California State Auditor

BUREAU OF STATE AUDITS

Department of Health Services:

Drug Treatment Authorization Requests Continue to Increase

August 2000
2000-009

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August 1, 2000 2000-009

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 716, Statutes of 1992, as amended, the Bureau of State Audits presents its audit report concerning the processing activity associated with the reimbursement requests for certain prescribed drugs under the California Medical Assistance Program. These requests are known as drug treatment authorization requests (TARs).

This report concludes that the Department of Health Services received and processed more drug TARs during the current 24-month review period than in earlier periods. However, the drug providers could not access the decisions on 13 percent of the requests we sampled within one workday through the department's Provider Telecommunications Network.

Respectfully submitted,

Mary P Noble

MARY P. NOBLE
Acting State Auditor

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SUMMARY

Audit Highlights . . .

Our current review of the Department of Health Services' (department) processing of reimbursement requests for certain prescribed drugs disclosed:

- ☑ *The department received and processed an increased amount of drug treatment authorization requests (TARs).*
- ☑ *The TARs average month-end backlog of 11.6 percent for the current review period represents a significant improvement over some previous periods.*
- ☑ *The department was unable to fully process 615 of the 2,711 drug TARs we sampled within one workday, as required. However, for 249 of these TARs, the providers had access to the department's decisions within one workday.*
- ☑ *Processing is slow because of staffing problems and because the department's contract with Electronic Data Systems does not require TARs processing in the time period required by department policy.*

RESULTS IN BRIEF

The Bureau of State Audits presents the 16th in a series of semiannual reports evaluating the manner in which the Department of Health Services (department) processes reimbursement requests for certain prescribed drugs under the California Medical Assistance Program (Medi-Cal). These requests are known as drug treatment authorization requests (TARs).

From December 1999 through May 2000, the last 6-month interval in our current 24-month review period of June 1998 through May 2000, the department received 659,328 drug TARs. This amount represents an increase of 580,830 (740 percent) over that of our first 6-month review period 10 years ago, from June 1990 through November 1990. There are four major reasons for the increase. First, in November 1994, the law reduced the limit of prescriptions from 10 to 6 per month before a drug TAR must be submitted for an individual beneficiary. Second, although the number of Medi-Cal beneficiaries has decreased from its high point in 1995, the number of beneficiaries is still higher than it was during the first review period. Third, according to the chief of the department's Northern Pharmacy Section, drug TARs have increased because beneficiaries with more severe illnesses remain with Medi-Cal's fee-for-service program instead of transferring to the managed care program, which does not require drug TARs. According to the chief, there is also a trend toward receiving medication and care outside of a hospital setting.

The department processed 662,288 drug TARs from December 1999 through May 2000, an increase of 585,006 (757 percent) over the number processed during the first six-month period we reviewed. This amount represents the most activity since that initial review period. The increase in TARs processed corresponds to the increase in TARs received.

Although the number of processed drug TARs has grown substantially since June 1990, the percentage of backlogged drug TARs has fluctuated, ranging from a high of 34 percent of the TARs received in May 1992 to a low of 1.6 percent in November 1995. Backlogged drug TARs are those that the department receives and logs in but does not fully process as of 5 p.m. on the specific

workday that the TARs are received. The average month-end backlog of 11.6 percent for the current 24-month review period does not vary greatly from the 11.9 percent reported during our previous review. However, this average represents a significant improvement over some previous periods.

The department's policy is to process all drug TARs within one workday. However, the department was unable to accomplish this goal for all TARs we sampled during this audit. The Stockton drug unit could not process all drug TARs within one workday because of the increase in TARs received, and because of a lack of available data-entry staff during this review period. The unit took up to three workdays to fully process 591 of the 2,711 drug TARs we sampled that were either mailed or faxed. According to the chief of the Northern Pharmacy Section, the department's contractor, Electronic Data Systems (EDS), responsible for entering each TAR into a database, lacked available data-entry staff. Although staff had not fully processed the TARs, they entered the decisions for 225 requests into the Provider Telecommunications Network within one workday. However, the decisions for the remaining 366 drug TARs, 13 percent of our sample, were not available to providers in one workday. The Los Angeles drug unit took up to five workdays to fully process 24 of the drug TARs we sampled; however, the consultant's decisions for these TARs were available to drug providers within one workday.

In addition to delays due to staffing problems, processing is slow because the present contract does not require EDS to process drug TARs in the time period required by department policy. A new system that the department expects to implement in the fall of 2000 should shorten processing times and improve the department's monitoring of processing times.

From December 1999 through May 2000, beneficiaries submitted to the Department of Social Services 103 fair-hearing requests regarding decisions on drug TARs that were denied or deferred. This figure represents a decrease of 22 (17.6 percent) over the previous review period of December 1997 through May 1998.

RECOMMENDATIONS

As recommended in our previous report, the department should take the following steps to ensure that it is promptly processing drug TARs:

- Continue to more closely monitor the scheduling of data-entry staff to ensure that the department can process within the required time frame the estimated number of drug TARs it will receive.

- When the current contract with EDS expires, negotiate a new contract with a turnaround time for drug TARs of one workday.

- Ensure that its new system includes comprehensive procedures for monitoring processing times.

AGENCY COMMENTS

The department concurs with our findings and recommendations. In addition, the department provides information concerning TARs processing. The department also states that it has taken steps to address the staffing problems of the Northern Pharmacy Section. ■

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INTRODUCTION

BACKGROUND

Authorized in 1965 under Title XIX of the Social Security Act, the California Medical Assistance Program (Medi-Cal) provides a wide array of health care services, including payment for prescription drugs to public-assistance recipients and low-income families. The Department of Health Services (department) administers Medi-Cal under Title 22 of the California Code of Regulations. The state and federal governments jointly fund Medi-Cal.

Medi-Cal beneficiaries may receive prescription drugs identified on a list the department has established. This list, known as the Medi-Cal list of contract drugs, includes drugs from most therapeutic categories, including antibiotics, cardiac drugs, and gastrointestinal drugs. When a doctor prescribes a drug not on the list, or when the recipient exceeds his or her monthly limit of six prescriptions, the drug provider, usually a pharmacist, must receive authorization to seek reimbursement for the cost of the drug(s). This request for authorization is known as a drug treatment authorization request (TAR). The department has two Medi-Cal drug units that process drug TARs: one in Los Angeles and one in Stockton. Currently, drug providers can mail or fax their requests.

During the review period covered in this report, June 1998 through May 2000, the department continued its statewide effort to place Medi-Cal beneficiaries into managed care. Managed care plans contract directly with pharmacies to dispense drugs to the beneficiaries and thus TARs are no longer required. However, as illustrated in Figure 1 on page 9, the decreases in TAR volume that the department projected would accompany the movement of beneficiaries to managed care have not yet materialized.

