California State Auditor

BUREAU OF STATE AUDITS

Department of Corrections:

Health Care Management Practices and Provision of Health Care Services

Presentation by

Elaine M. Howle,
California State Auditor

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CONTENTS

This presentation document is only intended to outline selected portions of

Report 2003-125 California Department of Corrections: *More Expensive Hospital Services and Greater Use of Hospital Facilities Have Driven the Rapid Rise in Contract Payments for Inpatient and Outpatient Care* (July 2004)

For a more complete explanation of the points outlined in this document, please refer to the report.

AUDIT SCOPE

BACKGROUND INFORMATION

At the request of the Joint Legislative Audit Committee, we reviewed the California Department of Corrections' (Corrections) hospital contracts for medical services, including contracts with Tenet Healthcare Corporation (Tenet), and attempted to identify trends and reasons for the trends in costs Corrections is paying for contracted inpatient and outpatient health care services.

We compared the costs Corrections paid to Tenet and Non-Tenet hospitals for inpatient and outpatient health care services to the costs Medicare would have paid these same hospitals for the same services, and to the extent possible, and legally permissible, publicly reported the results and reasons for any differences.

> Stratified and randomly selected a sample of invoices paid in fiscal year 2002–03 for inpatient and outpatient services from 15 hospitals, calculated what Medicare would have paid for the same hospital services, calculated a ratio of Corrections' payments to what Medicare would have paid each hospital for similar services, and compared each hospital's ratio with those of the other hospitals we reviewed.

Because our April 2004 audit examined the payment terms for a sample of contracts to determine if they provide the best value to the State and reviewed Corrections' processing of claims for contracted health care services to determine if Corrections is monitoring and verifying claims before making payments, we did not repeat or perform similar audit procedures.

Corrections has asserted the privilege contained in California Government Code, Section 6254.14, that permits it to protect from disclosure certain information associated with the negotiation of health care services contracts. This section specifically allows Corrections to protect from disclosure, for up to four years after the related contract or amendment is fully executed, those portions of contracts that contain payment rates. See addendum on page 19 for more details.

AUDIT HIGHLIGHTS

Corrections' hospital payments have risen $59.4 million from fiscal years 1998–99 through 2002–03, growing at an average rate of 21 percent per fiscal year.

- Inpatient payments increased by $38.5 million, primarily driven by increased payments per admittance.
- Outpatient payments increased by $12.7 million, driven by both number of hospital visits and increased payments per visit.

Payment increases at two institutions were caused by changes in contract terms resulting in payments that were three times as much as they would have paid the same hospitals for the same services under prior agreements.

Corrections paid some hospitals two to eight times the amounts Medicare would have paid for the same services at the same hospitals.

Outpatient payment amounts averaged two and one-half times the amount Medicare would have paid for the same services at the same hospitals.

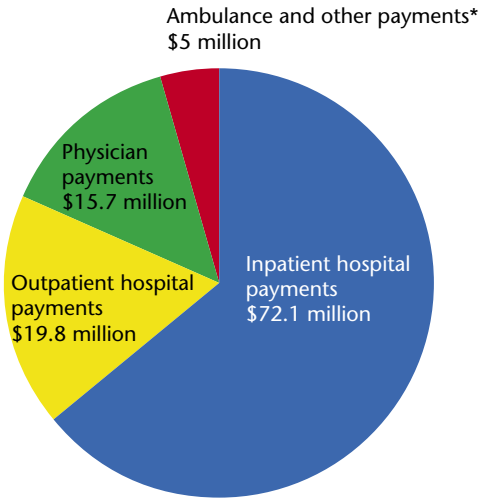
Lack of key data entered into Corrections' database limits analyses behind causes of increased payments and utilization.

Increases in Price Paid and Use of Hospital Facilities Drove the Substantial Rise in Hospital Payments

Corrections' payments to hospitals for medical services provided to inmates totaled $112.6 million in fiscal year 2002–03.

FIGURE 1

The California Department of Corrections Made $112.6 Million in Hospital Payments in Fiscal Year 2002–03



Source: California Department of Corrections' health care cost and utilization program database.

* Other payments were for laboratory, dental, psychiatric, and other medical services.

