

**Department of  
Health Services:  
Drug Treatment Authorization Requests  
Continue To Increase**

January 30, 1996

96011

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

Dear Governor and Legislative Leaders:

### ***Summary***

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**T**he Bureau of State Audits (BSA) presents the tenth in a series of semiannual reports evaluating the way 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).

This report focuses on the drug TARs processed during the six months from June 1995 through November 1995. During this six-month period, the department's processes for compiling drug TAR statistics were accurate. The department received 354,855 drug TARs from June to November 1995. This figure represents an increase of 276,357 (352 percent) received over the first six-month review period of June through November 1990 and is the highest level of activity since the beginning of these reviews. This increase was primarily due to changes in the governing code and a 41 percent increase in the number of people eligible to obtain drugs through Medi-Cal (from 3,675,000 to 5,165,590).

Of the drug TARs received from June 1995 through November 1995, the department processed 354,702. This figure represents an increase of 30,558 (10 percent) over the prior six-month period from December 1994 through May 1995. In November 1990, the department's backlog

consisted of 2,311 unprocessed drug TARs. In comparison, the backlog in November 1995 was only 1,266 drug TARs. Both of the department's drug units (located in Stockton and Los Angeles) met the state requirement for processing mailed-in drug TARs in one working day. Based on samples of mailed-in drug TARs randomly selected at each drug unit, we found that the drug units met the requirement 100 percent of the time.

We also found that the drug units generally met the state requirement for processing fax and Voice Drug TAR System (VDTS) drug TARs within one working day. Based on samples of fax drug TARs randomly selected at each drug unit, we found that the Stockton drug unit met the requirement 99 percent of the time and the Los Angeles drug unit met the requirement 98 percent of the time. Based on a sample of VDTS drug TARs randomly selected at the Los Angeles drug unit, we found that the drug unit met the requirement 100 percent of the time. The Stockton drug unit did not process any VDTS drug TARs during the review period. We also found that the department's methods of measuring the time it takes to process a drug TAR were accurate.

From June 1995 through November 1995, 201 fair hearing requests to appeal denials of drug TARs were submitted to the Department of Social Services. This figure represents an increase of 117 (139 percent) over the prior review period, from December 1994 to May 1995. Of the 201 requests submitted, 151 (75 percent) were withdrawn or dismissed, 14 were denied, and 15 were approved. The decisions on the remaining 21 were still pending at the time of our review.

### ***Background***

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Authorized in 1965 under Title XIX of the Social Security Act, 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 administers Medi-Cal under the provisions of Title 22 of the California Code of Regulations; the state and federal governments jointly fund it.

Under Medi-Cal, beneficiaries may receive prescription drugs from a list the department has established. This list is known as the Medi-Cal list of contract drugs and includes drugs

from most therapeutic categories. Therapeutic categories are classifications of drugs addressing specific medical problems. These drugs include antibiotics, cardiac drugs, and gastrointestinal drugs. The provider, generally a pharmacist, must receive authorization to seek reimbursement for the cost of the drug when a doctor prescribes a drug that is not on the list of contract drugs or when the monthly limit of six prescriptions is exceeded. The provider's request for authorization is known as a TAR.

The department has two Medi-Cal drug units that process drug TARs, one in Los Angeles and the other in Stockton. Licensed pharmacist consultants employed by the department process drug TARs. Drug TARs can be submitted via fax, the department's VDTs, or mail.

The department implemented new policies in April 1995, one of which concerns drug TAR processing time. The policy now states that all drug TARs will be processed within one working day. Specifically, the department requires that any drug TAR received before 5 p.m. on a working day will be processed by 5 p.m. of the following working day. The department defines a working day as one during which the Medi-Cal Section is open for business and excludes Saturdays, Sundays, and state holidays. Before April 1995, the department's policy required the processing of all drug TARs received by fax and VDTs within 24 hours and the processing of mailed-in drug TARs within five working days.

