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DEPARTMENT OF HEALTH
PREPAID HEALTH PLANS

JULY 1974

Joint Legislative Audit Committee

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California Legislature

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July 19, 1974

The Honorable Speaker of the Assembly
The Honorable President of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report pertaining to the State Department of Health's administration of prepaid health plans (PHPs).

The Department of Health has inadequate controls to ensure that health care services for Medi-Cal recipients, enrolled in a PHP under contract with the department, are provided or paid for by the PHP contractor. Adequate controls could prevent duplicate payments by the state on a fee-for-service basis for health care which the state has already paid the PHP contractors to provide. These inadequate controls, which currently exist, have resulted in approximately \$4.2 million of duplicate payments by the state through December 31, 1973.

The Auditor General has recommended that the Department of Health (1) establish adequate controls to preclude duplicate payments on a fee-for-service basis for health care provided to Medi-Cal recipients who are already enrolled in PHPs, and (2) determine the extent to which such duplicate payments are recoverable.

The Department of Health has paid approximately \$960,000, on a fee-for-service basis, for dental services for Medi-Cal recipients enrolled by Foundation Community Health Plan (FCHP), a Sacramento-based PHP contractor, when the services should have been provided by FCHP at no additional cost.

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During the course of the Auditor General's field investigation, a Department of Health memorandum dated May 24, 1974 was prepared stating, "This is to advise you that we have discovered that inadvertently, the Foundation Community Health Plan contract does not specifically exclude dental services as otherwise required service. ...we have instituted a contract amendment to correct this error, and will be forwarding it to you shortly following legal review."

The Department of Health has maintained that it was never the department's intention that dental services be provided by FCHP. However, the current monthly per capita rates paid to FCHP exceed the estimated fee-for-service costs including dental costs from 22½ percent for old age security recipients to 38 percent for aid to the blind recipients. Therefore, these rates should include the costs for dental services which were to have been provided under the terms of the contract.

The Auditor General has recommended that the Department of Health require FCHP (1) to comply with the contract, and (2) to reimburse to the state all funds disbursed on a fee-for-service basis by the department in payment for dental services provided to PHP Medi-Cal recipients enrolled by FCHP.

Department of Health policies for establishing rates for payment to PHP contractors have been inconsistent, and are not in conformance with statutory requirements. For example, the department has not used actuarial methods, as required by statute, to determine the per capita rates of any of the PHP contractors reviewed. Some of the per capita rates paid to Foundation Community Health Plan in Sacramento and Consolidated Medical Systems, Ltd. in Los Angeles and San Bernardino Counties are higher than the estimated fee-for-service costs. The granting of rates higher than the estimated costs under fee-for-service, adjusted for actuarial equivalence, is expressly prohibited by Section 14300 of the Welfare and Institutions Code. Further, the Department of Health is paying different rates to different PHP contractors providing the same services in the same geographical area. The department has announced that a uniform per capita rate for all counties, for each Medi-Cal category, will be paid to PHP contractors effective July 1, 1974 and therefore has resolved the problem of inconsistency.

The Auditor General has recommended that the per capita rates established by the Department of Health be based on actuarial studies and that such rates be no higher than estimated costs on a fee-for-service basis.

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According to county records, PHP contractors owe Los Angeles County in excess of \$1 million as of May 31, 1974 for health care services provided to Medi-Cal recipients enrolled in the contractors' PHPs. Some of the amounts owed date back to January 1973 and appeal procedures to recover such amounts have not been established.

Los Angeles County has billed the PHP contractors but has been denied payment by the PHP contractors for various reasons, such as the Medi-Cal recipient was a non-emergency admission. While the county medical facilities must provide medical services to everyone who comes into the facility, the PHP contractors are in a position of being able to make a determination as to whether or not they are financially responsible for such services.

The Auditor General has concluded that the present circumstances can act as an incentive to the PHP contractor to encourage its enrollees to obtain treatment at the county facilities.

The Auditor General has recommended that the Department of Health (1) pay the county for those services for which it determines the PHP contractors are liable, and deduct these payments from future amounts due from the department to the PHP contractors, and (2) establish an appeals procedure for the purpose of reviewing disputed claims of the county medical facilities.

