COMMITMENT
INTEGRITY
LEADERSHIP

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FACT SHEET

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Mental Health Services Act

The State Could Better Ensure the Effective Use of Mental Health Services Act Funding

Background

To provide effective services and treatment for those who suffer from mental illness or who are at risk of mental illness, in 2004 California voters approved Proposition 63—the Mental Health Services Act (MHSA). The act imposes a 1 percent income tax on individuals earning more than $1 million a year in order to expand existing mental health programs and services at the local level. In fiscal year 2015–16, the MHSA generated $1.5 billion, of which the State allocated $1.4 billion to the 59 county and local mental health agencies (local mental health agencies). We evaluated how two state entities, the Department of Health Care Services (Health Care Services) and the Mental Health Services Oversight and Accountability Commission (Oversight Commission), oversee MHSA funding. We also assessed how three local mental health agencies—Alameda, Riverside, and San Diego counties—monitor projects that they support with MHSA funding.

Key Recommendations

- Health Care Services should do the following:
  - » Ensure that local mental health agencies spend MHSA funds in a timely manner by implementing policies and processes to reallocate any MHSA funds that are unspent within the statutory time frames, clarify that the interest earned on unspent MHSA funds is subject to reversion requirements, and establish an acceptable MHSA reserve level.
  - » Regularly analyze fund balances to identify excess fund balances and distribute those funds accordingly.
  - » Implement fiscal and program oversight of local mental health agencies.
- The Oversight Commission should continue discussions on innovative approaches to meeting requirements of the MHSA, complete internal program review processes, and establish statewide outcome metrics.

Key Findings

- Health Care Services has not provided effective direction to local mental health agencies on how to spend MHSA funds.
  - » It has not developed a process for recovering MHSA funds from local mental health agencies after time frames for spending the funds have elapsed—agencies maintain excessive MHSA reserves and have accumulated $2.5 billion in unspent funds as of fiscal year 2015–16 of which they should have returned over $230 million to be redistributed to agencies.
  - » There is no guidance in how local mental health agencies should treat interest they earn on MHSA funds and thus, agencies accumulated over $80 million in interest on unspent MHSA funds. Also, the three agencies we visited did not have policies on how to spend interest earned.
  - » Because it has not required local mental health agencies to adhere to a standard reserve level, agencies hold reserves of MHSA funds—$535 million as of fiscal year 2015–16.
  - » Although it knew of a $225 million fund balance in the state Mental Health Services Fund, it had not determined whether the balance was owed to local mental health agencies or was an accounting error.
- Health Care Services inadequately oversees the MHSA funds that local mental health agencies receive.
  - » It has not enforced reporting deadlines—only one of the 59 agencies submitted its fiscal year 2015–16 annual report on time.
  - » Although it developed a fiscal audit process in 2014, its audits focus on data and processes that are at least seven years old, and has yet to develop regulations to allow agencies to appeal findings.
- Although the Oversight Commission is implementing processes to evaluate the effectiveness of MHSA-funding programs, it still needs to develop guidance on the Innovation program approval process, complete an internal process for reviewing reports to ensure data is reliable and timely, and develop metrics to evaluate the outcome of the triage grants on a statewide level.