The processing of TARs submitted by fax and mail is divided between the Los Angeles and Stockton drug units on a geographic basis. VDTs drug TARs are primarily processed in Los Angeles, although the Stockton drug unit may provide support to Los Angeles during peak workload periods. The Los Angeles drug unit employs more medical transcribers than the Stockton unit and is better able to handle drug TARs received by VDTs. During this review period, the Stockton drug unit did not process any VDTs drug TARs.

Mailed-in drug TARs are date stamped on the day received. Drug TARs received by fax or mail are reviewed by medical transcribers for completeness and then sent to the department's contractor, Electronic Data Systems (EDS), for key data entry. The drug TARs are then forwarded to the pharmaceutical consultants. The consultants process a drug TAR by approving, denying, approving with modifications, or

returning it to request further information from the provider. After a decision is made, the drug TAR is sent back to EDS for final key data entry. At this point, a copy of the drug TAR is returned to the provider.

Drug TAR information received by VDTS is retrieved by medical transcribers. The medical transcribers type the information onto drug TAR forms, which are forwarded to the pharmaceutical consultants who process and send them to EDS for final key

data entry. A copy of the drug TAR is mailed to the provider. The decision is also recorded on the VDTs, which the provider can access to determine the status of the request.

### ***Scope and Methodology***

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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 these data and a comparative analysis of the changes in the TAR process, using June 1990 through November 1990 as a base, to the Legislature beginning February 1, 1991, and every six months thereafter until January 1, 1999. Chapter 12, Statutes of 1993, (Government Code, Section 8546.8) directs the BSA to assume these responsibilities.

To fulfill these requirements, we did the following:

- Obtained statistical data from the department regarding drug TARs received by VDTs, fax, and mail as well as the number of drug TARs approved, modified, denied, and returned;
- Verified the drug units' processes for compiling monthly drug TAR statistics during the six months from June 1995 through November 1995;
- Conducted tests to determine if the Los Angeles and Stockton drug units are processing all drug TARs within one working day; and
- Reviewed the methods the drug units used for measuring the time it takes them to respond to a drug TAR from the time it is received at the drug unit to the time the drug unit returns the completed drug TAR to the provider.

To obtain data on the number of denied drug TARs that have been appealed to the Department of Social Services, we collected data from the drug units for June 1995 through November 1995.

### ***Drug TARs Received***

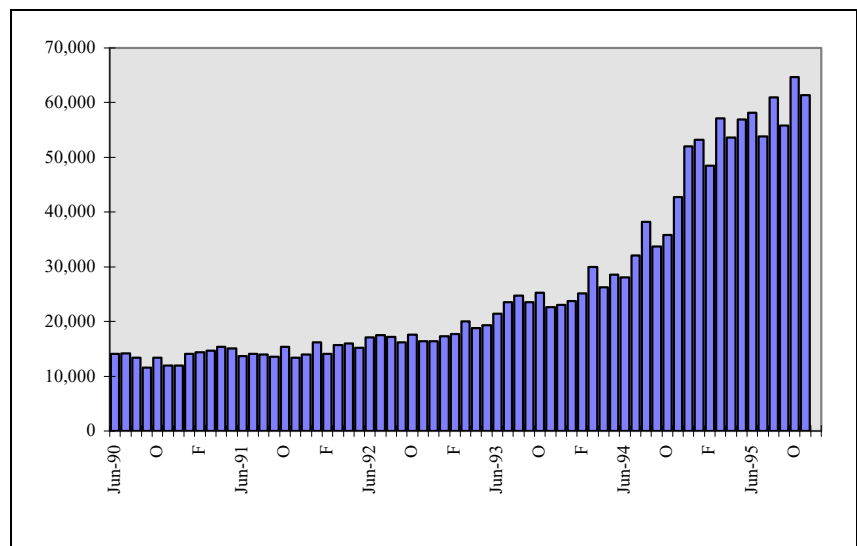
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As shown in Figure 1, the number of drug TARs received increased substantially from June 1990 through November 1995. The number of drug TARs increased significantly during the period from June 1995 through November 1995. During the first six months of the OAG's review, from June 1990 through November 1990, the drug units received 78,498 drug TARs. From June 1995 through November 1995, the drug units received 354,855 drug TARs, an increase of 276,357 (352 percent).