Drug TAR processing is divided between the Los Angeles and Stockton drug units, and each unit processes TARs the same way. For example, faxed drug TARs include the date and time received. Mailed-in drug TARs are date-stamped on the day received. Those received by either fax or mail are reviewed by clerical staff for completeness and then sent to the department's contractor,

Electronic Data Systems (EDS), for data entry. They are then forwarded for adjudication to the department's licensed pharmaceutical consultants. The consultants may approve, approve with modifications, or deny the TARs, or they may return the TARs to the drug provider to request further information. The consultants then enter the decision into the department's computer system. This decision is available to the drug provider at this time via the department's toll-free Provider Telecommunications Network. The drug TAR then goes back to EDS for final data entry. At this point, a copy is returned to the drug provider.

Until June 1997, the Los Angeles drug unit also processed drug TARs received by the Voice Drug TAR System (VDTS). Medical transcribers retrieved the information by phone and typed it onto forms. These forms were then forwarded to the pharmaceutical consultants, who followed the same process used for mailed-in or faxed requests. The decision was also recorded on the VDTS, which the drug provider could access at any time to determine the status of the request. However, as of June 1997, the VDTS was no longer used to submit drug TARs because it was not cost-effective.

SCOPE AND METHODOLOGY

Chapter 716, Statutes of 1992, required the Office of the Auditor General (OAG) to prepare an analysis and summary of the department's statistical data on drug TARs. Section 14105.42 of the Welfare and Institutions Code, mandated that the OAG submit a report on data and a comparative analysis of changes, using data from June 1990 through November 1990 as a base, to the Legislature beginning on February 1, 1991, and every six months thereafter until January 1, 1999. Chapter 12, Statutes of 1993 (California Government Code, Section 8546.8), directs the Bureau of State Audits to assume these responsibilities. New legislation in 1999 extended this requirement to January 1, 2001.

To fulfill these requirements, we did the following:

- Obtained statistical data from the department regarding drug TARs received by fax and mail, as well as the number approved, modified, denied, and returned for the 24-month review period of June 1998 through May 2000.

- Verified the Los Angeles and Stockton drug units' processes for compiling monthly drug TAR statistics throughout the review period.

- For the period December 1999 through May 2000, conducted tests to determine whether the drug units are processing all drug TARs within one workday.

- Obtained data from the drug units on the number of denied drug TARs appealed to the Department of Social Services from June 1998 through May 2000.

- Determined the extent to which the department implemented our prior report's recommendations. ■

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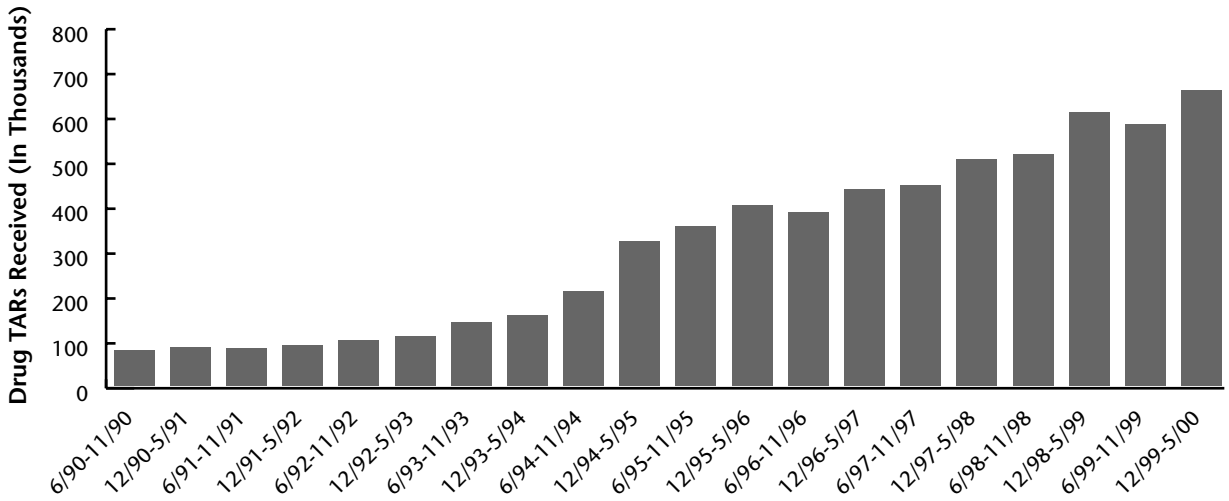
AUDIT RESULTS

THE NUMBER OF DRUG TARS RECEIVED CONTINUE TO INCREASE

As shown in Figure 1, the number of drug treatment authorization requests (TARs) received has increased substantially from June 1990 through May 2000. During the first six-month review period, the period June 1990 through November 1990, the drug units received 78,498 drug TARs. From December 1999 through May 2000, the last six-month interval in our current 24-month review period of June 1998 through May 2000, they received 659,328, an increase of 580,830 (740 percent).

FIGURE 1

Drug TARs Received During Each Six-Month Review Period
June 1990-November 1990 Through December 1999-May 2000



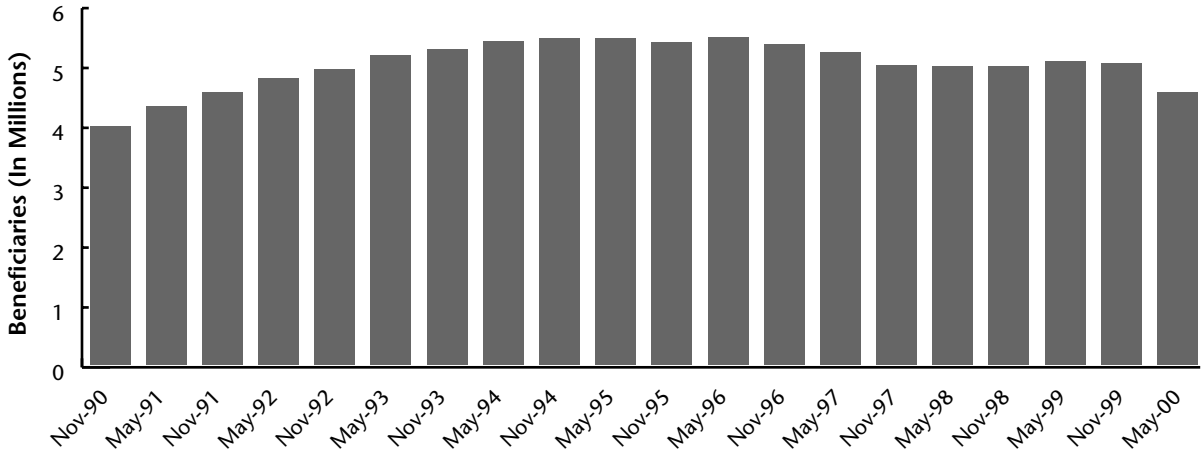
This increase in the number of TARs received can be attributed to the fact that, in November 1994, the law reduced the limit of prescriptions from 10 to 6 per month that an individual beneficiary could receive before a drug TAR had to be submitted. In addition, according to the Department of Health Services' (department) chief of the Northern Pharmacy Section, the drug TARs have also increased because beneficiaries with more severe illnesses remain with the California Medical Assistance Program (Medi-Cal) instead of transferring to managed care, which does not require TARs. Also, according to the chief, there is a trend toward

giving medication and care outside of a hospital setting. Moreover, as shown in Figure 2, although the number of Medi-Cal beneficiaries has decreased from its high point in 1995, the number is still higher than during the first review period.

