

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

August 1996  
96012

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96012

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 presents the eleventh 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 (TAR).

In response to Chapter 716, Statutes of 1992, we obtained from the department statistical information concerning the number of drug TARs both received and processed monthly from June 1990 through May 1996. This report focuses on the drug TARs processed during the six months from December 1995 through May 1996.

From December 1995 through May 1996, the department received 402,901 drug TARs, an increase of 324,403 (413 percent) over the number of drug TARs received during the first six-month review period of June 1990 through November 1990. This increase was primarily attributable to changes in the governing code that reduced the number of prescriptions allowed per beneficiary per month for most contract drugs. Whenever a beneficiary exceeds the monthly prescription limit, a drug TAR is required to obtain reimbursement for additional prescriptions. Drugs that do not appear on the department's list of contract drugs also require a drug TAR for reimbursement.

The department processed 402,424 drug TARs from December 1995 through May 1996. This figure represents an increase of 325,142 (421 percent) over the number processed during the first six-month period that we reviewed in 1990 and is the highest level of activity since that time. It also represents an increase of 47,722 (13 percent) over the number of drug TARs processed in the prior six-month period.

Although the number of processed drug TARs has continually increased since June 1990, the number of unprocessed drug TARs has diminished. In November 1990, the department's backlog consisted of 2,311 drug TARs, whereas the backlog in May 1996 was 1,743, a decrease of 568 (25 percent). From December 1995 through May 1996, the department's processes for compiling drug TAR statistics were appropriate.

The department implemented new policies in April 1995, one of which concerns drug TAR processing time. The new policy states that all drug TARs will be processed within one working day. Any drug TAR received before 5 p.m. on a working day will be processed by 5 p.m. of the following working day. Before April 1995, the department's policy required processing within 24 hours only for drug TARs received by facsimile (fax) and the department's audio response telephone system—Voice Drug TAR System (VDTS).

During the six-month period we reviewed, both the Los Angeles and Stockton drug units met the new requirement for processing drug TARs received by mail in one working day.

In previous audits, we validated the methods used by the drug units to calculate the length of time it took to process mailed-in drug TARs. However, the department conducted a study in March 1996 and determined that the method used to prepare the calculations was inefficient. As a result, in April 1996, the drug units discontinued calculating their turnaround time for mailed-in drug TARs. At the time of our review, the department still had not developed and implemented a new method. As a result, we were unable to validate the department's current methods for calculating the amount of time it takes to process a drug TAR in this audit.

In response to Section 14105.42 of the Welfare and Institutions Code, the department provided us with information regarding the number of fair hearing requests that beneficiaries made to appeal a denied drug TAR. From December 1995 through May 1996, 93 fair hearing requests were submitted to the Department of Social Services. This figure represents a decrease of 108 (54 percent) from the number of requests submitted during the prior review period. Of the

93 requests submitted, 64 (69 percent) were withdrawn or dismissed, 4 were denied, 4 were approved, and 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.

Medi-Cal beneficiaries may receive those prescription drugs identified on a list that 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 monthly limit of six prescriptions for a recipient is exceeded, the provider, generally a pharmacist, must receive authorization to seek reimbursement for the cost of the drug or drugs. The provider's request for authorization is known as a drug TAR.

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

The processing of TARs submitted by fax and mail is divided between the Los Angeles and Stockton drug units on a geographic basis. 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. They are then forwarded to licensed pharmaceutical consultants employed by the department. The consultants process a drug TAR by approving it, approving it with modifications, denying it, 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 that point, a copy of the drug TAR is returned to the provider.

Drug TARs received by VDTs are processed in Los Angeles. Drug TAR information received by VDTs is retrieved by medical transcribers, who type the information onto drug TAR forms. These forms are then forwarded to the pharmaceutical consultants, who follow the same process as for mailed-in or

faxed drug TARs. A copy is mailed to the provider. The decision is also recorded on 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 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 (Government Code, Section 8546.8) directs the Bureau of State Audits 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 and the number of drug TARs approved, modified, denied, and returned;
- Verified the Los Angeles and Stockton drug units' processes for compiling monthly drug TAR statistics during the six months from December 1995 through May 1996;
- Conducted tests to determine whether the drug units are processing all drug TARs within one working day; and
- Obtained data from the drug units on the number of denied drug TARs appealed to the Department of Social Services during December 1995 through May 1996.