Respectfully submitted,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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SUMMARY OF FINDINGS,
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FINDING

The Department of Health has inadequate controls to preclude duplicate payments for health care services rendered Medi-Cal recipients enrolled in prepaid health plans (PHPs). Such inadequate controls have resulted in approximately \$4.2 million of duplicate payments by the state.

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RECOMMENDATIONS

1. We recommend that the Department of Health establish adequate controls to preclude duplicate payments on a fee-for-service basis for health care provided to Medi-Cal recipients who are already enrolled in prepaid health plans.
2. We recommend that the Department of Health review the duplicate payments which have in fact occurred on a fee-for-service basis for prepaid health plan enrollees, and determine the extent to which such duplicate payments are recoverable.

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BENEFITS

Implementation by the Department of Health of these recommendations will prevent future duplicate payments and will permit the department to recover an undetermined amount of the duplicate payments made to date.

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FINDING

The Department of Health has paid approximately \$960,000, on a fee-for-service basis, for dental services for Medi-Cal recipients enrolled by Foundation Community Health Plan (FCHP), a PHP contractor, when the services should have been provided by FCHP at no additional cost.

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RECOMMENDATION

We recommend that the Department of Health require Foundation Community Health Plan to reimburse to the state, all funds disbursed on a fee-for-service basis by the department in payment of dental services provided to PHP Medi-Cal recipients enrolled by FCHP. Further, the department should enforce the contractual terms by requiring FCHP to provide dental services during the life of the contract.

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BENEFITS

The implementation of this recommendation will result in a refund to the state of at least \$960,000.

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FINDING

Department of Health policies for establishing rates for payment to PHP contractors have been inconsistent and are not in conformance with statutory requirements.

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RECOMMENDATION

We recommend that the per capita rates established by the Department of Health be based upon actuarial studies and be no higher than estimated costs on a fee-for-service basis.

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BENEFITS

Implementation of this recommendation will result in the establishment of equitable and legal per capita rates.

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FINDING

According to county records, prepaid health plan contractors owe Los Angeles County in excess of one million dollars as of May 31, 1974 for health care services provided to the contractors' enrollees. Some of the amounts owed date back to January 1973 and appeal procedures to recover such amounts have not been established.

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RECOMMENDATIONS

1. We recommend that the Department of Health review the current claims of Los Angeles County medical facilities for services provided to PHP enrollees, pay the county for those services for which it is determined the PHP contractors are liable, and deduct the amount of these payments from future amounts due from the Department of Health to these PHP contractors. 23
2. We recommend that the department establish an appeals procedure for the purpose of reviewing claims of county medical facilities which the PHP contractors refuse to pay. 23

BENEFITS

The implementation of these recommendations will effect appropriate remedies to counties who provide medical services to PHP enrollees but who do not receive timely reimbursement for the services provided. 23

INTRODUCTION

In response to a legislative request, we have reviewed the administration of prepaid health plans (PHPs), an alternative method of delivering health care services to Medi-Cal recipients.

As part of the review, we selected random samples of enrollees in 11 PHP contracts. These 11 contracts are held by seven PHP contractors. The sample was selected from among Medi-Cal recipients enrolled between December 1, 1972 and November 30, 1973. We reviewed the negotiated per capita rates paid by the Department of Health to these PHP contractors. Per capita rates represent the fixed monthly amounts paid in advance by the Department of Health per enrollee in a particular PHP. Separate rates are established for each of four categories of Medi-Cal recipients, namely, Aid to Families with Dependent Children (AFDC), Aid to the Totally Disabled (ATD), Aid to the Blind (AB) and Old Age Security (OAS).

During this study, we contacted administrative personnel at the Department of Health, the PHP contractors, the fiscal intermediaries processing claims for treatment of Medi-Cal beneficiaries under fee-for-service, and Los Angeles County officials. This review was restricted to the administrative function of the program. We did not evaluate the adequacy of the health care services provided.

We issued a preliminary report on PHP contractors in August 1973. Another report was issued in April 1974 pertaining to our review of the

organizational entities of 15 PHP contractors providing services under contract with the Department of Health.