From December 1999 through May 2000, the department received 154,684 (30.7 percent) more drug TARs than it did during our previous review period of December 1997 through May 1998. However, compared to the previous review period, the number of eligible Medi-Cal beneficiaries declined by 8.7 percent during December 1999 through May 2000. Figure 2 illustrates the total number of eligible Medi-Cal beneficiaries at the end of each six-month review period from June 1990 through May 2000.

FIGURE 2

Medi-Cal Beneficiaries at the End of Each Review Period
November 1990 Through May 2000

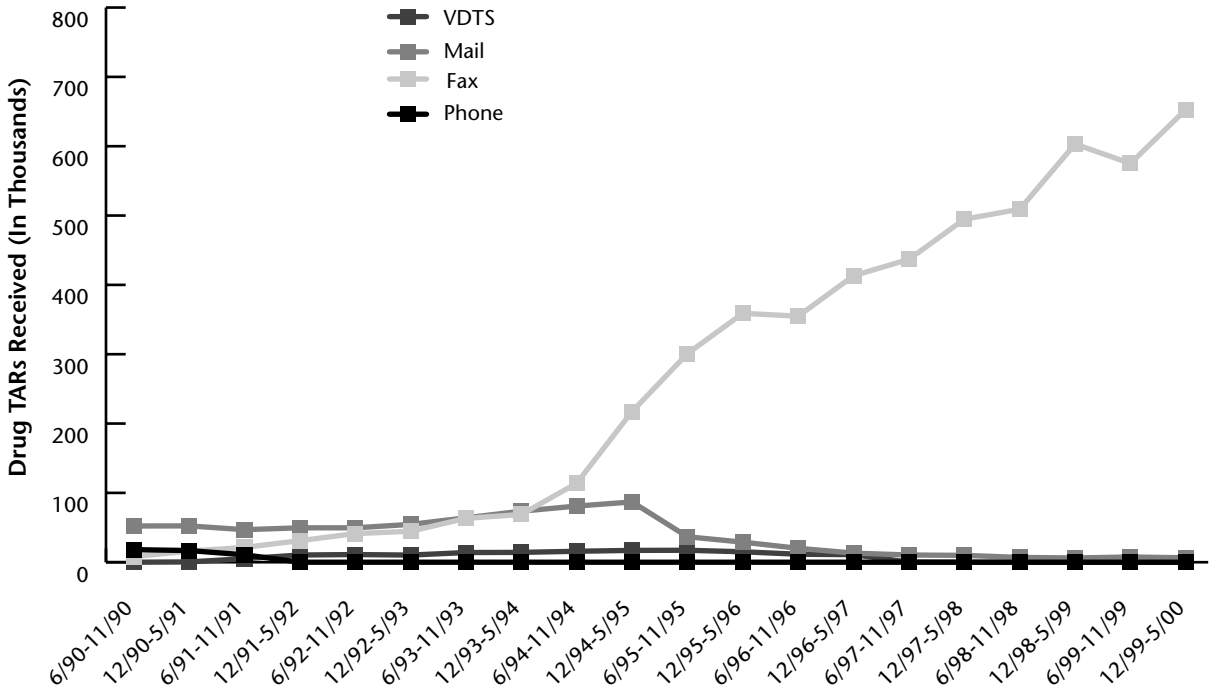


DRUG PROVIDERS SUBMIT MOST DRUG TARS BY FAX

As Figure 3 below shows, drug providers continue to submit most drug TARs by fax. From June 1998 through May 2000, drug providers faxed to the department 98.9 percent of all drug TARs. The department received 158,169 more drug TARs by fax from December 1999 through May 2000, an increase of 32 percent over our previous review period of December 1997 through May 1998. See the Appendix, Table 2, for details about changes in volume by type of submission method between the first and current review periods.

FIGURE 3

Methods of Receiving Drug TARs During Each Six-Month Review Period June 1990-November 1990 Through December 1999-May 2000



The continued decrease in mailed drug TARs is linked to a policy change. Before April 1995, the department allowed drug providers to submit by fax or the Voice Drug TAR System (VDTS) only those drug TARs for initial supplies of prescribed drugs and drugs that beneficiaries urgently needed. Beginning in April 1995, however, the department allowed drug providers to fax all drug TARs. Also, the department ceased accepting drug TARs by VDTS effective June 1997.

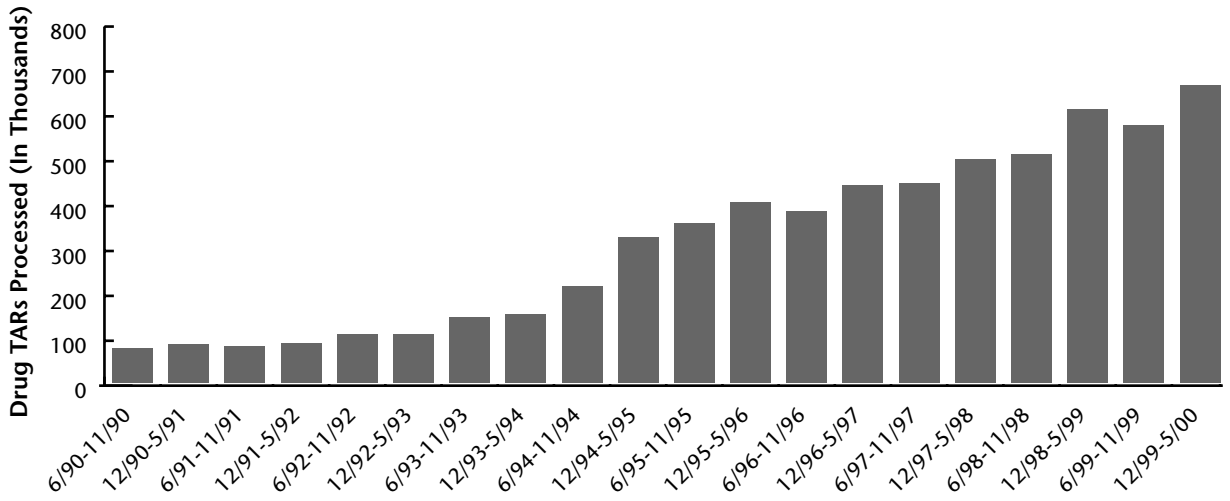
This decrease in mailed drug TARs was first noted during the June 1995 through November 1995 reporting period when the TARs mailed to the drug units dropped 57.5 percent. In the six-month period from December 1999 through May 2000, 6,401 drug TARs were mailed, a decrease of 3,485 (35 percent) from December 1997 through May 1998, the previous six-month period we reviewed.