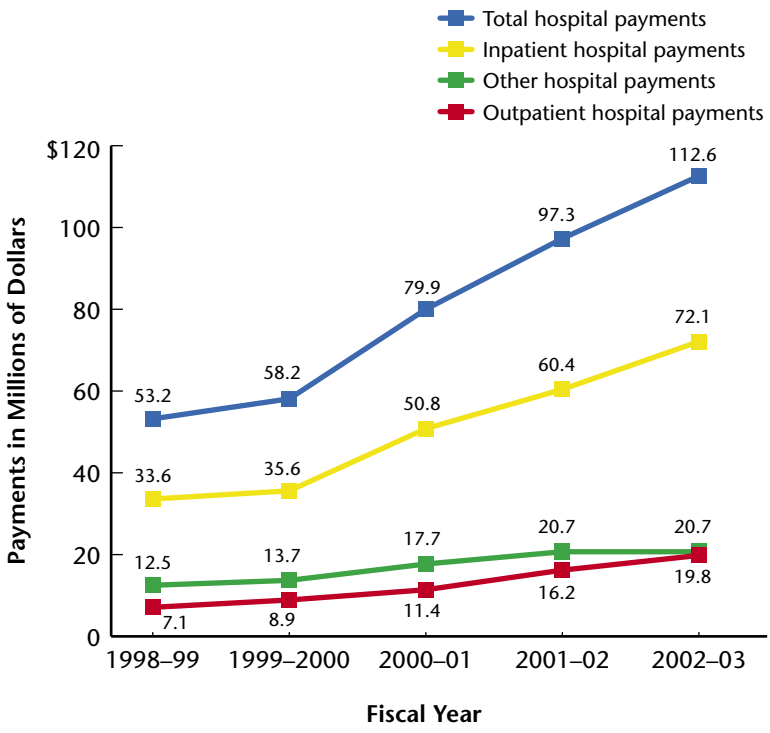
The annual increase in consumer prices for hospital services averaged less than 8 percent from 1998 through 2003; however, Corrections' data on health care services indicate its payments to hospitals have increased at an average rate of 21 percent per year since fiscal year 1998–99.

The increase in hospital payments became more pronounced in fiscal year 2000–01, when the growth was more than 37 percent from the prior year.

This increase in hospital payments in fiscal year 2000–01 was primarily driven by a nearly 43 percent growth in inpatient hospital payments from the prior year. This increase appears to be related, at least in part, to contract terms that were more disadvantageous to Corrections in fiscal year 2000–01 compared with the previous year.

FIGURE 3

The California Department of Corrections' Hospital Payments Have Grown Since Fiscal Year 1998–99



Source: California Department of Corrections' health care cost and utilization program database.

The primary driver of increased costs for inpatient hospital payments was more-expensive admittances. Of the $38.4 million increase, $27.3 million was due to price and $11.1 million was due to greater number of admittances.

TABLE 2

More-Expensive Hospital Admittances Were the Main Reason for the California Department of Corrections' Increasing Inpatient Hospital Payments (Dollars in Millions)

	Fiscal Year 1998–99	Fiscal Year 2002–03	Increase	Percentage Increase
Total number of inpatient admittances	4,044	5,362	1,318	32.6%
Total inpatient hospital payments*	$33.5	$71.9	$38.4	114.6%
Increase attributable to higher payments per admittance†			$27.3	71.1%
Increase attributable to greater number of admittances†			$11.1	28.9%

Source: California Department of Corrections' (Corrections) health care cost and utilization program database.

* The total inpatient payments do not agree with the total payments presented in Appendix A by approximately $160,000 because we excluded from our price-volume analysis those payment records for which Corrections did not enter a community hospital inpatient admission number. In addition, the fiscal year 1998–99 inpatient payment amount does not agree with Table B.1 in Appendix B due to rounding.

† See Appendix B for a discussion of the methodology for our price-volume analysis and our price-volume analysis for each correctional institution. We performed the analysis for each of the correctional institutions and summed the results for this aggregate analysis.

Increases in payments for outpatient services were attributed to both increased payments per visit and a greater number of visits. Table 3 shows that of the $12.7 million increase, $6.9 million was due to price and $5.8 million was due to a greater number of visits.

TABLE 3

Increases in the Payment Per Visit and the Number of Visits Caused the Growth in the California Department of Corrections' Outpatient Hospital Payments (Dollars in Millions)

	Fiscal Year 1998–99	Fiscal Year 2002–03	Increase	Percentage Increase
Total number of outpatient visits	7,547	14,923	7,376	97.7%
Total outpatient hospital payments*	$7.0	$19.7	$12.7	181.4%
Increase attributable to higher payments per visit†			$6.9	54.3%
Increase attributable to greater number of visits†			$5.8	45.7%

Source: California Department of Corrections' (Corrections) health care cost and utilization program database.

* The total outpatient payments do not agree with the total payments presented in Appendix A by approximately $70,000 because we excluded from our price-volume analysis those payment records for which Corrections did not enter a community hospital outpatient number. In addition, the fiscal year 1998–99 outpatient payment amount does not agree with Table B.2 in Appendix B due to rounding.

† See Appendix B for a discussion of the methodology for our price-volume analysis and our price-volume analysis for each correctional institution. We performed the analysis for each of the correctional institutions and summed the results for this aggregate analysis.