***Figure 1***

#### ***Number of Drug TARs Received Each Month June 1990 Through November 1995***

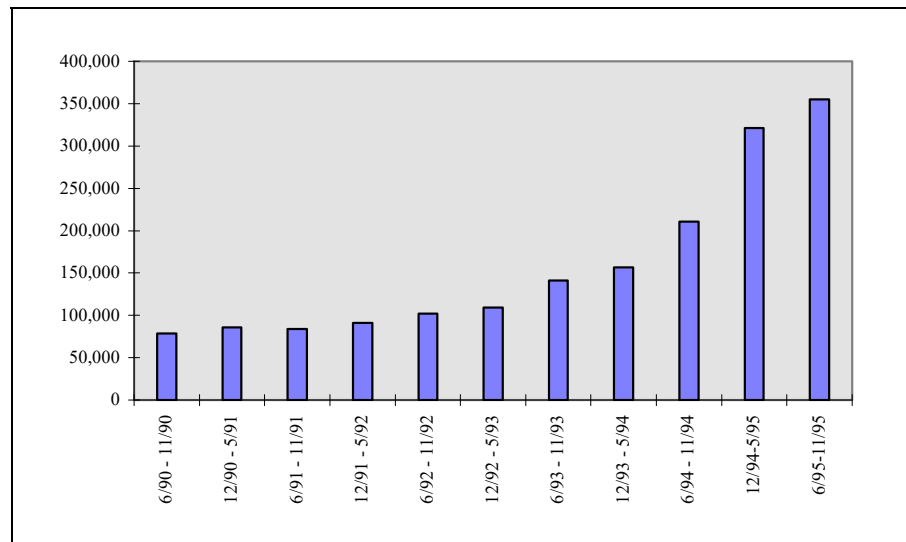
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Also, the number of drug TARs received from June 1995 through November 1995 exceeded drug TARs received over the previous six-month period by more than 33,493 (an increase of 10 percent), as shown in Figure 2. According to the chief of the department's Medi-Cal Operations Division, Northern Field Operations Branch, this increase was primarily attributable to a change in the governing code, which reduced the number of prescriptions allowed per month for each beneficiary from ten to six for most contract drugs. Whenever a beneficiary's monthly prescription limit is exceeded, a drug TAR is required to obtain reimbursement.

**Figure 2**

**Number of Drug TARs Received  
Every Six Months  
June 1990 Through November 1995**



As mentioned in the BSA's previous reports, the increase in the number of drug TARs received may also be partially attributable to the increase in the number of Medi-Cal beneficiaries.

In June 1990, the department reported 3,675,000 Medi-Cal beneficiaries. By November 1995, the number of beneficiaries had increased to 5,165,590 resulting in 1,490,590 (41 percent) more beneficiaries eligible to obtain drugs through Medi-Cal.

***Methods of Delivery***

As Figure 3 shows, from June 1995 through November 1995, the most common method of submitting drug TARs was by fax. During that period, faxed TARs increased from 217,347 to 300,920, representing a 38 percent increase over the prior period.

The department also experienced an increase in the number of VDTS drug TARs. From June 1991 through November