THE NUMBER OF DRUG TARS PROCESSED INCREASES WITH THE NUMBER RECEIVED

Figure 4 displays the number of drug TARs processed during each six-month period from June 1990 through May 2000. During the first review period, the drug units processed 77,282 drug TARs. In comparison, from December 1999 through May 2000, they processed 662,288, an increase of 585,006 (757 percent). This current amount also represents the most activity since June 1990 through November 1990.

FIGURE 4

Drug TARs Processed During Each Six-Month Review Period
June 1990-November 1990 Through December 1999-May 2000



The increase in the drug TARs processed during December 1999 through May 2000 is directly related to the 740 percent increase in the number received since the first period of our review, June 1990 through November 1990. This relationship also existed for the remaining three six-month periods covered in this review.

Of the 662,288 drug TARs processed from December 1999 through May 2000, 81.1 percent were approved, 3.7 percent were modified, 9.3 percent were denied, and 5.8 percent were returned to the drug provider for further information.

The Appendix, Table 3, presents a comparison of the number of drug TARs the department processed during our first reporting period, June 1990 through November 1990, and from June 1998

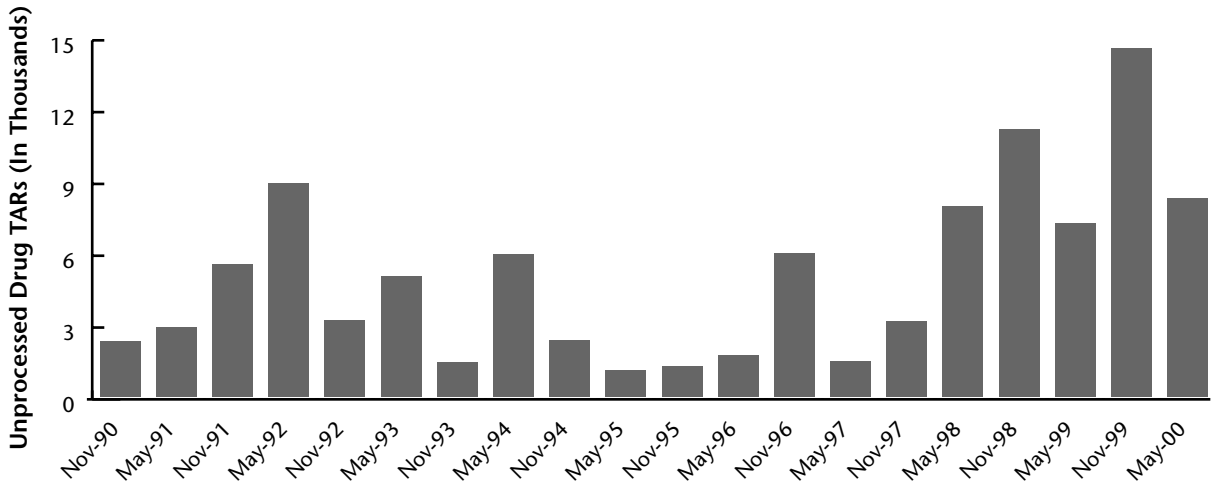
through May 2000, the current review period. The Appendix, Table 4, compares the number of drug TARs approved, modified, denied, and returned from June 1990 through November 1990, and from June 1998 through May 2000.

THE BACKLOG OF UNPROCESSED DRUG TARS FLUCTUATES SIGNIFICANTLY

As Figure 5 indicates, the department had backlogs of drug TARs at the end of each six-month review period from June 1990 through May 2000. Backlogged TARs are received and logged in by the department but not fully processed as of 5 p.m. on the workday received. Department policy requires that all drug TARs included in a specific workday's backlog be processed by 5 p.m. of the following workday. During our current review period of June 1998 through May 2000, the number of unprocessed drug TARs on the last workday of each review period fluctuated from a high of 14,563 on November 30, 1999, to a low of 7,239 on May 31, 1999. The number of unprocessed drug TARs on the last workday of the current review period was 8,291. This amount is 340 drug TARs (4.3 percent) more than the 7,951 backlogged TARs on May 29, 1998, the last workday of our previous review period. The Appendix, Table 3, provides detailed information on the number of unprocessed drug TARs at month's end from June 1990 through November 1990, and from June 1998 through May 2000.

FIGURE 5

Unprocessed Drug TARs at the End of Each Six-Month Review Period November 1990 Through May 2000



Historically, both the Los Angeles and Stockton drug units have received large volumes of drug TARs at the end of each month. Drug providers also submit more drug TARs than usual prior to weekends or holidays. Both drug units are aware of these increases and told us that they plan for sufficient personnel, including pharmacists, data-entry staff, and any other necessary staff, at these times to process the larger volume quickly and properly.

According to the department's chief of the Northern Pharmacy Section, the backlog during the period of our review was partly caused by the increase in drug TARs received and partly by a lack of available Electronic Data Systems (EDS) staff. EDS staff enter drug TARs into the system before forwarding them to the consultants. Consultants adjudicate a drug TAR, then enter the decision into the department's computer system. This decision is available to the drug provider at this time via the department's toll-free Provider Telecommunications Network. By accessing the network, the drug provider can determine the status of the drug TAR and take appropriate action for the beneficiary before receiving the formal copy of the fully processed drug TAR.

After the consultant enters the decision in the system, the TAR is returned to EDS staff for the final data entry. At this point, the department considers the drug TAR fully processed, and only then can the drug provider submit a claim for payment. The department then faxes or mails the drug provider a copy of the drug TAR documenting its status.

According to the staff of the drug units, employee absences occasionally kept the EDS staff from working full-time on drug TAR processing, which may have contributed to the increase in the backlog. To cover for these absences, EDS hired temporary employees. However, the temporary employees required training and extra time before they were fully productive.