Under the administration of the Department of Health, Medi-Cal recipients are provided with health care services in two ways. One way is known as "fee-for-service". Under the fee-for-service method, the provider of health care services (the physician, pharmacist, or dentist) is reimbursed by the Department of Health through fiscal intermediaries acting as the department's paying agent for actual services furnished to the Medi-Cal recipients. The fee-for-service method currently accounts for approximately 90 percent of the total medical services provided to Medi-Cal recipients.

A second method which provides an alternative to the fee-for-service approach is the PHPs which currently account for approximately 10 percent of the total medical services provided to Medi-Cal recipients. Under the PHPs, the provider of health care services is the PHP contractor under contract with the Department of Health or a subcontractor of the PHP contractor either of whom employ physicians and other health professionals. The PHP contractor is paid in advance by the Department of Health on the basis of per capita rates regardless of the extent of the health care services furnished to the Medi-Cal recipients. By law, the per capita rates cannot exceed the amount which the department estimates would be payable for the same services on a fee-for-service basis adjusted for actuarial equivalence.

Prepaid health plans for Medi-Cal beneficiaries were first authorized by the Legislature in 1966 (Chapter 4, Statutes of 1965, 2nd Ex. Session) and are now provided for under Chapter 8, commencing with Section 14200, Part 3,

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Division 9 of the Welfare and Institutions Code, A PHP is defined in Section 14251 as:

"...any carrier or association of providers of medical and health services who agree with the department... to furnish directly or indirectly health services to Medi-Cal beneficiaries on a pre-determined periodic rate basis..."

Medi-Cal recipients are eligible for free health care services under PHPs financed by the federal and state governments on a 50-50 basis. Eligibility of these recipients extends to those persons eligible under the state's welfare programs including AFDC, ATD, AB, and OAS.

At December 31, 1973, the Department of Health had 52 PHP contracts in force. As of April 1, 1974, the number of contracts had increased to 59. The number of recipients enrolled in PHPs as of December 31, 1973 was 204,397 and as of April 1, 1974 was 237,090.

Total payments to PHP contractors by the Department of Health from the inception of the PHP program on January 1, 1971 through December 31, 1973 amounted to \$78,688,000 as shown in the table below:

Department of Health
Total Payments by Fiscal Year to all PHP Contractors
January 1, 1971 through December 31, 1973

<u>Fiscal Year</u>	<u>Total Payments By Department of Health</u>
1970-71	\$ 546,000
1971-72	6,485,000
1972-73	37,027,000
1973-74 through 12-31-73	<u>34,630,000</u>
Total	<u>\$78,688,000</u>

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Following is a list of the seven Department of Health PHP contractors and their 11 PHP contracts included in our sample:

Department of Health
Payments to PHP Contractors
January 1971 through December 31, 1973

<u>PHP Contractor</u>	<u>Geographic Area Of Operation</u>	<u>Number Of Contracts</u>	<u>Amounts Paid By Department of Health To PHP Contractors From 1-1-71 Through 12-31-73</u>	<u>Percentage</u>
Consolidated Medi- cal Systems, Ltd.	Los Angeles	4	\$25,569,000	32.5%
	Orange		1,128,000	1.4
	San Bernardino		617,000	.8
	San Diego		669,000	.9
Family Health Program	Los Angeles	2	7,893,000	10.0
	Orange		1,066,000	1.3
Central Los Angeles Health Project	Los Angeles	1	4,101,000	5.2
Marvin Health Services, Inc.	Los Angeles	1	6,974,000	8.9
DePaulo Medical Group	Los Angeles	1	1,254,000	1.6
Harbor Health Service	Los Angeles	1	2,617,000	3.3
Foundation Com- munity Health Plan	Sacramento, Yolo, Placer, El Dorado, and Nevada	<u>1</u>	<u>16,098,000</u>	<u>20.5</u>
Total of Contracts Included In Sample		11	67,986,000	86.4
Add: All Other PHP Contracts		<u>41</u>	<u>10,702,000</u>	<u>13.6</u>
Totals		<u>52</u>	<u>\$78,688,000</u>	<u>100.0%</u>

FINDINGS

THE DEPARTMENT OF HEALTH HAS INADEQUATE CONTROLS TO PRECLUDE DUPLICATE PAYMENTS FOR HEALTH CARE SERVICES RENDERED MEDICAL RECIPIENTS ENROLLED IN PREPAID HEALTH PLANS (PHPs). SUCH INADEQUATE CONTROLS HAVE RESULTED IN APPROXIMATELY \$4.2 MILLION OF DUPLICATE PAYMENTS BY THE STATE.