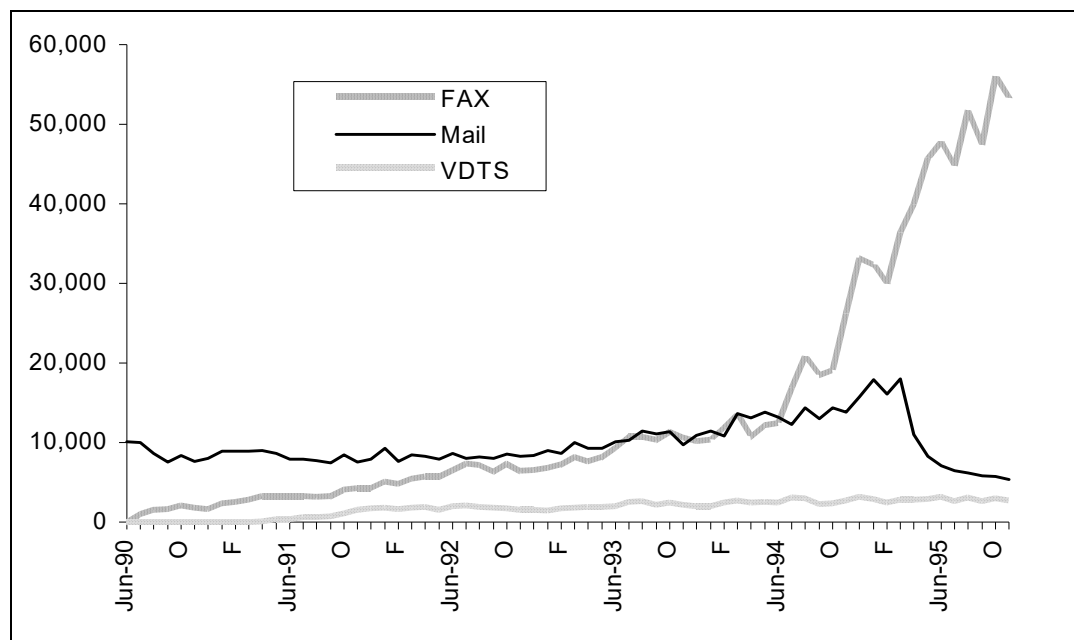


1991, the first period when VDTS was operational for a full six months, the department received 5,074 VDTS drug TARs. From June 1995 through November 1995, providers submitted 17,220 VDTS drug TARs (a 239 percent increase). From

December 1994 through May 1995, the department received 17,064 VDTs drug TARs, representing a relatively unchanged level of workload for VDTs drug TARs during the last 12 months.

From June 1995 through November 1995, only 36,715 drug TARs were mailed to the department. This is 50,236 fewer than during the prior reporting period, December 1994 through May 1995, when 86,951 were mailed in—a 58 percent decrease. The recent dramatic decrease in the number of mailed-in drug TARs is due to a policy change. Before April 1995, the department allowed providers to submit drug TARs by fax or VDTs only for initial supplies of prescribed drugs and for drugs that were urgently needed. Under the new policy, providers are allowed to fax all drug TARs to the drug units, which has resulted in the decrease in the number of mailed-in drug TARs and the increase in the number of fax drug TARs. Attachment A presents a comparison of drug TARs by method of delivery from June 1990 through November 1990 and from June 1995 through November 1995.

**Figure 3**  
**Methods of Receiving Drug TARs Each Month**  
**June 1990 Through November 1995**





### ***Drug TARs Processed***

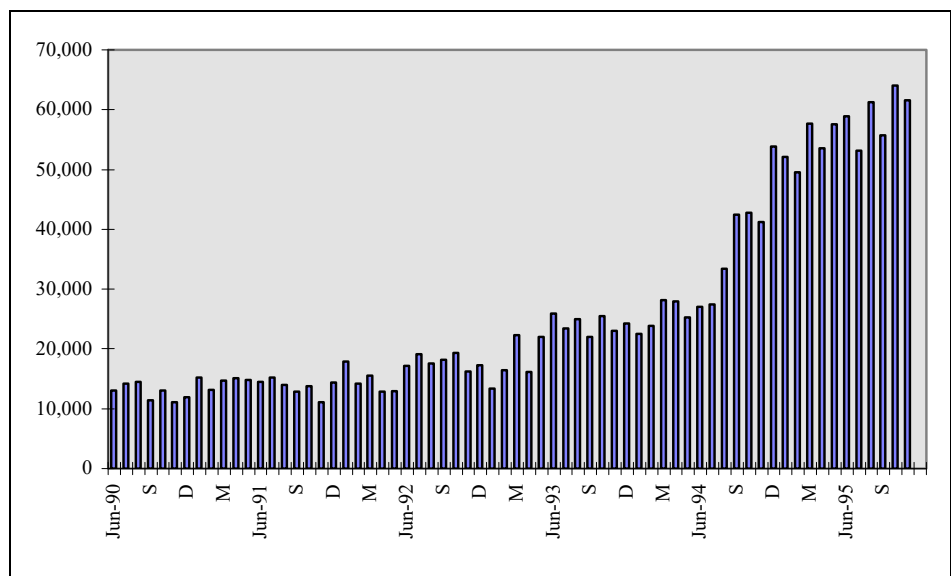
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Figure 4 shows the number of drug TARs processed each month from June 1990 through November 1995. During the first six months of the OAG's review, from June 1990 through November 1990, the drug units processed 77,282 drug TARs. In comparison, from June 1995 through November 1995, the drug units processed 354,702 drug TARs, an increase of more than 277,420 (359 percent).

