ITEM NO. 26 a, b, & c

Staff Report

UPDATE ON FORGIVABLE LOAN TO THE RICHMOND CENTER

October 23, 2012

BACKGROUND:

In late 2008, the County's community mental health provider, the Richmond Center, received emergency financial assistance from United Way ($44,500), Story County ($48,000), and Mary Greeley Medical Center ($44,500). On November 15, 2008, the Council authorized $45,000 in emergency assistance to the Richmond Center. This included $20,000 in reimbursement for nursing services for Ames residents and a $25,000 forgivable loan for the purchase of equipment and software to upgrade the Richmond Center's client tracking and billing system.

The City had not funded nursing services before 2008. At that time, the Police Department had begun to see an increase in calls related to mental health crisis. It was believed that providing assistance to the Richmond Center might stem the increase in police calls for mental health crises.

At that time, City staff had concerns about the records that were being submitted by the Richmond Center for reimbursement. Staff did not have confidence that the agency could accurately track and bill the City for City clients. It was believed that the $25,000 for equipment and software could help provide better tracking and billing.

The contract for emergency funding between the City and the Richmond Center indicates that the loan may be forgiven after July 1, 2009 based on the following criteria being met:

1. **The system provides information for use in tracking the service provided to, and outcomes of treatment for, Ames residents;**

2. **Mental health services be provided to Ames residents by either Richmond Center (RC), RC and Community and Family Resources (CFR) together, or by CFR with its own accreditation at July 1, 2009;**

3. **Mental health services be financially viable and able to continue beyond July 1, 2009."**

It is evident that the Richmond Center has fulfilled obligation #2. However, it is less clear whether obligations #1 and #3 have been met.

At the time the assistance was provided, staff noted that the Richmond Center was in a "financial emergency." Stakeholders from the Richmond Center and Community and Family Resources were attempting to merge the two agencies. A self-imposed condition before any merger was that the Richmond Center complete at least four quarters in the black, although some components of the agencies were functionally merged over the last four years.

Since 2008, the Richmond Center's financial situation has not improved. The Richmond Center's FY 2008 and 2010 audits expressed doubt as to whether the Richmond Center could continue as a going concern. The FY 2009 audit identified significant deficiencies in internal controls. The FY 2011 audit identified material weaknesses in internal controls. It also indicated that in 2010/11 the Richmond Center had a $148,272 decrease in net assets with $118,535 in net assets remaining at the end of the year. **Since this audit indicates the Richmond Center's position 16 months ago, it is difficult to determine the agency's current financial picture. If the Richmond Center has continued along the same financial trajectory, its debts may now equal or exceed its assets.**

STATE AUDIT

Earlier this year, Story County asked the State Auditor's Office to audit the Richmond Center. The audit raised several concerns about the Richmond Center's financial practices. Between June 2010 and January 2012, Richmond Center employees received $103,802 in bonuses and gift cards. The gift cards were not taxed as required by the IRS. The audit also identified questionable expenditures such as retreats and outreach luncheons, as well as gold coins given to staffers on their birthdays. The audit notes that "record retention could have been better at TRC."

As a result of this audit, 46 clients were identified who should have been billed to Story County or another county, but were billed to the City during 2011-12 ($4,686.42 in services). A further 21 clients were billed to the City after having been billed to the County, despite the County's policy of requiring anyone billed to the County to be considered a County client for at least 12 months thereafter ($1,097.72 in incorrect billing to the City). The Richmond Center also billed the City $0.08 more for each unit of nursing than it billed the County, despite the City's contract prohibiting charging funders different amounts for the same service. The Richmond Center's City allocation for nursing services was exhausted in December, although the Richmond Center continued to provide some services to City clients for the remainder of the fiscal year.

These billing issues were sent to the Richmond Center for explanation. In September, they provided a list to the City of $971 in services that had been incorrectly billed and a list of $1,963.23 in services that were delivered but not billed to the City. It is the understanding of City staff that these additional services are intended to make up for the incorrect billings. However, $443 of these make-up billings was determined by staff to be comprised of clients ineligible for City funding.

The Richmond Center began implementing software in 2009 to provide better client statistics in accordance with the requirements of the forgivable loan. The January 2012 report on the Richmond Center by Eyerly Ball indicated that the software had not yet been fully implemented. City staff is not confident that the ability to track clients has improved. The most recent requests for reimbursement received by the City have been hand-written.