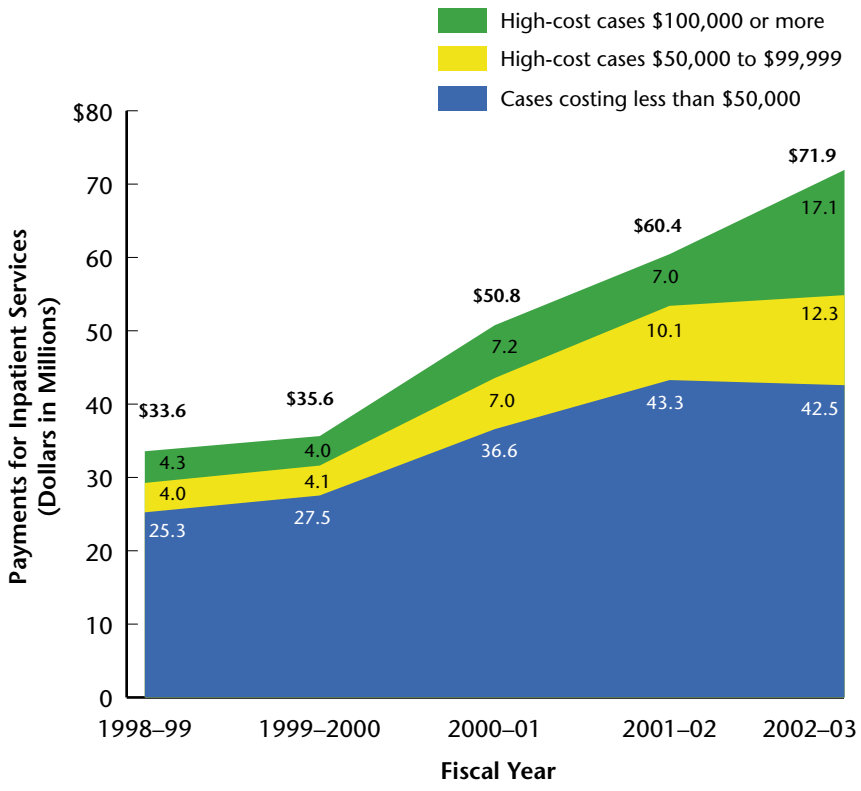
More striking is the fact that outpatient hospital visits nearly doubled from 7,547 in fiscal year 1998–99 to 14,923 in fiscal year 2002–03, even though Corrections' inmate population remained relatively constant during this period.

More High-Cost Cases Account for More Inpatient Hospital Payments

Corrections paid $29.4 million to hospitals for high-cost cases ($50,000 or more) in fiscal year 2002–03 compared to $8.3 million in fiscal year 1998–99, a growth of 254 percent.

FIGURE 4

High-Cost Hospital Inpatient Cases Drove Up the California Department of Corrections' Hospital Payments From Fiscal Years 1998–99 Through 2002–03



Source: California Department of Corrections' health care cost and utilization program database.

Moreover, $17.1 million (58 percent) of the $29.4 million in high-cost inpatient hospital payments for fiscal year 2002–03 involved cases in which Corrections paid $100,000 or more per case.

- Four inpatient hospital cases exceeding $200,000 per case cost Corrections $2.4 million in total.
- For these four cases, Corrections provided concurrent review documents that utilization management staff used to track the inmates' progress during their hospital stays.

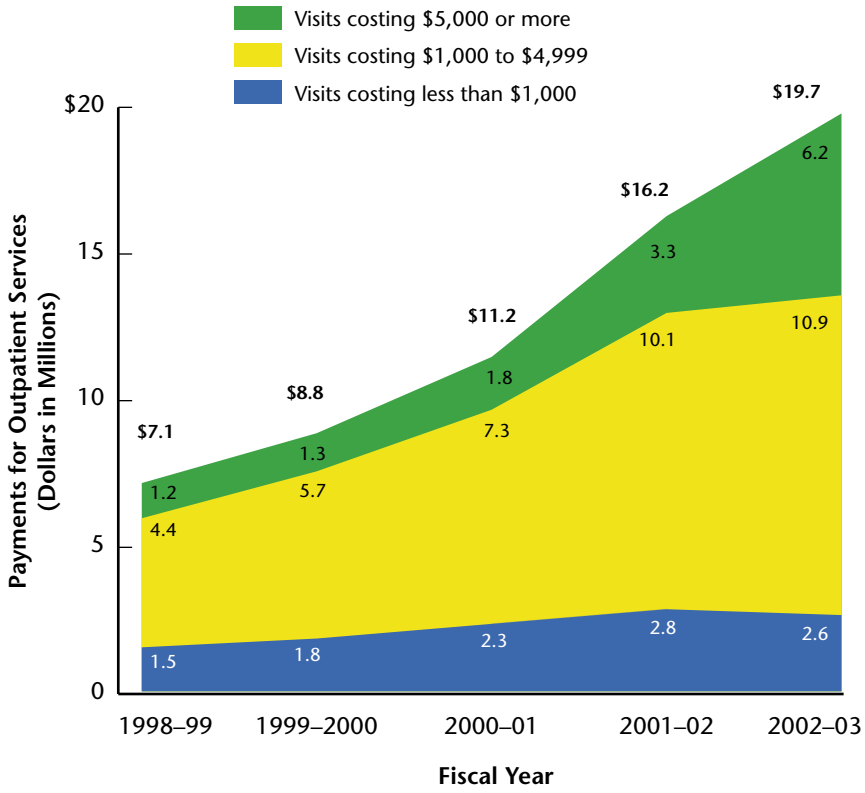
- However, the documents showed that the concurrent reviews were not conducted on a regular basis during the inmates' hospital stays and did not demonstrate how Corrections evaluated the level of care or medical services to determine the ongoing appropriateness of the medical procedures and to ensure the continued necessity of the hospitalization.