**Figure 4**

#### ***Number of Drug TARs Processed Each Month June 1990 Through November 1995***

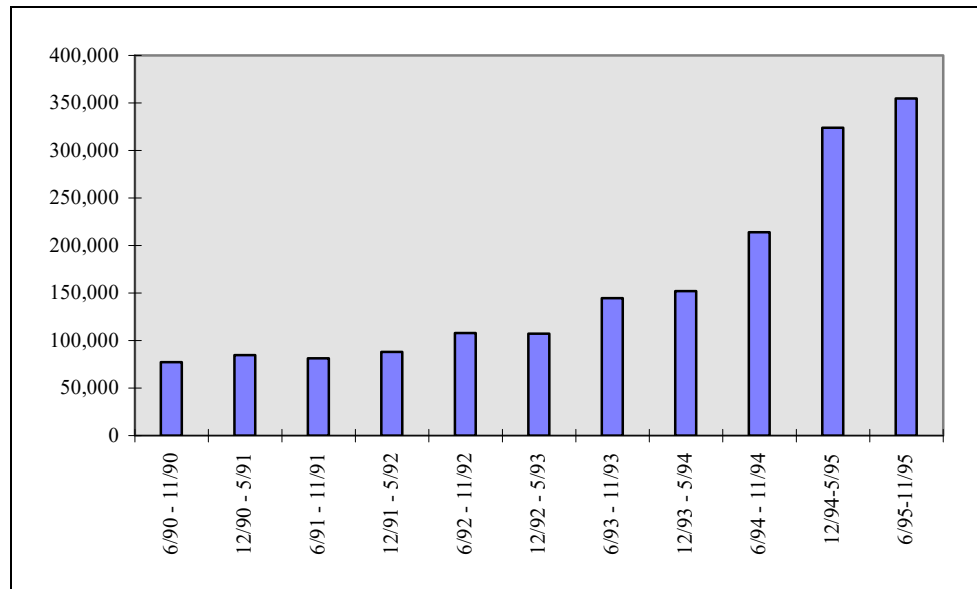
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The increase in the number of drug TARs processed is directly related to the 352 percent increase in the number of drug TARs received. Attachment B presents a comparison of the number of drug TARs the department processed from June 1990 through November 1990 and from June 1995 through November 1995. Figure 5 shows the number of drug TARs processed every six months from June 1990 through November 1995. Attachment C provides information on the number of drug TARs approved, modified, denied, and returned from June 1990 through November 1990 and from June 1995 through November 1995.



**Figure 5**  
**Number of Drug TARs Processed**  
**During Each Review Period**  
**June 1990 Through November 1995**



Of the 354,702 drug TARs processed from June 1995 through November 1995, 57 percent were approved, 27 percent were modified, 8 percent were denied, and 8 percent were returned.

During the previous audit, December 1994 through May 1995, we noticed a significant difference between the Stockton and Los Angeles drug units when comparing the percentage of drug TARs approved as requested versus those approved with modifications. During that period, the Stockton drug unit approved only 40 percent of the drug TARs as submitted and modified 43 percent, whereas the Los Angeles unit approved 76 percent of the drug TARs as submitted and modified only 7 percent of the drug TARs that were sampled.