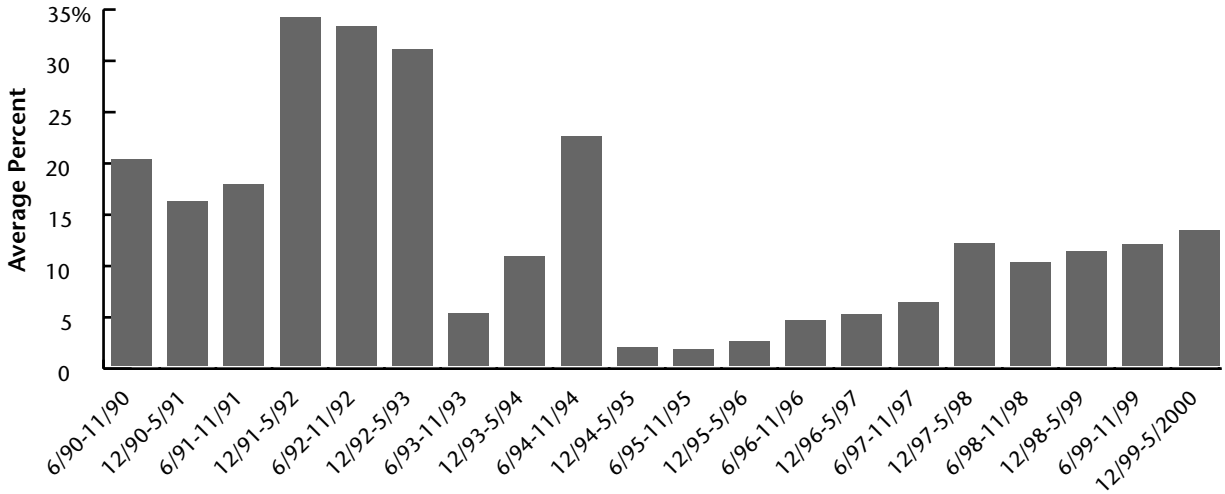
EDS' contract with the department provides leeway in the time frame in which EDS can complete the data entry of TARs, contributing to the backlog of unprocessed drug TARs.

Under its contract with the department, EDS has some leeway in the time it is allowed to input drug TARs. The department's current contract with EDS allows up to 24 hours for final data entry of 80 percent of the adjudicated TARs and up to three workdays to process 99 percent. The contract also allows between one and two workdays to enter TARs when they are first received. EDS could therefore take up to five workdays to complete data-entry activities. This clearly exceeds the department's policy of processing a TAR within one workday. The latitude provided by these contract provisions may contribute to a larger backlog of unprocessed TARs.

Figure 6 depicts the average percentage of unprocessed drug TARs at month's end for all review periods. The average percentage of unprocessed drug TARs during each six-month review period has ranged from 10.1 percent to 13.2 percent. These percentages—while lower than the high of 34 percent during December 1991 through May 1992—are significantly higher than the 1.6 percent of unprocessed TARs found during June 1995 through November 1995. The average month-end backlog of 11.6 percent and 11.9 percent for the current and previous review periods, respectively, indicate the need for the department and drug units to continually be attentive to obstacles preventing the prompt processing of drug TARs.

FIGURE 6

Average Percentage of Unprocessed Drug TARs Received During Each Six-Month Review Period June 1990-November 1990 Through December 1999-May 2000



THE DEPARTMENT'S POLICY GOVERNING TIME LIMITS IS NOT AS STRICT AS FEDERAL POLICY

Section 1927(d)(5) of the federal Social Security Act of 1990 requires states to respond to all drug TARs within 24 hours of receipt regardless of how they are delivered to the department. The federal Department of Health and Human Services' Health Care Financing Administration (HCFA) upholds this position.

Prior to April 1995, the department used Section 14103.6 of the Welfare and Institutions Code as its standard. This section requires that the department's pharmaceutical consultants process drug

TARs in an average of five workdays. The department defines a workday as one in which the Medi-Cal drug unit is open for business and excludes Saturdays, Sundays, and state holidays. This section also states that if the pharmaceutical consultant does not make a decision on a drug TAR within 30 days of receipt, the request is considered approved.

In April 1995, the department changed its policy to conform more closely to federal requirements and directed the drug units to process all drug TARs within one workday. The department interpreted this to mean that any drug TAR received before 5 p.m. on a workday should be processed by 5 p.m. the following workday. Its new policy has had the greatest impact on mailed-in drug TARs, as previous policy allowed staff five workdays to process mail requests, though they processed those received by fax within 24 hours.

The department's policy does not require its staff to process drug TARs within 24 hours.

Although the department's current policy conforms more closely to federal regulations, it still does not require processing within 24 hours. For example, if the department receives a drug TAR at 10 a.m. on a Thursday, under the new policy, staff might not complete the processing until 5 p.m. on Friday, 31 hours later. In another example, a drug TAR received after 5 p.m. on the first workday of the month is considered received on the second workday of the month. The decision rendered on that drug TAR must be available to the drug provider no later than 5 p.m. on the third workday of the month, a possible elapsed time of almost 48 hours.

During previous audits, HCFA informed us it would issue a formal opinion on the department's new policies. However, in June 1997, a representative stated that HCFA did not plan to issue a formal opinion. HCFA still upholds the 24-hour processing time, but acknowledges that in some cases processing time for drug TARs will exceed 24 hours—for example, when the department receives them during nonbusiness hours. In these cases, HCFA allows the department to exceed the federally mandated processing time as long as emergency drugs are still available to beneficiaries. The California Code of Regulations, Title 22, Section 51056, exempts emergency services from prior authorization. Accordingly, the department does not require a drug TAR for emergency situations.

PROCESSING TIMES EXCEED TIMELINES ESTABLISHED IN DEPARTMENT POLICY

We reviewed 2,711 drug TARs that were faxed or mailed to the drug units from December 1999 through May 2000. The units processed 2,096 (77.3 percent) within one workday. For the other 615 TARs (22.7 percent), the units did not fully process the TAR within one workday. Of the 615 TARs, the decisions on 366 were not available within one workday.

Once the department's pharmaceutical consultants reach a decision on a TAR, the decision is immediately logged into a database and available to drug providers via the department's Provider Telecommunications Network. The consultant then handwrites the time of the review on the cover sheet used to batch TARs together for processing. This handwritten time confirms the department's compliance with its own requirement to process a TAR before 5 p.m. on the workday following receipt of the drug TAR.

The Stockton drug unit took two to three workdays following receipt to fully process 591 of the drug TARs faxed to it. This length of time exceeds the goal established in the department's policy to fully process a TAR within one workday. For 366 of these drug TARs, 13 percent of our sample, the consultants' decisions were not available to the drug providers within that time frame. For the remaining 225 of these drug TARs, the consultants' decisions were available to providers through the Provider Telecommunications Network within one workday.

For 366 of 2,711 drug TARs, the consultants' decisions were not available to drug providers within one workday.

The Stockton drug unit did not fully process the 591 drug TARs because the department's contractor had not yet completed a post-review, the final step in the processing of a drug TAR. Until the final step is complete, the drug provider is unable to submit a claim to the department for the cost of the prescription. According to the department's chief of the Northern Pharmacy Section, these delays were caused by the lack of available EDS staff during our review period of December 1999 through May 2000.

The Los Angeles drug unit also took two to five workdays to fully process 24 of the drug TARs mailed to the unit. However, for all 24, the consultants' decisions were available to the drug providers within one workday.

