carlson

Dear Mr. Sjoberg:

The Chairman of the Board of Supervisors referred your draft report to the department for response. In general, we find it to be a fair and positive review of our fiscal operations. The \$61,000 in FY 1988-89 expenditures in excess of revenues, cited in the report, represents approximately one quarter of one percent of the \$246.6 million 1988-89 Revised Budget total expenditures. It is indicative of a department that operated virtually on target with regard to its budget.

The identified trend towards privatization of mental health services, where appropriate and cost effective, is consistent with Board of Supervisors policy and the County's Main Mission Contracting Policy.

As your report points out, we have significantly increased the resources devoted to monitoring during this past year and that effort has not, as yet, been reviewed by any independent agency. An audit of the department's contracting functions, including its granting of contracts, and the County's monitoring of programs and contractors that provide Mental Health Services will enable us to determine how effective we have been and will pinpoint any areas that might need improvement. We welcome your recommendation.

Sincerely,

ROBERTO QUIROZ, M.S.W.
Director of Mental Health

RQ:mt

cc: Supervisor Peter F. Schabarum

MS-350