During the current six-month reporting period, the Stockton drug unit approved 45 percent of the drug TARs as submitted and modified 33 percent, whereas the Los Angeles unit approved 69 percent of the drug TARs as submitted and modified only 10 percent of those sampled. Although this variance is not as significant when compared to the prior six-month reporting period, this issue may warrant further

examination. According to our follow-up discussions with the chief of the department's Medi-Cal Operations Division, Southern Field Operations Branch, the department has begun to investigate this issue further to ensure that all drug TAR requests are handled consistently, regardless of which of the two drug units processes them.

### ***Backlog of Unprocessed Drug TARs***

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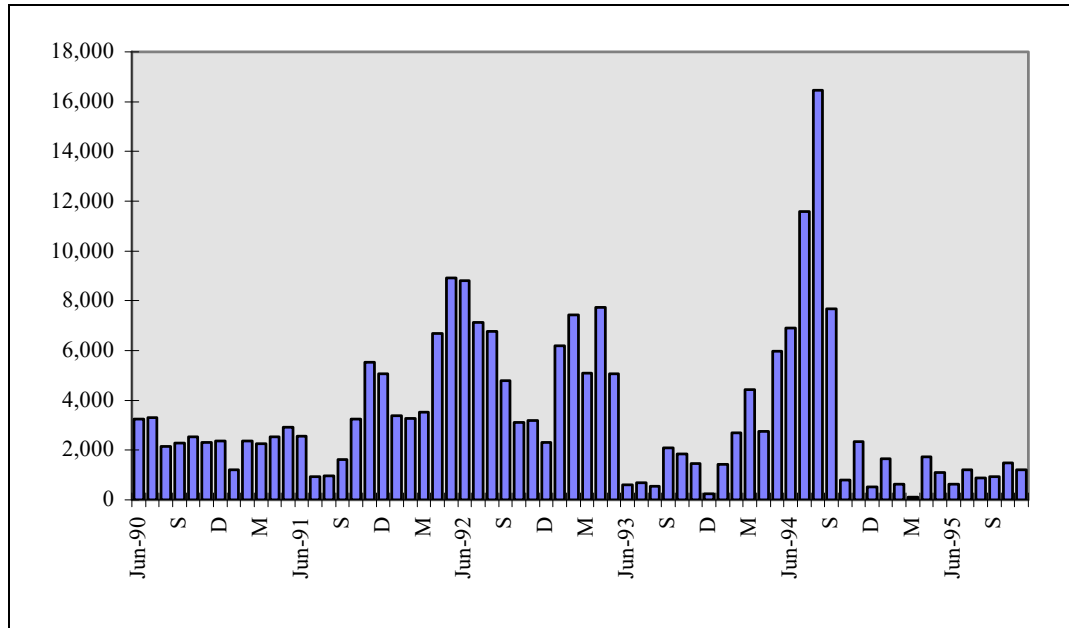
Figure 6 shows the department's backlog of drug TARs at the end of each month from June 1990 through November 1995. For the last month of the most recent reporting period, November 1995, the department had 1,266 unprocessed drug TARs.

Figure 6 also shows that the department's backlog of unprocessed drug TARs for the latest six-month period was among the lowest of the periods we have reviewed. The reduction in the number of unprocessed drug TARs is probably the result of the department's efforts to process all drug TARs within one working day. Attachment B provides detailed information on the number of drug TARs processed and not yet processed from June 1990 through November 1990 and from June 1995 through November 1995.

### ***Figure 6***

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***Number of Unprocessed Drug TARs Each Month  
June 1990 Through November 1995***



### ***Disagreements Over Processing Time for Drug TARs***

Section 14103.6 of the Welfare and Institutions Code requires that the department's pharmaceutical consultants process drug TARs in an average of five working days. This Section also states that if the pharmaceutical consultant does not make a decision on a drug TAR within 30 days of receiving it, the request is considered approved. Additionally, 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. The federal Department of Health and Human Services' Health Care Financing Administration (HCFA) upholds this position regardless of how drug TARs are delivered to the department.

