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December 15, 1981

085

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

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning consolidation of staff responsible for resolving compliance issues in the Medi-Cal component of the Short-Doyle Program in the Departments of Health Services, Mental Health, and Drug and Alcohol Programs.

Respectfully submitted,

A handwritten signature in cursive script that reads "Walter M. Ingalls".

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee



Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
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December 11, 1981

Letter Report 085

Honorable Walter M. Ingalls
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to Supplemental Language to the 1981-82 Budget Act and a request by the Joint Legislative Audit Committee, we examined the feasibility and advisability of consolidating the staff committed to resolving federally identified deficiencies in the Medi-Cal component of the Short-Doyle Program. These staff are assigned to the Department of Health Services, the Department of Mental Health, and the Department of Alcohol and Drug Programs. This review was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

We found that the three departments have coordinated their efforts to remedy six federally identified compliance deficiencies in the Medi-Cal component of the Short-Doyle Program. To organize the State's efforts, the departments have entered into formal agreements that designate separate responsibilities for each department. We found no duplication of effort by department staff in their current efforts to meet federal laws and regulations for obtaining federal financial participation in the Short-Doyle Program. Further, the State has developed plans to automate the processing of claims for Short-Doyle services that are eligible for reimbursement from Medi-Cal; however, because the system has not been implemented, we cannot determine the impact of this plan on future staffing needs. In addition, we found that the State lost interest income because state funds had to be used for payment of Medi-Cal services that may have been eligible for federal reimbursement. These services have not yet received full federal reimbursement because claim forms were prepared improperly.

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BACKGROUND

The Short-Doyle Program provides mental health services to alleviate and prevent serious mental disorders and psychological problems. In addition, the program provides services to assist persons who are institutionalized or experiencing mental disorders. Approximately 450,000 individuals will receive Short-Doyle services at a projected cost of about \$730 million in fiscal year 1981-82.

Under Section 5600 et seq. of the Welfare and Institutions Code, the Department of Mental Health (DMH) administers the mental health component of the Short-Doyle Program. This includes prevention and control of mental illness through crisis evaluation and care, 24-hour residential treatment, day care treatment, and outpatient care. The Department of Alcohol and Drug Programs (DADP) administers the drug treatment component of the Short-Doyle Program. This component includes services and medication provided to individuals with histories of drug abuse. These departments organize and finance community mental health and drug abuse services in California through local programs administered by counties. Counties may either provide mental health services directly or contract for such services through private providers.

The Short-Doyle Program is primarily supported by the State's General Fund. However, certain services, such as evaluation, treatment, and consultation, are eligible for federal reimbursement from the Medi-Cal Program.* The Department of Health Services (DHS) is responsible for ensuring that certain services provided under the Short-Doyle Program are eligible for Medi-Cal reimbursement. The DHS estimates that in fiscal year 1979-80 about 32,000 persons received Short-Doyle services. In 1981-82, the departments estimate that the Short-Doyle program will qualify for \$49.5 million in Medi-Cal reimbursements.

* The Department of Health Services administers the Medi-Cal Program, which provides health services to low-income and needy Californians. This program is funded jointly by the State and the Federal Government.

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The process by which claims are filed and entities are reimbursed is as follows. Each county forwards Medi-Cal claims for Short-Doyle services from local providers to the appropriate state department--either the Department of Mental Health for mental health services or the Department of Alcohol and Drug Programs for drug-related treatment services. These departments provide payments to the counties based upon their submitted claims. Each of these state departments then consolidates the county claims and submits them to the DHS, which processes them for the Federal Government. The DHS authorizes payment of federal funds to the DMH and the DADP for valid claims. These federal funds reimburse the State for monies advanced to the counties for submitted claims.

For several years, the Federal Government has been examining the use of federal funds for the Short-Doyle Program. Based on the results of this examination, federal officials maintain that the Medi-Cal component of the Short-Doyle Program does not comply with federal laws and regulations for federal financial participation. Specifically, the officials say that the State's system for processing claims does not verify that

- Reimbursements are provided for services only to recipients who are eligible for Medi-Cal;
- Reimbursements are made only for reasonable and necessary services;
- Reimbursements for claims do not exceed authorized rates for the services provided;
- Reimbursements are not paid more than once for the same services;
- Services are performed by providers eligible to receive Medi-Cal reimbursements; and
- Payments from other liable parties are assessed to offset federal reimbursement.

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Because of these deficiencies, the Federal Government has been withholding 10 percent of federal reimbursements for claims. It will continue to withhold this portion of federal reimbursements until the State develops and implements a claims processing system that meets the federal requirements. As of October 1981, the Federal Government has withheld a total of approximately \$2.9 million in reimbursements for periods from October 1980 to June 1981.