The Department of Health has inadequate controls to ensure that health care services for Medi-Cal recipients enrolled in a PHP under contract with the department are provided or paid for by the PHP contractor. Adequate controls could prevent duplicate payments by the state on a fee-for-service basis for health care which the state has already paid the PHP contractors to provide.

Payments for health care services on a fee-for-service basis for Medi-Cal recipients enrolled in a PHP can occur because the state erroneously issued a proof of eligibility (POE) card to a person enrolled in a PHP or because the county erroneously issued a temporary identification card to such a person.

To protect against duplicate payments, the department sends lists of PHP enrollees periodically to the counties with instructions to them to not issue temporary identification cards to persons on these lists. However, this control system has not prevented duplicate payments of \$4.2 million nor does it detect duplicate payments when they occur.

Department of Health officials have stated that duplicate payments occur because counties improperly issue temporary identification cards to PHP enrollees. In Los Angeles County, the Department of Public Social Services instructs its district offices not to issue Medi-Cal cards to persons enrolled in PHPs. County personnel have stated, however, that state listings of recipients enrolled in PHPs have been received late and have been incomplete. As a result, temporary cards have been issued when requested by Medi-Cal recipients who have signed affidavits that they received no cards for the month. In addition, county officials have stated that the state may have issued cards erroneously.

In order to determine if duplicate payments had been made, we selected a random sample of recipients enrolled in seven PHPs from December 1, 1972 through November 30, 1973 under 11 contracts with the Department of Health. These 11 contracts accounted for 86.4 percent of the total payments to all PHP contractors through December 31, 1973. The sample was selected from the November 1973, Department of Health's "Prepaid Health Plan Enrollee History Status Report". Beneficiary medical profiles, showing a history of the payments on a fee-for-service basis for recipients selected in our PHP sample, were then obtained from the fiscal intermediaries. These fiscal intermediaries serve as the Department of Health's paying agent and as such made payments to health care service providers for services rendered Medi-Cal recipients receiving health care on a fee-for-service basis.

Of those recipients in our PHP sample, the Department of Health, through their fiscal intermediaries, had made duplicate payments for

approximately four* percent of the recipients on a fee-for-service basis, although PHP contractors had also been paid by the department to provide health care services for these recipients. The total duplicate amount paid on a fee-for-service basis was approximately 5.4 percent of the amount already paid to the seven PHP contractors in our sample.

Applying this 5.4 percent factor to the \$78,688,000 paid all 52 PHP contractors, it is estimated that the Department of Health made duplicate payments totaling approximately \$4.2 million through December 31, 1973. To date, controls to preclude the continuation of such duplicate payments have not been implemented by the Department of Health.

These duplicate payments occurred because the Department of Health has established inadequate controls over the disbursement of Medi-Cal funds. In our judgment, such adequate controls are necessary and fundamental for the proper administration of these funds.

*In an August, 1973 Preliminary Report of the Office of the Auditor General, a sample was selected among recipients enrolled in five PHPs between July 1, 1972 through June 30, 1973. This sample projected a duplicate payment rate of approximately 10 percent. The five PHPs accounted for 21 percent of the total payments to PHP contractors through June 30, 1973. The reduction from 10 percent to a four percent duplicate payment rate is not attributable to an improvement in departmental controls over duplicate payments since such controls did not significantly change from the first to the second sample.

RECOMMENDATIONS

1. We recommend that the Department of Health establish adequate controls to preclude duplicate payments on a fee-for-service basis for health care provided to Medi-Cal recipients who are already enrolled in prepaid health plans.

2. We recommend that the Department of Health review the duplicate payments which have in fact occurred on a fee-for-service basis for prepaid health plan enrollees, and determine the extent to which such duplicate payments are recoverable.

BENEFITS

Implementation by the Department of Health of these recommendations will prevent future duplicate payments and will permit the department to recover an undetermined amount of the duplicate payments made to date.