In April 1995, the department changed its policy to conform more closely to the federal requirements and directed the drug units to process all drug TARs within one working day. The department has interpreted this one-working-day processing to mean that any drug TAR received before 5 p.m. on a working day will be processed by 5 p.m. of the following working day. The department's new policy has the greatest impact on mailed-in drug TARs, which previously were to be processed within five working days.



Although the department's new policy of processing all drug TARs within one working day conforms more closely to the federal regulations, the actual time allowed for processing varies, sometimes taking more than 24 hours. For example, if the department receives a drug TAR at 10 a.m. on a Thursday, the new policy gives the drug unit until 5 p.m. on Friday, an elapsed time of 31 hours, to complete processing it. In another example, a drug TAR that is received after 5 p.m. on the first working day of the month is considered to have been received on the second business day of the month. The decision rendered on that drug TAR must be available to the provider no later than 5 p.m. on the third business day of the month, a possible elapsed time of 48 hours. During our previous audit, we were informed that the HCFA would be issuing a formal opinion on the department's new policy in August 1995. Based on our contacts with both the department and the HCFA, that formal opinion had not been issued at the time of our review.

### ***Processing Times for Drug TARs Submitted to the Department***

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During this audit, we randomly selected and reviewed samples of drug TARs submitted to the Stockton drug unit in July and October 1995 and to the Los Angeles drug unit in June and September 1995. As mentioned previously, each beneficiary is allowed six prescriptions per month for some drugs. In processing drug TARs, the drug units batch "six-prescription limit drug TARs" separately from other drug TARs. In June and July 1995, we randomly selected and reviewed drug TARs subject to the six-prescription limit. In September and October 1995, we sampled drug TARs that were not subject to the six-prescription limit.

We reviewed a total of 707 drug TARs that were faxed or mailed to the Stockton drug unit in July and October. Of those, 702 (99.7 percent) were processed in one day. The remaining 5 were not date stamped and could not be tested. Similarly, we reviewed a total of 963 drug TARs that were submitted to the Los Angeles drug unit by fax, mail, and VDTS in June 1995 and September 1995. Of those, 954 (99 percent) were processed in one working day. All of the remaining 9 drug TARs were submitted to the Los Angeles drug unit by fax and were processed in two to three working days.

### ***Information on Drug TAR Fair Hearings and Complaints***

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For all denied drug TARs, 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. The department is also required to report the number of complaints from beneficiaries and providers regarding the department's response to drug TARs.

Beneficiaries request fair hearings through the Department of Social Services to appeal denials of drug TARs. From June 1995 through November 1995, 201 fair hearing requests were submitted to the Department of Social Services. This figure represents an increase of 117 (139 percent) over the prior review period from December 1994 to May 1995. According to a Medi-Cal technician who processes fair hearing requests in one of the drug units, this increase

probably resulted from correspondence sent to beneficiaries in June 1995 that reminded them of their rights to a fair hearing. Of the 201 requests

submitted, 151 (75 percent) were withdrawn or dismissed, 14 were denied, 15 were approved, and the decisions on the remaining 21 were still pending at the time of our review.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. The review was limited to those areas specified in the audit scope of this report.

Sincerely,

KURT R. SJOBERG  
State Auditor

#### Attachments

- A Drug Treatment Authorization Requests Received by Means of Delivery  
June Through November 1990 and June Through November 1995
- B Comparison of Drug Treatment Authorization Requests Processed  
June Through November 1990 and June Through November 1995
- C Comparison of Drug Treatment Authorization Requests  
Approved, Modified, Denied, and Returned  
June Through November 1990 and June Through November 1995

Response to the Audit

Department of Health Services

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**Comparison of Drug Treatment Authorization Requests  
Received by Means of Delivery  
June Through November 1990 and  
June Through November 1995**