ASSET staff has received different figures regarding the number of clients the Richmond Center actually has. A November 2011 review by the Iowa Department of Human Services noted that staff had a difficult time describing how many clients there were from different funding sources. At a January 16, 2012 ASSET meeting, Richmond Center staff indicated that there were 2,043 clients in total at the Richmond Center, which includes 739 Ames clients and 369 Story County clients. The January 2012 Eyerly Ball report indicated that 1,040 therapy hours were provided to clients. At one hour per visit and many clients receiving multiple sessions, staff feels that it is unlikely that the number of therapy clients numbered more than a few hundred. In August, Eyerly Ball indicated that it had taken on approximately 200 clients in Story County that had been clients of the Richmond Center.

FURTHER ISSUES IN MENTAL HEALTH/SUBSTANCE ABUSE

None of the ASSET funders have contracts with the Richmond Center for 2012-13. On July 1, 2012, Eyerly Ball took over as the County's community mental health provider. The agency has been approved to participate in the ASSET process, although its ASSET support has come primarily from the County. **It is unclear yet how City funds may fit into Eyerly Ball's plans in the future.**

CFR has not received a contract from any ASSET funder for 2012/13. Staff has been waiting for the Richmond Center audit to be completed before considering a contract for substance abuse programs with CFR. With the concerns raised about the Richmond Center's future, and the liabilities placed on CFR by its connection with the Richmond Center, it may be prudent to continue holding this contract until the future of CFR and the Richmond Center become clearer or alternative providers of substance abuse treatment become available. ASSET's relationship with CFR will be discussed at an ASSET Joint Funders meeting on November 8.

Council should note that even though the Richmond Center and CFR have not received ASSET funds for 2012/13, ASSET rules still require that the agencies provide audits of their 2011/12 finances since they received ASSET funds during that year. ASSET policy states that those audits are due by January 2013.

OPTIONS:

The following options are available to Council regarding the forgivable loan:

1.a. Forgive the $25,000 loan

If the Council believes the terms of the loan have been met, it may forgive the loan. The Richmond Center would no longer reflect the loan as a liability. Due to the potential difficulty of proving that the loan terms were not met or going through the process of collecting the loan if the Richmond Center disputes the City's position, it may be prudent to simply consider the $25,000 as a fee paid to keep the agency open an additional four years until another provider could be identified.

1.b. Do not forgive the $25,000 loan

If the Council believes the terms of the loan have not been met, it may choose to demand repayment of the loan. It is clear from the 2011/12 mis-billings that the agency has not improved its client-tracking abilities. Demanding repayment now may increase the likelihood of repayment if the Richmond Center is indeed losing cash at the rate the audit might suggest. However, the terms imposed on the loan in 2008 might be broad enough for the agency to argue that they have complied with the requirements. The contract does not provide a timetable for repayment if this option is exercised.

1.c. Defer action until a later date

The Council may choose to do nothing at this time, and determine whether to forgive the loan at a later date. Doing so may give the Richmond Center more time to complete the transition to the client tracking software. However, it also increases the risk that the City would be unable to collect if it chose to at a future date. The loan agreement has no automatic forgiveness provisions, so Council action will be required at some point to either forgive or not forgive the loan.

In addition to direction on the forgivable loan, staff requests direction regarding the improper 2011/12 billings identified in the state audit. The following options are available to the Council:

2.a. Require repayment

Require that the improper billings identified in the state audit during 2011/12 be repaid to the City, totaling $5,784.

2.b. Allow for make-up billings

Allow the Richmond Center to keep the $5,784 if it can show that bona fide City clients received services after the City's nursing allocation ran out for 2011/12 and no other party was billed for these services.

2.c. Do nothing

STAFF COMMENTS:

While the information that was supposed to be provided to the City as part of the loan agreement was not as helpful as hoped, staff believes it would be difficult to prove that the terms of the forgivable loan were not met for two out of the three criteria. Therefore, staff does not feel strongly enough to support any of the options provided above.

However, it is important to emphasize that the City Council needs to take action in support of Options 1a or 1b because the Richmond Center is carrying the forgivable loan as a liability on its books. In addition, City staff would like to resolve whether to expect repayment or not.

In regards to the issue of billings, staff would support Option 2b. and allow the Richmond Center to keep the $5,784 if it can show that bona fide City clients received services after the City's nursing allocation ran out for 2011/12 and no other party was billed for these services.