THE DEPARTMENT OF HEALTH HAS PAID APPROXIMATELY \$960,000, ON A FEE-FOR-SERVICE BASIS, FOR DENTAL SERVICES FOR MEDI-CAL RECIPIENTS ENROLLED BY FOUNDATION COMMUNITY HEALTH PLAN (FCHP), A PHP CONTRACTOR, WHEN THE SERVICES SHOULD HAVE BEEN PROVIDED BY FCHP AT NO ADDITIONAL COST.

FCHP, located in Sacramento, provides health care services to Medi-Cal recipients in Sacramento, Yolo, Placer, El Dorado, and Nevada Counties on a prepaid basis under a contract with the Department of Health. This PHP contractor has not provided dental services to individuals enrolled in the plan. Instead, the department has paid to various health care providers, on a fee-for-service basis, approximately \$960,000, from July 1, 1972 through December 31, 1973 for dental services provided to Medi-Cal recipients enrolled in FCHP's prepaid health plan. The \$960,000 was estimated on the basis of our random sample selected from among those individuals enrolled in FCHP from December 1, 1972 through November 30, 1973.

The contract between the Department of Health and FCHP includes dental care as a covered service. Departmental personnel have stated that it was never intended that dental services be provided under this contract.

During the course of the Auditor General's investigation, a Department of Health memorandum was prepared stating: "This is to advise you that we have discovered that inadvertently, the Foundation Community Health Plan contract does not specifically exclude dental services as otherwise required service. ...we have instituted a contract amendment to correct this error, and will be forwarding it to you shortly following legal review."

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The following table shows the fixed monthly per capita rates (amounts paid in advance by Department of Health for each Medi-Cal enrollee) which have been paid to FCHP to provide health care services to Medi-Cal recipients. This table also shows the estimated monthly costs of these services, on a fee-for-service basis, in the geographical area encompassed in the contract. These estimates were prepared by Department of Health personnel at the time their contract with FCHP was being negotiated.

<u>Aid Category</u>	<u>Department of Health Estimated 1971-72 Monthly Costs Including Dental Costs Per Recipient Under Fee-For-Service</u>	<u>FCHP Monthly Per Capita Rates</u>
<u>Initial contract period: 7-1-72 through 6-30-73</u>		
AFDC	\$19.76	\$ 18.78
ATD	91.14	93.15
AB	54.36	55.64
OAS	31.34	31.24
<u>Current contract period: 7-1-73 through 10-31-74</u>		
AFDC	19.76*	25.93
ATD	83.75*	107.13
AB	50.40*	69.57
OAS	27.69*	33.93

*The rates actually proposed by the Department of Health's Rates and Fees Section for the November 1, 1973 to October 31, 1974 contract period were: AFDC, \$15.10; ATD, \$68.37; AB, \$42.31; and OAS \$23.07. These rates are net of dental care costs, Short-Doyle costs, and a 10 percent savings factor. The rates shown in the above table (\$19.76, \$83.75, \$50.40, \$27.69) are the total estimated fee-for-service costs before the dental care and other deductions.

As shown above, the current monthly per capita rates paid to FCHP under its contract with the Department of Health, exceed the estimated fee-for-service costs including dental costs from 22-1/2 percent for OAS recipients to 38 percent for AB recipients.* Department of Health personnel have stated that these rates are justified because the PHP contractor has experienced higher costs than predicted, since FCHP enrollees required more health care services than normal. However, these personnel could not produce adequate data to document these statements. In fact, a Department of Health "PHP Management Staff Report on Renewal of the Foundation Community Health Plan Contract" dated June 13, 1973, stated that the higher costs resulted, for example, from high fees paid to health service providers rather than stating that such costs resulted from FCHP enrollees requiring more health care services than normal. Specifically, this report stated:

"A recent management study of FCHP operation indicates that the reported deficit is a result of the high FCHP rate structure for payment of provider services and drugs, the expressed high cost of providing Short-Doyle services, start-up costs, exclusion of risk pool funds from the profit and loss statements, and some unnecessary administrative costs."

It should be noted that Short-Doyle services are specifically excluded as a covered service in the current contract between the department and FCHP.