		<b>Telephone</b>	<b>FAX</b>	<b>Mail</b>	<b>VDTS</b>	<b>Monthly Total</b>
1990	June	3,989	0	10,125	0	14,114
	July	3,225	985	9,990	0	14,200
	August	3,126	1,561	8,679	0	13,366
	September	2,358	1,646	7,517	0	11,521
	October	2,955	2,064	8,340	0	13,359
	November	2,483	1,849	7,606	0	11,938
<b>Total</b>		<b>18,136</b>	<b>8,105</b>	<b>52,257</b>	<b>0</b>	<b>78,498</b>
1995	June	0	47,848	7,130	3,201	58,179
	July	0	44,687	6,467	2,662	53,816
	August	0	51,755	6,163	3,080	60,998
	September	0	47,325	5,852	2,631	55,808
	October	0	56,009	5,702	2,958	64,669
	November	0	53,296	5,401	2,688	61,385
<b>Total</b>		<b>0</b>	<b>300,920</b>	<b>36,715</b>	<b>17,220</b>	<b>354,855</b>

Source: California Department of Health Services

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**Comparison of Drug Treatment Authorization Requests Processed  
June Through November 1990 and  
June Through November 1995**

		<b>Unprocessed TARS at Beginning of Month</b>	<b>TARS Received During Month</b>	<b>Total Available to be Processed</b>	<b>Total Processed During Month</b>	<b>Unprocessed TARS</b>	<b>Percentage of TARS Processed</b>
1990	June	2,160	14,114	16,274	13,015	3,259	79.97%
	July	3,259	14,200	17,459	14,164	3,295	81.13
	August	3,295	13,366	16,661	14,502	2,159	87.04
	September	2,159	11,521	13,680	11,394	2,286	83.29
	October	2,286	13,359	15,645	13,103	2,542	83.75
	November <sup>a</sup>	1,477	11,938	13,415	11,104	2,311	82.77
1995	June	1,113	58,179	59,292	58,928	364	99.39
	July	364	53,816	54,180	53,191	989	98.17
	August	989	60,998	61,987	61,244	743	98.80
	September	743	55,808	56,551	55,694	857	98.48
	October	857	64,669	65,526	64,064	1,462	97.77
	November	1,462	61,385	62,847	61,581	1,266	97.99

<sup>a</sup> The number of unprocessed drug TARs at the end of October 1990 does not agree with the number of unprocessed drug TARs at the beginning of November 1990. The manager of the San Francisco drug unit 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 for the end of the month. Because of this finding, unit staff adjusted the number of unprocessed drug TARs reported at the beginning of November.

Source: California Department of Health Services



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**Comparison of Drug Treatment Authorization Requests  
Approved, Modified, Denied, and Returned  
June Through November 1990 and  
June Through November 1995**

		<b>Approved<sup>a</sup></b>	<b>Modified<sup>b</sup></b>	<b>Denied<sup>c</sup></b>	<b>Returned<sup>d</sup></b>	<b>Total Processed</b>
1990	June	9,350	2,001	1,226	438	13,015
	July	9,169	2,008	1,361	1,626	14,164
	August	8,980	2,650	2,045	827	14,502
	September	7,222	1,847	1,565	760	11,394
	October	8,377	2,215	1,698	813	13,103
	November	7,033	1,811	1,455	805	11,104
<b>Totals</b>		<b>50,131</b>	<b>12,532</b>	<b>9,350</b>	<b>5,269</b>	<b>77,282</b>
1995	June	33,130	15,505	6,181	4,112	58,928
	July	28,590	15,843	4,728	4,030	53,191
	August	32,446	18,627	5,164	5,007	61,244
	September	32,428	14,736	4,167	4,363	55,694
	October	38,363	16,044	4,535	5,122	64,064
	November	37,126	15,105	4,381	4,969	61,581
<b>Totals</b>		<b>202,083</b>	<b>95,860</b>	<b>29,156</b>	<b>27,603</b>	<b>354,702</b>

<sup>a</sup> Authorized by the drug unit as submitted.

<sup>b</sup> Changed by the drug unit in some way and then approved. Changes could include the quantity of the drug requested, 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.

<sup>c</sup> Rejected as submitted.

<sup>d</sup> Lacks sufficient information for the drug unit to make a decision. The drug unit returns the drug TAR to the provider for clarification.

Source: California Department of Health Services