More Expensive Outpatient Visits Account for Larger Outpatient Hospital Payments

In fiscal year 2002–03 Corrections paid $17.1 million for visits costing $1,000 or more each compared with $5.6 million in fiscal year 1998–99.

FIGURE 6

From Fiscal Years 2000–01 Through 2002–03 the California Department of Corrections' Expenditures More Than Tripled for Outpatient Visits Costing $5,000 or More



Source: California Department of Corrections' health care cost and utilization program database.

For outpatient hospital visits costing $5,000 or more each, Corrections paid more than three times the amount it paid two years earlier. In fiscal year 2002–03 the amount Corrections paid was $6.2 million and in fiscal year 2000–01 the amount paid was $1.8 million.

Corrections had 706 outpatient hospital visits costing $5,000 or more per visit in fiscal year 2002–03 compared with 148 in fiscal year 1998–99.

INSTITUTIONS CITED SEVERAL REASONS FOR SIGNIFICANT INCREASES IN INPATIENT HOSPITAL PAYMENTS

Rising average payments per hospital admittance were the major factor in the growth of inpatient hospital payments for many institutions, yet for some institutions, increasing numbers of hospital admittances were the major factor.

Neither Corrections nor we can perform an adequate analysis using the data in its health care cost and utilization program database because institutions did not consistently enter the International Classification of Diseases, Ninth Revision, Clinical Modification (ICD-9-CM) procedure codes or request and enter the diagnosis related group (DRG) codes from the hospital invoices that would have allowed an analyst to determine the procedures that had been paid for without laboriously locating and reviewing invoices.

We asked two institutions to explain why an increase in their average payments per inpatient admittance at both institutions and the number of admittances at one were factors for increased costs.

California Substance Abuse Treatment Facility at Corcoran

- Corcoran's inpatient hospital payments increased from $650,000 in fiscal year 1998–99 to $4.3 million in fiscal year 2002–03.

- Corcoran informed us that a change in its mission and its becoming a designated dialysis facility caused its payments to increase.

- Corcoran's analysis for 10 of its 20 fiscal year 2002–03 high-cost inpatient cases revealed that it paid more than four times what it would have paid using the earlier fiscal year 1998–99 contract payment terms.

- The most significant difference in the contract terms was the addition of an inpatient stop-loss provision. This provision requires Corrections to pay a percentage of the hospital's total billed charges once these charges reach the contractual stop-loss threshold per inpatient discharge.

R.J. Donovan Correctional Facility

Donovan's inpatient hospital payments increased from $1.8 million in fiscal year 1998–99 to $5.3 million in fiscal year 2002–03—a 194 percent increase.

Donovan also had a new contract with terms that included a stop-loss provision based on a percentage of billed charges.

Table 4 shows an analysis Donovan's health care manager provided of nine high-cost cases that occurred in fiscal year 2000–01. The table illustrates the difference in amounts paid between the old and new contracts.

TABLE 4

An Analysis by the R. J. Donovan Correctional Facility Revealed Significantly Higher Costs for Inpatient Services Under Its New Hospital Contract Compared With Its Prior Contract

Fiscal Year 2000–01 High-Cost Case	Payment Under Fiscal Year 2000–01 Contract Terms	Payment Using Fiscal Year 1998–99 Contract Terms	Percentage of New Payment to Prior Payment	Payment Increase Due to New Contract Terms
1	$ 184,666	$ 72,956	253.1%	$111,710
2	269,052	107,463	250.4	161,589
3	82,878	26,701	310.4	56,177
4	89,809	34,091	263.4	55,718
5	60,925	15,754	386.7	45,171
6	134,271	39,358	341.2	94,913
7	117,554	32,460	362.2	85,094
8	59,094	18,170	325.2	40,924
9	57,073	8,242	692.5	48,831
Totals	**$1,055,322**	**$355,195**	**297.1%**	**$700,127**

Source: Health care manager at the R. J. Donovan Correctional Facility.