EDS is responsible for the initial as well as the final data entry of the drug TARs reviewed by the pharmaceutical consultants. A higher volume of submissions creates a backlog in data entry and increases the overall turnaround time. Additionally, according to the chief of the department's Northern Pharmacy Section, because of a staff shortage, the Stockton drug unit decided to focus the available EDS staff on initial data entry, rather than on post-reviews, so the department's consultants could make decisions on the drug TARs available to the drug providers within one workday. This staff shortage contributed to the backlog of drug TARs awaiting EDS. To meet the one-day deadline, when the department has decided to deny TARs, it instructs the pharmaceutical consultants to inform the drug providers directly. The consultants then contact the drug providers by phone to inform them if any drug TARs are denied. The department does not feel the need to inform the drug providers about the delayed drug TARs that it plans to approve because the drug providers and the beneficiaries will not be adversely affected.

The department expects to implement a redesigned drug TARs system by the fall of 2000.

In 1999, the department expected to implement a redesigned TARs system that would include the option for the drug provider to submit drug TARs electronically. However, the department now anticipates implementing the system by the fall of 2000. The new system will not accept incomplete TARs. The department hopes that immediately rejecting those TARs will reduce the number of TARs that consultants currently must deny, modify, or defer. Additionally, the combination of the new system's faster speed and the redesign of the manner in which the information is presented should improve the overall response time.

In prior reporting periods, the drug units calculated the time it took to process drug TARs to ensure that they complied with state requirements, and we validated their calculations. However, in March 1996, the department conducted a study concluding that the method used to prepare the calculations was inefficient, so it directed the drug units to stop using this method. Although the study suggested an alternative, the department is not planning to implement an interim method because of the upcoming system redesign, which will also include an automated calculation of processing times.

DRUG TAR STATISTICS APPEAR REASONABLE

To assess the accuracy of the department's compilation of drug TAR statistics, we sampled statistics for four months within our current review period of June 1998 through May 2000. The department maintains daily batch-entry logs that document the drug TARs it has processed. We compared the totals on the batch-entry logs to the statistics on the department's compilation. We also compared the reported number of drug TARs per the selected batch-entry logs to the actual number of drug TARs maintained at the drug units. We found that the department's compilation is reasonably accurate.

THE VOLUME OF DRUG TAR FAIR HEARING REQUESTS HAS FLUCTUATED SIGNIFICANTLY

Section 14105.42 of the Welfare and Institutions Code requires the department to report to the Legislature the number of fair hearings requested, approved, denied, and pending for all denied drug TARs. Beneficiaries request fair hearings through the Department of Social Services. Table 1 depicts the fluctuations in the volume of fair hearing requests during our current review period of June 1998 through May 2000.

TABLE 1

Fair Hearing Requests
June 1998 Through May 2000

Period	Total Requests	Withdrawn	Denied	Approved	Pending	Dismissed
06/98-11/98	137	88	7	16	1	25
12/98-05/99	333*	193	23	42	1	74
06/99-11/99	132	82	6	22	2	20
12/99-05/00	103	50	14	21	5	13
Totals	**705**	**413**	**50**	**101**	**9**	**132**

* This number includes 82 requests from the patients of a single physician who is no longer a Medi-Cal provider.

The 103 fair hearing requests submitted during December 1999 through May 2000 represents a decrease of 22 (17.6 percent) since our previous review of December 1997 through May 1998.

STATUS OF PRIOR AUDIT'S RECOMMENDATIONS

The department has not fully implemented all recommendations in our last report, which was issued in August 1998. The department has not closely monitored the staffing of data-entry personnel, been able to negotiate a new contract with a turnaround time for drug TARs of one workday, and reinstated procedures for monitoring processing times. The department, however, indicates that it has developed a system to address problems with computer and data-transmission equipment.

To ensure timely processing of drug TARs, the department states that it has some procedures in place to assess the need for key data-entry staff and adjust staffing levels accordingly. However, as noted in the previous sections of this report, the increase in the number of backlogged TARs, as well as late processing times of TARs, is partly caused by a lack of available data-entry personnel. Therefore, the department needs to more closely monitor the scheduling of its staff to ensure prompt processing of drug TARs within the required time frame.

In addition, the department has not been able to negotiate a new contract with EDS stipulating a turnaround time for drug TARs of one workday because the contract that was in effect during our previous review has not yet expired. Nor has it amended the current contract. The department states that a redesigned TARs system, to be implemented by the fall of 2000, is expected to shorten the TARs processing time. However, as reported in the previous sections of this report, the department must ensure that EDS completes data-entry activities within one workday, as the department's policy requires. When the current contract expires in approximately a year-and-a-half, the department does plan to negotiate a new contract with EDS that more closely reflects the department's policy on turnaround time.

Moreover, the department has not yet implemented the recommendation to reinstate procedures for monitoring processing times. The department states that it will begin doing so with the commencement of the new TAR system, which features an automated method to measure processing times.

To continue to investigate problems with computer and data-transmission equipment for both drug units, the department states that it has developed a system to quickly incorporate

backup equipment in the event of a breakdown. Additionally, the Los Angeles drug unit is in the process of moving to a new office with new equipment.

RECOMMENDATIONS

As recommended in our last report, the department should take the following steps to ensure that it is promptly processing drug TARs:

- Continue to more closely monitor the scheduling of data-entry staff to ensure that the department can process within the required time frame the estimated number of drug TARs it will receive.
- When the current contract with EDS expires, negotiate a new contract with a turnaround time for drug TARs of one work-day.
- Ensure that its new system includes comprehensive procedures for monitoring processing times.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

MARY P. NOBLE
Acting State Auditor

Date: August 1, 2000

Staff: Philip Jelicich, CPA, Deputy State Auditor
Nasir Ahmadi, CPA
Amy Anderson
Leah Northrop

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APPENDIX

Method of Delivery, Number Processed, and Decisions Made for Drug TARs

TABLE 2

Drug TARs Received by Means of Delivery
June 1990 Through November 1990 and June 1998 Through May 2000

	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	April	May	Totals
1990													
Tel.	3,989	3,225	3,126	2,358	2,955	2,483							**18,136**
FAX	0	985	1,561	1,646	2,064	1,849							**8,105**
Mail	10,125	9,990	8,679	7,517	8,340	7,606							**52,257**
Totals	**14,114**	**14,200**	**13,366**	**11,521**	**13,359**	**11,938**							**78,498**
1998													
Tel.	0	0	0	0	0	0							**0**
FAX	87,447	87,381	79,251	84,617	90,833	79,580							**509,109**
Mail	1,218	1,244	1,240	1,041	1,132	1,017							**6,892**
Totals	**88,665**	**88,625**	**80,491**	**85,658**	**91,965**	**80,597**							**516,001**
1998-99													
Tel.							0	0	0	0	0	0	**0**
FAX							96,034	99,392	103,369	119,158	98,395	86,762	**603,110**
Mail							1,136	1,093	1,127	1,165	851	751	**6,123**
Totals							**97,170**	**100,485**	**104,496**	**120,323**	**99,246**	**87,513**	**609,233**
1999													
Tel.	0	0	0	0	0	0							**0**
FAX	99,513	94,270	97,931	95,551	93,601	94,304							**575,170**
Mail	769	782	783	1,841	1,652	1,726							**7,553**
Totals	**100,282**	**95,052**	**98,714**	**97,392**	**95,253**	**96,030**							**582,724**
1999-2000													
Tel.							0	0	0	0	0	0	**0**
FAX							110,105	106,885	102,576	121,270	99,008	113,083	**652,927**
Mail							2,106	952	842	765	639	1,097	**6,401**
Totals							**112,211**	**107,837**	**103,418**	**122,035**	**99,647**	**114,180**	**659,328**