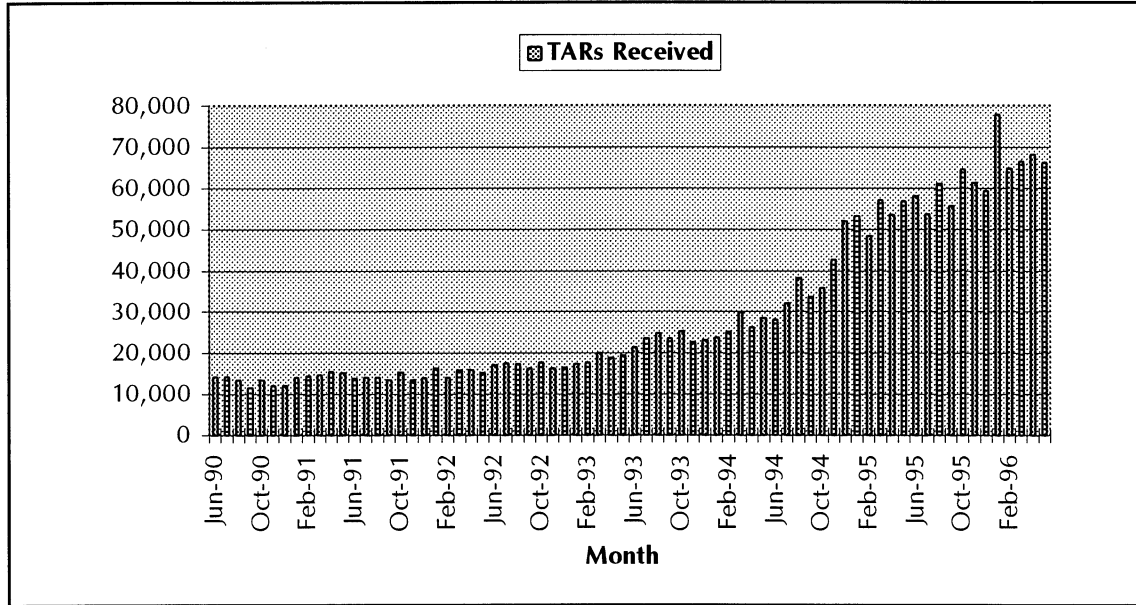
### ***Drug TARs Received***

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As shown in Figure 1, the number of drug TARs received has increased substantially from June 1990 through May 1996. 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 December 1995 through May 1996, the drug units received 402,901 drug TARs, 324,403 (an increase of 413 percent) more than during the first review period, five years ago.