Donovan's health care manager also provided additional insights into both the payments and the number of inpatient stays:

- Although Donovan's average daily population did not significantly change, an increase in the number of its inmates possessing more-complex medical and mental health problems led to an increase in hospitalizations.
- The increase in mental health patients has led to an increase in hospitalizations for seizure disorders and drug overdoses related to suicide attempts.
- The increased number of hospital admittances was in part caused by repeat admissions by inmates for the same medical problems.

CERTAIN CONTRACT PROVISIONS RESULTED IN CORRECTIONS PAYING HIGHER AMOUNTS FOR INPATIENT HEALTH CARE

Some contracts resulted in payments that were significantly higher than those made by Medicare for similar hospital services. This effect appeared most pronounced for hospitals whose contracts include stop-loss provisions based on a percentage of billed charges.

Typically, if the charges per admittance exceed a specified threshold, Corrections pays a percentage of the total charge, rather than a per diem or other rate.

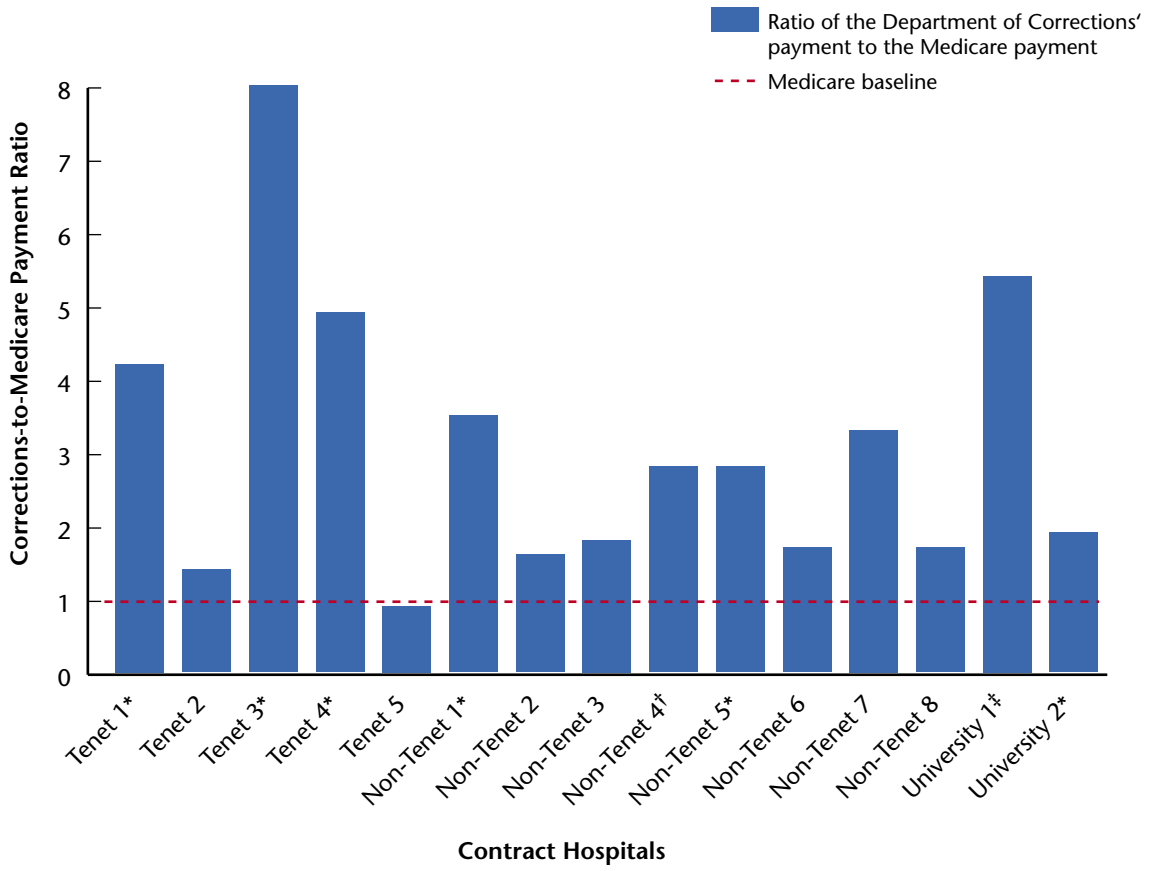
As an alternative to the stop-loss arrangements, Corrections could apply hospital cost-to-charge ratios to hospital charges to estimate the actual costs for the services provided and then use these estimates to evaluate the reasonableness of hospital payments or as a starting point in negotiating future contract terms.

Cost-to-charge ratios result from dividing total costs incurred by a hospital to deliver all medical services by the total amount it charged for all services over a given period.

Figure 8 on the following page presents Corrections-to-Medicare payment ratios and shows that Corrections' payments to some hospitals represent a significant premium over Medicare payments for the same services.