TABLE 3

Drug TARs Processed
June 1990 Through November 1990 and June 1998 Through May 2000

	June	July	Aug	Sep	Oct	Nov*	Dec	Jan	Feb	Mar	April	May	Totals
1990													
Unprocessed TARs at beginning of month	2,160	3,259	3,295	2,159	2,286	1,477							**14,636**
TARs received during month	14,114	14,200	13,366	11,521	13,359	11,938							**78,498**
Total ready for processing	16,274	17,459	16,661	13,680	15,645	13,415							**93,134**
Total processed during month	13,015	14,164	14,502	11,394	13,103	11,104							**77,282**
Unprocessed TARs†	3,259	3,295	2,159	2,286	2,542	2,311							**15,852**
Percentage of TARs processed	79.97%	81.13%	87.04%	83.29%	83.75%	82.77%							
1998													
Unprocessed TARs at beginning of month	7,951	8,704	4,443	4,274	8,151	15,140							**48,663**
TARs received during month	88,665	88,625	80,491	85,658	91,965	80,597							**516,001**
Total ready for processing	96,616	97,329	84,934	89,932	100,116	95,737							**564,664**
Total processed during month	87,444	92,492	80,393	81,473	84,535	83,804							**510,141**
Unprocessed TARs†	8,704	4,443	4,274	8,151	15,140	11,186							**51,898**
Percentage of TARs processed	90.50%	95.03%	94.65%	90.59%	84.44%	87.54%							
1998-99													
Unprocessed TARs at beginning of month							11,186	5,637	12,837	23,802	12,086	6,675	**72,223**
TARs received during month							97,170	100,485	104,496	120,323	99,246	87,513	**609,233**
Total ready for processing							108,356	106,122	117,333	144,125	111,332	94,188	**681,456**
Total processed during month							102,058	93,032	93,064	131,298	104,253	86,627	**610,332**
Unprocessed TARs†							5,637	12,837	23,802	12,086	6,675	7,239	**68,276**
Percentage of TARs processed							94.19%	87.67%	79.32%	91.10%	93.64%	91.97%	

	June	July	Aug	Sep	Oct	Nov*	Dec	Jan	Feb	Mar	April	May	Totals
1999													
Unprocessed TARs at beginning of month	7,239	13,047	5,535	8,297	12,230	15,338							**61,686**
TARs received during month	100,282	95,052	98,714	97,393	95,253	96,030							**582,724**
Total ready for processing	107,521	108,099	104,249	105,690	107,483	111,368							**644,410**
Total processed during month	94,135	102,011	95,636	93,123	91,587	96,279							**572,771**
Unprocessed TARs†	13,047	5,535	8,297	12,230	15,338	14,563							**69,010**
Percentage of TARs processed	87.55%	94.37%	91.74%	88.11%	85.21%	86.45%							
1999-2000													
Unprocessed TARs at beginning of month							14,563	19,256	23,887	17,500	11,355	6,907	**94,045**
TARs received during month							112,211	107,837	103,418	122,035	99,647	114,180	**659,328**
Total ready for processing							126,774	127,093	127,305	139,535	111,002	121,077	**752,796**
Total processed during month							106,973	102,655	108,974	127,547	103,689	112,450	**662,288**
Unprocessed TARs†							19,256	23,887	17,500	11,355	6,907	8,291	**87,196**
Percentage of TARs processed							84.38%	80.77%	85.60%	91.40%	93.41%	92.87%	

Source: Department of Health Services

* The number of unprocessed drug TARs at the end of October 1990 does not match the number of unprocessed drug TARs at the beginning of November 1990. The manager of the San Francisco drug unit, which has since been closed, stated that unit staff did a hand count of the actual unprocessed drug TARs at the end of October 1990 and found the unit's accounting records overstated by 1,065, the number of unprocessed drug TARs at the end of the month. Because of this finding, unit staff adjusted the number of unprocessed drug TARs reported at the beginning of November.

† The amounts in these rows should equal the amount of TARs available to be processed less the total processed during the month. However, the department's records for unprocessed TARs reflect an amount different from this calculation. The above amount is a snapshot of actual unprocessed TARs on the last day of the month. The department stated that the difference is due to reporting procedure variances caused by TARs that are returned to the provider and later resubmitted. For example, a TAR received and returned in one month, and later resubmitted and processed in the same month, would be reported as received twice but processed only once.

TABLE 4

Drug TARs Approved, Modified, Denied, and Returned
June 1990 Through November 1990 and June 1998 Through May 2000

	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	April	May	Totals
1990													
Approved*	9,350	9,169	8,980	7,222	8,377	7,033							**50,131**
Modified*	2,001	2,008	2,650	1,847	2,215	1,811							**12,532**
Denied*	1,226	1,361	2,045	1,565	1,698	1,455							**9,350**
Returned*	438	1,626	827	760	813	805							**5,269**
Totals	**13,015**	**14,164**	**14,502**	**11,394**	**13,103**	**11,104**							**77,282**
1998													
Approved*	69,396	73,037	63,225	64,402	67,184	65,656							**402,900**
Modified*	2,791	3,115	2,603	2,569	2,798	2,857							**16,733**
Denied*	7,777	8,629	7,256	7,152	7,311	7,740							**45,865**
Returned*	7,480	7,711	7,309	7,350	7,242	7,551							**44,643**
Totals	**87,444**	**92,492**	**80,393**	**81,473**	**84,535**	**83,804**							**510,141**
1998-99													
Approved*							79,654	72,199	72,691	101,850	80,508	67,482	**474,384**
Modified*							3,937	3,350	2,817	4,632	4,168	3,162	**22,066**
Denied*							10,770	10,655	10,838	16,089	11,936	9,029	**69,317**
Returned*							7,697	6,828	6,718	8,727	7,641	6,954	**44,565**
Totals							**102,058**	**93,032**	**93,064**	**131,298**	**104,253**	**86,627**	**610,332**
1999													
Approved*	73,728	79,672	74,163	73,035	72,045	76,284							**448,927**
Modified*	3,587	3,702	3,489	3,529	3,613	3,675							**21,595**
Denied*	9,703	10,553	10,500	9,544	9,515	9,850							**59,665**
Returned*	7,117	8,084	7,484	7,015	6,414	6,470							**42,584**
Totals	**94,135**	**102,011**	**95,636**	**93,123**	**91,587**	**96,279**							**572,771**
1999-2000													
Approved*							86,520	83,357	88,191	104,497	83,403	91,308	**537,276**
Modified*							4,151	4,062	4,144	4,489	3,778	3,907	**24,531**
Denied*							9,833	9,384	10,421	11,511	10,249	10,473	**61,871**
Returned*							6,469	5,852	6,218	7,050	6,259	6,762	**38,610**
Totals							**106,973**	**102,655**	**108,974**	**127,547**	**103,689**	**112,450**	**662,288**