In response to the concerns expressed by federal officials, the three state departments requested increased staffing to comply with federal requirements. This increased number of staff, from 16 to 36 positions, was needed to perform various tasks. These tasks include assisting local providers, examining utilization reviews that are designed to assure the appropriateness of medical services provided, performing financial audits of providers, preparing a schedule of authorized rates, and developing an automated system for processing claims. The 1981-82 Budget Act authorized the departments to increase their staffs by the requested 20 additional positions at a cost of approximately \$1.2 million.

SCOPE AND METHODOLOGY

We limited our review to examining the feasibility and advisability of consolidating the staff responsible for resolving the federally identified problems in the Medi-Cal component of the Short-Doyle Program. Currently, this staff is distributed among the Departments of Health Services, Mental Health, and Alcohol and Drug Programs. We did not research alternatives to existing or proposed methods for ensuring that federal criteria are met.

In conducting our examination, we reviewed applicable state and federal laws and regulations to determine the requirements of the program. We also reviewed interagency agreements between the Departments of Health Services and Mental Health and between the Departments of Health Services and Alcohol and Drug Programs to determine the responsibilities of each department. We interviewed officials from the three state departments and federal officials from the Department of Health and Human Services to determine how departmental responsibilities are fulfilled. Additionally, we reviewed the duty statements for all 36 staff positions and interviewed 19 staff members to determine whether there is duplication of effort.

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AUDIT RESULTS

Based on our examination of current departmental activities, we found that the three state departments have coordinated their efforts to remedy federally identified compliance deficiencies in the Medi-Cal element of the Short-Doyle Program. Under existing interagency agreements, staff members of the DHS, the DMH, and the DADP are assigned separate duties to ensure that the Medi-Cal component complies with laws and regulations for federal financial participation. We found no duplication of effort among the three departments in their attempts to meet federal compliance criteria.

Additionally, we found that the State has developed plans to implement an automated system for processing claims to ensure future compliance. Department officials are not sure how this new system will affect staffing needs in the future.

We also discovered that the State has lost approximately \$800,000 in interest income because Medi-Cal services were paid for with state funds instead of with federal funds. Although these services may have been eligible for federal reimbursement, claim forms could not be processed because they were incomplete.

Compliance Staff Have Coordinated Their Efforts

We found that the DHS, the DMH, and the DADP have coordinated their efforts to correct the deficiencies in the Medi-Cal component of the Short-Doyle Program. Current interagency agreements ensure that there is no duplication of effort among the three departments in their attempts to comply with federal requirements.

An interagency agreement between the DHS and the DMH identified the responsibilities of each department for Medi-Cal participation in mental health services. Similarly, the DHS and the DADP have an interagency agreement to identify each department's responsibilities for Medi-Cal participation in drug abuse services. The functions that the departments are responsible for include the following: overseeing utilization reviews that monitor controls established by providers to ensure the appropriateness and quality of medical services;

developing and issuing policies to Short-Doyle providers; conducting fiscal audits to ensure that Medi-Cal payments are proper; and processing claims for Medi-Cal reimbursement. Additionally, DHS staff are responsible for three other functions: certifying Short-Doyle providers who are eligible for Medi-Cal reimbursement; developing rates for Short-Doyle services eligible for Medi-Cal reimbursement; and developing a new automated payment system. The functions of setting rates and developing a system are also designed to meet the criteria for federal financial participation. The following table presents the seven Medi-Cal participation functions by department and number of positions.

TABLE 1
FUNCTION AND STAFFING BY DEPARTMENT

<u>Function</u>	<u>Number of Positions</u>			<u>Total Positions</u>
	<u>DMH</u>	<u>DADP</u>	<u>DHS</u>	
Utilization Review	10	1	10 ^a	21
Policy Development	4	1		5
Fiscal Audits	4	1		5
Claims Processing	1			1
Rate Setting			1	1
Certification			2	2
System Development	—	—	<u>1</u>	<u>1</u>
Total Positions	<u>19</u>	<u>3</u>	<u>14</u>	<u>36</u>

^a This function includes a review of claims submitted to the DHS by the DMH and the DADP.

In our review, we found that some staff members in the three departments were performing the same types of functions. However, based on our comparison of organization function statements, individual duty statements, and budget change proposals, and our interviews with employees and their supervisors, we found no duplication of effort among DHS, DMH, and DADP staff. Further, there is no duplication of effort for these functions by DMH and DADP staff because each department administers a different portion of the Short-Doyle Program.