*Department of Health personnel have failed to make allowances for increases due to inflation since fiscal year 1971-72 in the computation of FCHP's estimated fee-for-service rates. The Department has allowed an inflation factor totaling seven percent in another two-year PHP contract. On the other hand, the department did not exclude from estimated fee-for-service costs the costs of medical services not provided by FCHP, such as chronic hemodialysis, major organ transplants, or long-term care in any Federal, state, or county governmental hospital for treatment of mental illness, tuberculosis, narcotism, or alcoholism.

Despite the fact that per capita rates paid to FCHP were large enough to include dental services, and the fact these services are a covered service under the contract, the Department of Health paid approximately \$960,000 on a fee-for-service basis from July 1, 1972 through December 31, 1973 to various health care providers for dental services for Medi-Cal recipients enrolled by FCHP in addition to the per capita payments to FCHP. To date, payments on a fee-for-service basis in addition to the FCHP per capita payments are continuing.

In our judgment, the Department of Health's failure to require FCHP to provide dental services to Medi-Cal recipients, as required by the contract, particularly in view of the large per capita rates paid FCHP, represents ineffective administration.

RECOMMENDATION

We recommend that the Department of Health require Foundation Community Health Plan to reimburse to the state, all funds disbursed on a fee-for-service basis by the department in payment of dental services provided to PHP Medi-Cal recipients enrolled by FCHP. Further, the department should enforce the contractual terms by requiring FCHP to provide dental services during the life of the contract.

BENEFITS

The implementation of this recommendation will result in a refund to the state of at least \$960,000.

DEPARTMENT OF HEALTH POLICIES FOR
ESTABLISHING RATES FOR PAYMENT TO
PHP CONTRACTORS HAVE BEEN INCONSISTENT
AND ARE NOT IN CONFORMANCE WITH
STATUTORY REQUIREMENTS.

A review of the per capita rates paid to seven of the largest and oldest PHP contractors under contract with the Department of Health has disclosed that the procedures followed by the department in establishing these rates were inconsistent from plan to plan, and not in conformance with statutory requirements.

Section 14300 of the Welfare and Institutions Code states:

"The department shall determine, by actuarial methods, with respect to any prepaid health plan, a prospective per capita rate of payment for services provided under this chapter for eligibles enrolled with such organizations. Such rate of payment shall be determined annually and shall be designed to provide a rate of payment which does not exceed the amount which the department estimates (with appropriate adjustments to assure actuarial equivalence) would be payable for services covered under the prepaid health plan contract if such services were to be furnished by other than a prepaid health plan. The per capita amounts determined shall be based on sound actuarial data and be recognized to vary between the categories of aid to families with dependent children, aid to the totally disabled, aid to the blind, old age security, or such other categories as may be determined by the director."

The department has not used actuarial methods to determine the per capita rate of payment to any of the PHP contractors reviewed. These rates were determined on the basis of available costs of delivering these medical services on a fee-for-service basis. The most recent cost information used is from 1971-72 fiscal year Medi-Cal expenditure data.

Allowances for increases due to inflation were considered in the computation of per capita rates for some contracts and not in others. Departmental personnel failed to exclude from estimated fee-for-service cost data the costs of medical services not generally provided by the PHP contractors, such as services provided under local programs for treatment of the mentally ill (Short-Doyle Program).

Although the per capita rates are supposedly based on actual fee-for-service costs, PHP contractors are paid different rates, despite the fact that they are operating in the same geographical area and providing the same range of services. The department has not accumulated adequate detailed data to justify these variances in rates as adjustments to assure actuarial equivalence.

For example, there are 30 different per capita rates for seven PHP contractors, each of which provides health care services to enrollees in four aid categories, in Los Angeles County. These contractors are located in an area with the same basic costs under fee-for-service. Further, these contractors all provide the same services under contract with the Department of Health. This same pattern is true in the Compton area, in Los Angeles County, and in Orange and San Diego Counties.

Some of the rates of payment to the two largest PHP contractors, Foundation Community Health Plan (FCHP) in Sacramento and Consolidated Medical Systems, Ltd. (CMS) in Los Angeles and San Bernardino Counties, have been higher than the estimated costs under fee-for-service. The granting of rates higher than the estimated costs under fee-for-service adjusted for actuarial

equivalence is expressly prohibited by Section 14300 of the Welfare and Institutions Code quoted on page 16.