FIGURE 8

The California Department of Corrections' Payments to Hospitals With Stop-Loss Contract Provisions Generally Were Significantly Higher Than Updated Medicare Payments



Sources: Hospital invoices for care provided to the California Department of Corrections' (Corrections) inmates, Corrections' hospital contract rate sheets, and the Centers for Medicare and Medicaid Services' Pricer software and fiscal intermediaries.

Note: As we discuss in the Scope and Methodology section of the report, Corrections asserted the privilege contained in California Government Code, Section 6254.14, that permits it to protect from disclosure certain information associated with health care services contracts, including payment rates. Therefore, it requested that we use generic names instead of actual hospital names in our report.

* Hospitals with stop-loss contract provisions.

† Charges based on per diem or case rates.

‡ Per diem includes facility and physician services.

- Eight of the 15 hospitals had ratios that were more than twice the Medicare baseline.
- Six of the 15 hospitals had ratios that were more than three times the Medicare baseline.
- Hospitals with contracts that include stop-loss provisions, based on charges, generally resulted in higher Corrections-to-Medicare payment ratios.

Corrections could achieve significant savings if it were able to negotiate contracts without stop-loss provisions or base stop-loss payments on hospital costs rather than hospital charges.

Table 6 shows potential savings of up to $9.3 million (35.1 percent) in inpatient hospital payments in fiscal year 2002–03 for six hospitals we reviewed.

TABLE 6

The California Department of Corrections Could Achieve Savings by Negotiating Hospital Contracts Without Stop-Loss Provisions for Inpatient Services in Fiscal Year 2002–03 (Dollars in Millions)

Hospital With Stop-Loss Contract Provisions	Total Inpatient Payment	Stop-Loss Payment	Stop-Loss Recalculated at Average Daily Amount Paid	Maximum Potential Savings*	Total Inpatient Payment After Maximum Savings	Percentage Difference in Total Payment With Maximum Savings
Tenet 1	$ 7.1	$ 3.3	$1.9	$1.4	$ 5.7	19.7%
Tenet 3	2.1	1.9	0.3	1.6	0.5	76.2
Tenet 4	1.8	1.2	0.2	1.0	0.8	55.6
Non-Tenet 1	12.4	6.5	1.9	4.6	7.8	37.1
Non-Tenet 5	2.0	1.1	0.4	0.7	1.3	35.0
University 2	1.1	0.5	0.5	—	1.1	0.0
Totals	**$26.5**	**$14.5**	**$5.2**	**$9.3**	**$17.2**	**35.1%**

Sources: California Department of Corrections' (Corrections) health care cost and utilization program database; Corrections' hospital contract rate sheets.

Note: As we discuss in the Scope and Methodology section of the report, Corrections asserted the privilege contained in California Government Code, Section 6254.14, that permits it to protect from disclosure certain information associated with health care services contracts, including payment rates. Therefore, it requested that we use generic names instead of actual hospital names in our report.

* These calculated savings are rough estimates based on payment data from Corrections' health care cost and utilization program database. Additionally, it is important to note that hospital contract payment provisions are subject to negotiation and that Corrections may not always be able to negotiate hospital contracts that would achieve similar savings.

Although contract provisions are subject to negotiation, Corrections may not be able to negotiate hospital contracts without provisions to shield hospitals from exceptional cases with the potential for extraordinary financial losses.

Corrections' proportion of stop-loss payments exceeded the federal government's target for outlier payments. The Centers for Medicare and Medicaid Services targets outlier payments at 5.1 percent of total inpatient payments. Corrections' stop-loss payments accounted for over 55 percent of total payments to the Tenet 4 hospital and over 76 percent of total payments to the Tenet 3 hospital.

Using Hospital Cost-to-Charge Ratios Could Help Corrections Evaluate Its Hospital Payments and Negotiate Future Contracts

Cost-to-charge ratios result from dividing total costs incurred by a hospital to deliver all medical services by the total amount it charged for all services over a given period.

Table 7 shows that for the nine hospitals for which we were able to perform our analysis, estimated operating profit margins for inpatient services ranged from 71.4 percent for Tenet 3 to 3.3 percent for Non-Tenet 3.