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Although Table 1 shows that all three departments conduct utilization reviews, each department conducts its examination for different purposes, and each emphasizes different aspects of a provider's utilization review system. The DMH and the DADP examine the provider's system to determine whether the utilization review procedures are adequate. The purposes of these reviews are to provide technical assistance to providers and to help improve the utilization review system in order to assure maximum federal financial participation.

By way of contrast, the utilization review process of the DHS concentrates on the medical and case records of individual recipients to determine the appropriateness of the treatment they receive. The DHS audits the utilization review system to satisfy the department's responsibility to the Federal Government.

The Planned Automated System
for Processing Claims Is
Awaiting Federal Approval

The Federal Government has indicated that the State must correct deficiencies in the procedures for processing claims for Medi-Cal services under the Short-Doyle Program. As an incentive for the State to correct these deficiencies, the Federal Government is withholding 10 percent of federal reimbursements; this currently represents approximately \$2.9 million. The State plans to meet federal requirements in the future by implementing an automated system to audit Medi-Cal claims for Short-Doyle services before the expenditure of Medi-Cal funds.

The DHS is awaiting federal approval of its plan. Officials in the DHS are not certain how this new system will affect staff now employed in the Short-Doyle Program who are responsible for ensuring that Medi-Cal reimbursements are in compliance with federal criteria.

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Incomplete Claim Forms
Resulted in Lost Interest Income

Although the Joint Legislative Audit Committee requested only that we examine the feasibility and advisability of consolidating certain staff, we discovered that the State has lost interest income because of a deficiency in the Short-Doyle Program.

During our review, we found that the DHS has not fully reimbursed the DMH and the DADP for Medi-Cal services rendered during fiscal year 1980-81. While these services may have been eligible for federal reimbursement, the DHS could not process the claim forms because the DMH and the DADP had submitted the forms with incomplete information. Consequently, state funds rather than federal funds were used to pay counties for Medi-Cal services. These unreimbursed claims totaled approximately \$17 million; they resulted in lost interest income of approximately \$800,000 as of September 30, 1981.

CONCLUSION

The Departments of Health Services, Mental Health, and Alcohol and Drug Programs are coordinating their efforts to resolve the federally identified deficiencies in the Medi-Cal component of the Short-Doyle Program. We found no duplication among the three departments in their efforts to comply with federal requirements. Further, the State has developed plans to automate the processing of claims for reimbursement for Medi-Cal eligible Short-Doyle services; however, we could not determine the impact of these plans on future staffing needs.

During the course of our review, we also found that some Medi-Cal services that may have been eligible for federal reimbursement did not receive this reimbursement because claim forms submitted by the DMH and the DADP to the DHS were incomplete. Because state funds were used instead of federal funds, the State lost approximately \$800,000 in interest income.

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RECOMMENDATION

Until the Federal Government approves the State's plans for the automated claim processing system, we recommend that the Departments of Health Services, Mental Health, and Alcohol and Drug Programs maintain the current arrangement of staff assigned to the Medi-Cal compliance effort.

Once the state plan is approved, we recommend that the three departments assess staffing levels and examine the feasibility of consolidating staff.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Staff: Steven L. Schutte, Audit Manager
Dore C. Tanner, CPA
Mark A. Lowder
Stephan J. Cohen
Murray E. Edwards

Attachment: Response to the Auditor General's Report

Director, Department of Health Services
Director, Department of Alcohol and Drug Programs
Director, Department of Mental Health

DEPARTMENT OF HEALTH SERVICES

714/744 P STREET
SACRAMENTO, CA 95814
916/445-1248



December 10, 1981

Mr. Thomas W. Hayes
Auditor General
925 -L- Street, Suite 750
Sacramento, CA. 95814

Dear Mr. Hayes:

Your draft report concerning consolidating staff in the Medi-Cal component of the Short-Doyle program, which you forwarded to us on December 3, 1981, has been received and reviewed. We are in basic agreement with the contents of the report.

We are also pleased to inform you that we have resolved the problem you identified in the report regarding loss of interest due to submission of incomplete claims to the Department of Health Services by the Departments of Mental Health and Alcohol and Drug Programs. Those claims have been resubmitted correctly and are now being processed for payment. Further, all new claims are now being submitted with the required information.

Thank you for conducting what we believe was a fair and objective audit. We appreciate the efforts expended by your staff in this endeavor.

Sincerely,

Beverlee A. Myers

Beverlee A. Myers
Director
Department of Health
Services

Sally Davis

Sally Davis, MSW
Director
Department of Alcohol
and Drug Programs

Al Loeb

Al Loeb, Ph.D.
Director
Department of Mental
Health