Source: Department of Health Services

* An approved drug TAR is authorized as submitted. A modified drug TAR is changed by the drug unit in some way and then approved (for example, a change in the quantity of the drug requested, a change in the time for which the drug is approved, or the denial of or change to one drug request on a drug TAR with several requests). A denied drug TAR is rejected as submitted. A returned drug TAR lacks sufficient information to make a decision, and the drug unit returns it to the provider for clarification.

Agency's comments provided as text only.

Health and Human Services Agency
Grantland Johnson, Secretary
1600 Ninth Street, Rm 460
Sacramento, CA 95814

July 20, 2000

Mary P. Noble*
Acting State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Noble:

Thank you forwarding for my review and comment a draft copy of the Bureau of State Audits' report entitled, *"Department of Health Services: Drug Treatment Authorization Requests Continue to Increase."* I am forwarding to you the Department of Health Services' (DHS) comments on the audit findings and understand that DHS has begun taking steps to address issues raised in the Bureau's report.

Thank you once again for sharing a draft copy of your findings with me. If you require further information concerning DHS' Drug Treatment Authorization Request activities, please do not hesitate to contact me directly. You may also contact Diana Bontá, the Director for the Department of Health Services, at (916) 657-1425 to assist you.

Sincerely,

(Signed by: Grantland Johnson)

Grantland Johnson
Secretary
California Health & Human Services Agency

*California State Auditor's comments on this response appear on page 31.

Department of Health Services
714 P Street
Sacramento, Ca 95814

Ms. Mary P. Noble
Acting State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Noble:

Thank you for the opportunity to comment on the draft of your most recent audit of the Medi-Cal Pharmacy Sections, as mandated by Chapter 716, Statutes of 1992, regarding the processing of drug Treatment Authorization Requests (TARs). While we concur with the findings included in your report, we would like to clarify some of the points raised.

In April 1995, the Department of Health Services entered into an agreement with representatives of various patient advocacy groups regarding the processing of drug TARs. The Department's policy regarding drug TAR turnaround time, reflected in this agreement, was promulgated to Medi-Cal providers in Medi-Cal Pharmacy Bulletin No. 363, dated March 1995. This policy states in part that "decisions rendered on all drug TARs will be available to the submitters of those TARs no later than 5 p.m. on the business day following the business day of receipt of the TAR." The decisions rendered on such drug TARs are available to the submitters of those TARs via the toll-free Provider Telecommunications Network as soon as those decisions have been entered into the automated TAR processing system by the Medi-Cal Consultants, as the final step in the review and adjudication of such drug TARs.

While it is true that the provider (i.e., the dispensing pharmacy) cannot submit a claim for payment for the prescription(s) dispensed until final data entry has been performed on adjudicated drug TARs by the Medi-Cal fiscal intermediary, the availability of the decision rendered on a drug TAR enables the pharmacy provider to dispense the prescription(s) with the knowledge that the Medi-Cal program has agreed to pay for the prescription(s). Once final data entry is performed by fiscal intermediary staff, a claim for payment may be submitted by the provider.

We agree that understaffing of the Field Office Automation Group key data entry staff delays all phases of TAR processing and could result in the Pharmacy Sections not meeting mandated turnaround time. As indicated in your report, TAR receipts have continued to increase, and daily TAR receipts fluctuate during the month, with a significant increase at the end of each month. This fluctuation makes it difficult to determine the correct number of key data entry staff that may be required to process the TARs in a timely manner on any given

day. Although we utilize temporary help to assist with the fluctuation in TAR receipts, the lack of sufficient staff may delay processing.

In addition, the Northern Pharmacy Section experienced a serious staffing shortage of contract Pharmaceutical Consultant staff, representing a vacancy rate of 30 percent, during the time period covered in this audit. The lack of sufficient Pharmaceutical Consultant staff was the primary cause of the Northern Pharmacy Section's inability to meet the TAR turnaround time mentioned in the report. To address the inability to hire sufficient Pharmacy staff in the Northern Pharmacy Section in Stockton, California, we have established a satellite office of the Northern Pharmacy Section in Sacramento to provide a larger pharmacist pool from which to recruit. We have also provided a list of potential pharmacist candidates to Electronic Data Systems to assist in their recruitment efforts for the contract consultant positions.

Page 14 of the draft report identifies 8,291 TARs as "backlogged" or "unprocessed." The term "unprocessed" is a misnomer since those figures are, in fact, a "snapshot in time" of the number of drug TARs awaiting final data entry on the last business day of a given month and are not indicative, in any way, of TARs received and adjudicated by the Pharmacy Sections. Of the 8,291 TARs identified as "unprocessed" in the report, the majority of them had been adjudicated by Pharmaceutical Consultants and the decision was available to the provider by the "5 p.m. next business day" deadline. A small number of those TARs were "awaiting consultant review," but consisted of TARs received that business day to be adjudicated by 5 p.m. the next business day. (1)

We completely agree with the recommendations contained in the draft regarding the scheduling of data entry staff, the turnaround of TARs by the fiscal intermediary and computer and data transmission equipment. These items are being addressed in the redesign of the Medi-Cal TAR system, which will be implemented in the near future, and in the next reprocurement of the fiscal intermediary contract.

I hope this serves to clarify the Medi-Cal Operations Division's policies and procedures regarding the processing, adjudication and turnaround of drug TARs. If you have any additional questions or concerns, please feel free to contact Mr. Virgil J. Toney, Jr., Chief, Medi-Cal Operations Division, at (916) 323-0081. Again, thank you for the opportunity to comment.

Sincerely,

(Signed by: Diana M. Bontá)

Diana M. Bontá, R.N., Dr.P.H.
Director

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COMMENTS

California State Auditor's Comments on the Response From the Department of Health Services

To provide clarity and perspective, we are commenting on the Department of Health Services' (department) response to our audit report. The number corresponds to the number we have placed in the response.

(1) The department is correct in stating that the backlogged or unprocessed drug treatment authorization requests (TARs) are not necessarily late TARs. Page 13 of our report defines the backlogged drug TARs as received and logged in by the department but not fully processed as of 5 p.m. on the workday received.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press