TABLE 7

Lower Cost-to-Charge Ratios Generally Result in Higher Profits for Hospitals in Fiscal Year 2002-03 (Dollars in Millions)

Inpatient Hospital	Total Inpatient Cost-to-Charge Ratio*	Hospital Charges for Inpatient Services	Calculated Hospital Costs for Inpatient Services	Corrections' Payment for Inpatient Services	Estimated Hospital Operating Profit	Percentage of Estimated Hospital Operating Profit
Tenet 1	0.16	†				
Tenet 2	0.10	†				
Tenet 3	0.12	$ 4.5	$ 0.6	$ 2.1	$ 1.5	71.4%
Tenet 4	0.14	9.8	1.4	1.8	0.4	22.2
Tenet 5	0.08	†				
Non-Tenet 1	0.24	†				
Non-Tenet 2	0.46	†				
Non-Tenet 3	0.46	12.5	5.8	6.0	0.2	3.3
Non-Tenet 4	0.26	10.9	2.8	7.5	4.7	62.7
Non-Tenet 5	0.43	3.8	1.6	2.0	0.4	20.0
Non-Tenet 6	0.33	2.8	0.9	1.5	0.6	40.0
Non-Tenet 7	0.49	3.8	1.9	3.4	1.5	44.1
Non-Tenet 8	0.54	0.8	0.4	0.7	0.3	42.9
University 1	0.18	†				
University 2	0.34	1.6	0.5	1.1	0.6	54.5
Totals		**$50.5**	**$15.9**	**$26.1**	**$10.2**	**39.1%**

Sources: Centers for Medicare and Medicaid Services fiscal intermediaries; payment data from the California Department of Corrections' (Corrections) health care cost and utilization program database.

Note: As we discuss in the Scope and Methodology section of the report, Corrections asserted the privilege contained in California Government Code, Section 6254.14, that permits it to protect from disclosure certain information associated with health care services contracts, including payment rates. Therefore, it requested that we use generic names instead of actual hospital names in our report.

* The cost-to-charge ratios use the most current available data and are pre-audit figures.

† For more than one of the 10 inpatient hospital invoices we reviewed for this hospital, the actual hospital charges—that is, the billed amounts—did not agree with the respective charges (billed) amounts in Corrections' health care cost and utilization program (HCCUP) database. Therefore, because HCCUP hospital charge data was clearly not reliable for this hospital, we did not calculate its estimated costs, profits, and profit margin.

Corrections could use cost-to-charge ratios to estimate hospital costs and use the estimates as a base from which to negotiate payment rates with hospitals.

INSTITUTIONS REASONS FOR RISING OUTPATIENT HOSPITAL PAYMENTS WERE SIMILARLY VARIED

Increasing average payments and increasing numbers of hospital visits appear to be nearly equal factors in overall outpatient hospital payment growth.

A significant price increase for similar services, as well as potentially more complex services being performed, caused the increased price per visit.

Deuel Vocational Institution: A significant increase in Deuel's average payment for emergency room visits caused its average payment for outpatient visits to increase overall.

- In fiscal year 1998–99 Deuel's average payment for emergency room outpatient visits increased from $950 in fiscal year 1998–99 to more than $3,300 in fiscal year 2002–03.
- In contrast, Deuel's average payment per nonemergency room outpatient visits decreased from nearly $475 for fiscal year 1998–99 to slightly more than $450 in fiscal year 2002–03.

According to Deuel, outpatient services provided in the emergency room were reimbursed at a higher percentage of total charges and are essentially unlimited.

CONTRACT PROVISIONS ALSO RESULTED IN CORRECTIONS PAYING HIGHER AMOUNTS FOR OUTPATIENT HEALTH CARE

Corrections outpatient contract provisions base payments on a percentage of the hospitals' billed charges rather than costs and generally resulted in Corrections paying on average two to four times the amounts Medicare would have paid the same hospitals for the same outpatient services.

TABLE 11

The California Department of Corrections' Outpatient Payments Were Higher Than What Medicare Would Have Paid for the Same Services

Type of Payment*	Number of Invoices Reviewed	Calculated Corrections to Medicare Payment Ratio†
Emergency room visits	17	4.0
Nonemergency room outpatient visits	38	2.0
Overall	55	2.5

Sources: Hospital invoices that the California Department of Corrections (Corrections) paid for the outpatient care hospitals provided to inmates; Medicare outpatient payment calculations based on the ambulatory payment classification codes derived from the hospital-invoiced outpatient services and procedures.

* Corrections' accounting codes in its health care cost and utilization program database identify payments for emergency room visits versus nonemergency room outpatient visits.

† Unlike our analysis of Corrections' inpatient payments, we did not adjust the Medicare outpatient payments to reflect the updated hospital cost-to-charge ratios from fiscal year 2002–03.

Corrections typically pays a percentage of the hospital charge without a cap for emergency room outpatient services, apparently in recognition of the urgent and potentially intensive health care that inmates need. Based on the codes submitted, Medicare also pays a premium for emergency room visits. However, Medicare bases its payment on its estimate of the cost of services provided rather than on a percentage of a hospital's billed charges.

Corrections paid more than the amount Medicare would have paid for the same outpatient services for all 17 emergency room outpatient visits and all but five of the 38 nonemergency room outpatient visits we reviewed.

- Corrections' outpatient payments revealed that 10 of the 17 payments for emergency room visits were to Tenet hospitals and ranged from 2.8 to 19.8 times the amounts that Medicare would have paid the Tenet hospitals for the same services.