Effective July 1, 1974, the problem of rates being inconsistent from plan to plan was resolved by the adoption by the Department of Health of regulations establishing uniform rates within each county for all new contracts and those contracts in existence on June 30, 1974 which are subsequently amended. Inconsistent rates will remain until all contracts negotiated prior to July 1, 1974 are amended.

However, the uniform rates are still in violation of statute in that they exceed the department's estimated fee-for-service costs in some instances, and were not adopted pursuant to an actuarial study.

In our judgment, the manner in which per capita rates for prepaid health plans have been established to date by the Department of Health is contrary to the best interests of the state, the Medi-Cal recipients, and the PHP contractors, in addition to being in violation of statutory requirements.

RECOMMENDATION

We recommend that the per capita rates established by the Department of Health be based upon actuarial studies and be no higher than estimated costs on a fee-for-service basis.

BENEFITS

Implementation of this recommendation will result in the establishment of equitable and legal per capita rates.

ACCORDING TO COUNTY RECORDS,
PREPAID HEALTH PLAN CONTRACTORS
OWE LOS ANGELES COUNTY IN EXCESS
OF ONE MILLION DOLLARS AS OF
MAY 31, 1974 FOR HEALTH CARE
SERVICES PROVIDED TO THE CONTRACTORS'
ENROLLEES. SOME OF THE AMOUNTS OWED
DATE BACK TO JANUARY 1973 AND APPEAL
PROCEDURES TO RECOVER SUCH AMOUNTS
HAVE NOT BEEN ESTABLISHED.

Section 14305 of the Welfare and Institutions Code states:

"The Prepaid Health Plan shall be liable for all in-area and out-of-area emergency services as defined by the director which are required by the contract and rendered by another provider. Payment for such services shall cover treatment of emergency conditions and management of the enrollee until such time as he may reasonably be transferred to the Prepaid Health Plan."

Emergency services have been defined by the Director of the Department of Health in the contracts between the department and the prepaid health plan as "...those services required for alleviation of severe pain, or immediate diagnosis and treatment of unforeseen medical conditions which, if not immediately diagnosed and treated would lead to disability or death."

Notwithstanding the requirements of Section 14305, a significant number of PHP Medi-Cal recipients are receiving medical care, both inpatient and outpatient services, at county medical facilities without reimbursement to the county by the PHP. For example, in Los Angeles County during the seven-month period April through October 1973, identified PHP enrollee inpatient service days averaged 288 per month with a low in April of 28 patient days and a high in September of 498 patient days.

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Los Angeles County has billed the PHP contractors but has been denied payment by the PHP contractors who generally gave the following reasons:

- The PHP contractor was not notified within 24 hours of the emergency admission of their enrollees to a county facility
- Non-emergency admission
- Patient refused to be transferred to a PHP facility
- County doctors refusal to personally contact the PHP
- County doctor refused to discharge patient for transfer to PHP facility
- Inability to establish eligibility.

The county has received no payment or only token payment on those claims which the PHP contractors admit liability. Some of the amounts owed date back to January 1973. The detail of these accounts is as follows.

Amounts Claimed By
Los Angeles County To Be Owed
By PHP Contractors As Of
May 31, 1974

<u>PHP Contractor</u>	<u>Amount Billed</u>	<u>Amount Paid</u>	<u>Amount Claimed To Be Owed</u>
Marvin Health Services, Inc.	\$ 294,691	-	\$ 294,691
Consolidated Medical Systems	279,088	\$27,015	252,073
Central Los Angeles Health Project	139,077	969	138,108
Family Health Program	91,711	1,186	90,525
L.A. Health Foundation	53,911	-	53,911
Harbor Health Services	45,675	739	44,936
Omni-Rx Health Care	40,142	-	40,142
Watts Multipurpose Health Service Plan	44,532	3,128	41,404
Westland Health Services	33,851	-	33,851
Century Health Plan	28,014	-	28,014
DePaulo Medical Group	21,696	-	21,696
South L.A. Community Health Plan	11,006	2,024	8,982
Gardena Medical Group	4,365	-	4,365
Family Health Services	2,683	-	2,683
Medbrook Family Health Plan	18,479	16,104	2,375
Hawthorne Community Health Plan	1,516	-	1,516
Americare	2,784	1,644	1,140
UMEDCO Health Care Foundation	<u>1,127</u>	<u>-</u>	<u>1,127</u>
Totals	<u>\$1,114,348</u>	<u>\$52,809</u>	<u>\$1,061,539</u>