- The other seven payments were to non-Tenet hospitals and ranged from 1.1 to 11.1 times the amounts that Medicare would have paid.

- Of the 38 payments for nonemergency room outpatient visits, 13 were to Tenet hospitals and 25 were to non-Tenet hospitals.

- Payments to Tenet hospitals for the nonemergency outpatient visits ranged from 0.2 to 6.9 times the amounts that Medicare would have paid and payments to non-Tenet hospitals ranged from 1.3 to 14.6 times the amount that Medicare would have paid.

RECOMMENDATIONS

To understand reasons for increasing costs in hospital payments, Corrections should:

- Enter complete and accurate hospital billing and medical procedures data in its computer database for subsequent comparison and analysis of the medical procedures that hospitals are performing and their associated costs.

- Perform regular analysis of its health care cost and utilization data, monitor trends, and investigate reasons why costs are rising.

- Investigate the significant and sudden increase in its inpatient hospital payments, beginning in fiscal year 2000–01, for the purpose of determining whether renegotiating contract payment rates, reducing the length of stay in contract hospital beds, or other cost containment measures can most effectively reduce its contract hospital costs.

- Complete its analysis of high-cost cases to determine why the number of high-cost inpatient cases and more-expensive outpatient visits are rising so that it can identify cost-effective solutions to its increasing health care costs.

- Follow up with all correctional institutions using new hospital contracts to determine if renegotiated contract payment terms are resulting in significantly higher costs for them as well.

To control increases in inpatient and outpatient hospital payments caused by hospital contract payment provisions, Corrections should:

- Revisit contract provisions that pay a discount on the hospital-billed charges and consider renegotiating these contract terms based on hospital costs rather than hospital charges.

- Obtain and maintain updated cost-to-charge ratios for each contracted hospital, using data from the Centers for Medicare and Medicaid Services, the Department of Health Services, or the Office of Statewide Health Planning and Development. It should use these ratios to calculate estimated hospital costs for use as a tool in contract negotiations.

- Require hospitals to include DRG codes on invoices they submit for inpatient services to help provide a standard by which Corrections can measure its payments to hospitals as well as case complexity.

- Detect abuses of contractual stop-loss provisions by monitoring the volume and total amounts of hospital payments made under stop-loss provisions.

To control rising inpatient and outpatient hospital payments caused by increases in the numbers of admissions or visits, Corrections should:

- Include in its utilization management quality control process a review of how medical staff assess and determine medical necessity, appropriateness of treatment, and the need for continued hospital stays.

- Investigate the reasons why the number of outpatient visits by inmates has nearly doubled even though the inmate population has remained relatively constant, and implement plans to correct the significant increase in outpatient hospital visits.

- Continue with its plan to analyze how mentally ill inmates are affecting inpatient costs and utilization at its institutions.

ADDENDUM

Nondisclosure of Information Related to Corrections' Health Care Service Contracts

Corrections has asserted the privilege contained in California Government Code, Section 6254.14, that permits it to protect from disclosure certain information associated with the negotiation of health care services contracts. This section specifically allows Corrections to protect from disclosure, for up to four years after the related contract or amendment is fully executed, those portions of contracts that contain payment rates.

- Corrections requested that we use generic hospital names—Tenet, non-Tenet, and University hospitals—to replace the actual names of the hospitals in our report.

- Corrections also requested that we maintain the confidentiality of the hospital contracts and other documents related to contract payment rates and negotiations that we relied on during the course of our audit, based on its assertion of this privilege.

- In addition, Corrections requested we not state the range of stop-loss thresholds and range of percentage of billed charges it pays nor the specific stop-loss threshold or percentage of billed charges it paid related to the unnamed hospitals in our report.

Although state law allows Corrections to protect from disclosure the payment rates of health care services contracts for up to four years after the execution of the contracts or amendments, it does not prohibit Corrections from disclosing these rates and other related information if it chooses to do so. However, Corrections has entered into a contract term that prohibits it from disclosing this information. This term reads as follows:

> *Corrections is exempt from publicly disclosing the rates of payment contained in Corrections health care contracts for four (4) years after the date of execution of a contract or a contract amendment per Government Code Section 6254.14. Corrections and Provider agree to protect the confidentiality of the rates contained in this contract or contract amendment for four (4) years after the date of execution.*

By entering into this contract term, Corrections becomes legally obligated not to disclose the rates contained in contracts with its providers for a period of four years after the date of execution. As a result, Corrections has effectively waived any right it otherwise had under state law to disclose contract payment terms.

Our legal counsel has advised, however, that despite this contract term, Corrections must still comply with other requirements contained in Section 6254.14 of the Government Code that require disclosure of the entire health care services contracts or amendments, including payment rates, to the Joint Legislative Audit Committee and the Bureau of State Audits.