The county medical facilities face a unique situation in that they must provide medical services to everyone who comes into the facility regardless of circumstances. Problems encountered by the county in its efforts to determine liability and make recovery from the responsible party include the following:

- Inability to in all instances make eligibility determination within a 24-hour period. The PHP contractors have refused to pay for emergency services provided at county facilities when they are not notified within 24 hours of the recipient's admission.
- Prior authorization received from the PHP contractor for emergency services then denied when billing submitted to the PHP contractor.
- Who determines whether the service provided is an emergency service, the county physician or PHP physician?

At present, the PHP contractors are in the position of being able to make the determination as to whether or not they are financially responsible for services provided by county medical facilities to recipients enrolled in their PHPs and for which the PHPs have been paid to provide. County medical facilities must provide medical treatment to anyone requesting it and there are no established procedures to appeal the decisions of the PHP contractors when the county facilities have treated their enrollees. We have not contacted county personnel in other counties to determine whether these counties are also owed significant amounts from the PHP contractors.

In our judgment, the present circumstances place the county medical facilities in an untenable position and can act as an incentive for the PHP contractors to encourage its enrollees to obtain treatment at the county facilities.

RECOMMENDATIONS

1. We recommend that the Department of Health review the current claims of Los Angeles County medical facilities for services provided to PHP enrollees, pay the county for those services for which it is determined the PHP contractors are liable, and deduct the amount of these payments from future amounts due from the Department of Health to these PHP contractors.
2. We recommend that the department establish an appeals procedure for the purpose of reviewing claims of county medical facilities which the PHP contractors refuse to pay.

BENEFITS

The implementation of these recommendations will effect appropriate remedies to counties who provide medical services to PHP enrollees but who do not receive timely reimbursement for the services provided.

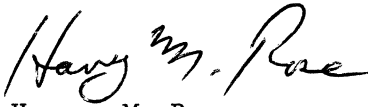
SUMMARY OF COMMENTS OF THE DIRECTOR OF THE
DEPARTMENT OF HEALTH AND HIS STAFF

1. While the Department of Health's controls concerning duplicate payments may not be flawless, any significant problems, if they do exist, are at the county level. It is possible, for example, that counties could have issued Medi-Cal cards erroneously, therefore entitling recipients to health care on a fee-for-service basis when such recipients were already enrolled in a PHP.
2. Neither the Department of Health nor FCHP intended that the contract include dental services. The fact that the contract does include such services is the result of a mutual mistake which will be corrected by a contract amendment.
3. The Department of Health allowed higher rates to Foundation Community Health Plan (FCHP) because the PHP enrollees include a disproportionate number of sick people. The department concluded that this was the case because FCHP made enrollments through physicians' offices and those enrolled were, therefore, in more need of medical care. The department also found a higher incidence of hospitalization for recipients enrolled in the plan.
4. Actuarial methods were utilized in the negotiation process with regard to establishing the per capita rates paid by the Department of Health to the

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PHP contractors. (The department provided copies of two reports prepared by actuarial firms to support this statement. However, neither report indicates that actuarial methods were utilized and, in fact, one report recommends that the department use actuarial methods.)

5. The department has recently contracted with an actuary for the purpose of establishing per capita rates based on actuarial studies.
6. Different per capita rates might have been established for different PHP contractors providing the same health care services in the same geographical area since the PHP program is relatively new and better experience was being accumulated by the department on an ongoing basis.
7. Some of the billings submitted by Los Angeles County to the PHP contractors are in a summary rather than an itemized format. However, the Department of Health concurs that there is a financial responsibility problem between the county medical facilities and the PHP contractors.


Harvey M. Rose
Auditor General

July 10, 1974

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