**Figure 1**

**Number of Drug TARs Received Each Month  
June 1990 Through May 1996**

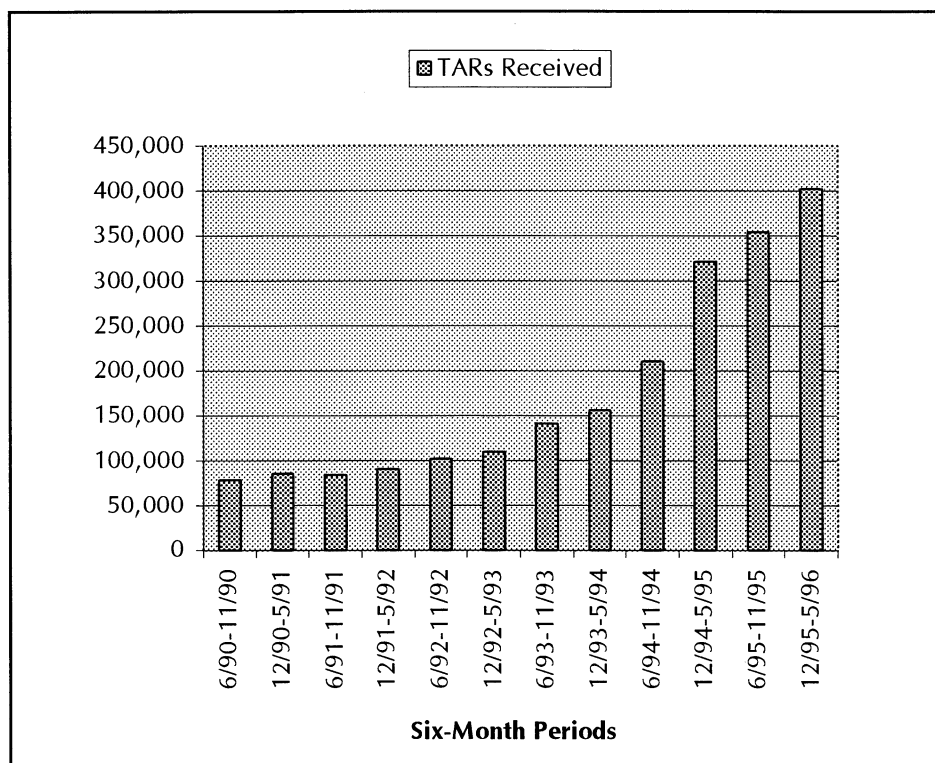


The number of drug TARs received from December 1995 through May 1996 also exceeded the number of drug TARs received over the previous six-month period by more than 48,046 (an increase of 12 percent), as shown in Figure 2.

In January 1996, 77,878 drug TARs were received, representing a 31 percent increase over the December 1995 total of 59,354. The department did not implement any new policies in January 1996 that might explain the increase in drug TARs received. According to the chief pharmacists in the drug units and the chief of the department's Medi-Cal Operations Division, Southern Field Operations Branch, a possible explanation for the January increase in drug TARs may be because beneficiaries are not as likely to frequent providers during the holiday season in December.

**Figure 2**

**Number of Drug TARs Received Every Six Months  
June - November 1990 Through  
December 1995 - May 1996**

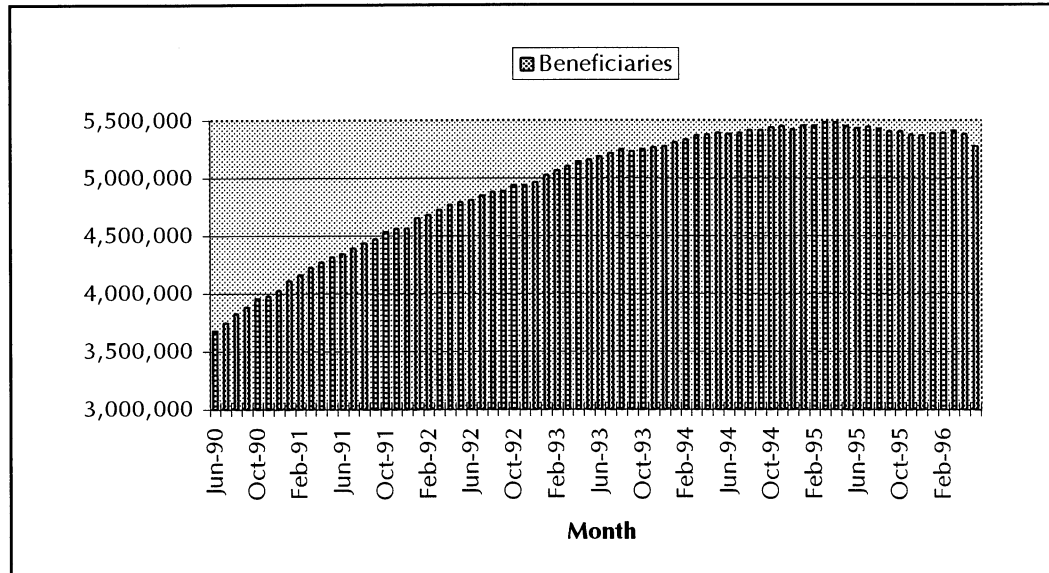


According to the chief of the department's Medi-Cal Operations Division, Northern Field Operations Branch, the recent increases in the number of drug TARs received was primarily attributable to the November 1994 change in the governing code, which reduced from ten to six the number of prescriptions allowed per month for each beneficiary for most contract drugs. Whenever a beneficiary's monthly prescription limit is exceeded, a drug TAR is required to obtain reimbursement. In past audits, we have reported that increases in the number of drug TARs have been partially attributable to the increase in the number of Medi-Cal beneficiaries. However, after several years of steady growth, the number of Medi-Cal beneficiaries has recently decreased. Specifically, 5,278,230 beneficiaries were eligible to obtain drugs through the Medi-Cal program in May 1996 as compared to 5,376,113 beneficiaries in November 1995. Figure 3 shows the number of Medi-Cal beneficiaries who were eligible to receive drugs since June 1990.



**Figure 3**

**Number of Medi-Cal Beneficiaries  
June 1990 Through May 1996**



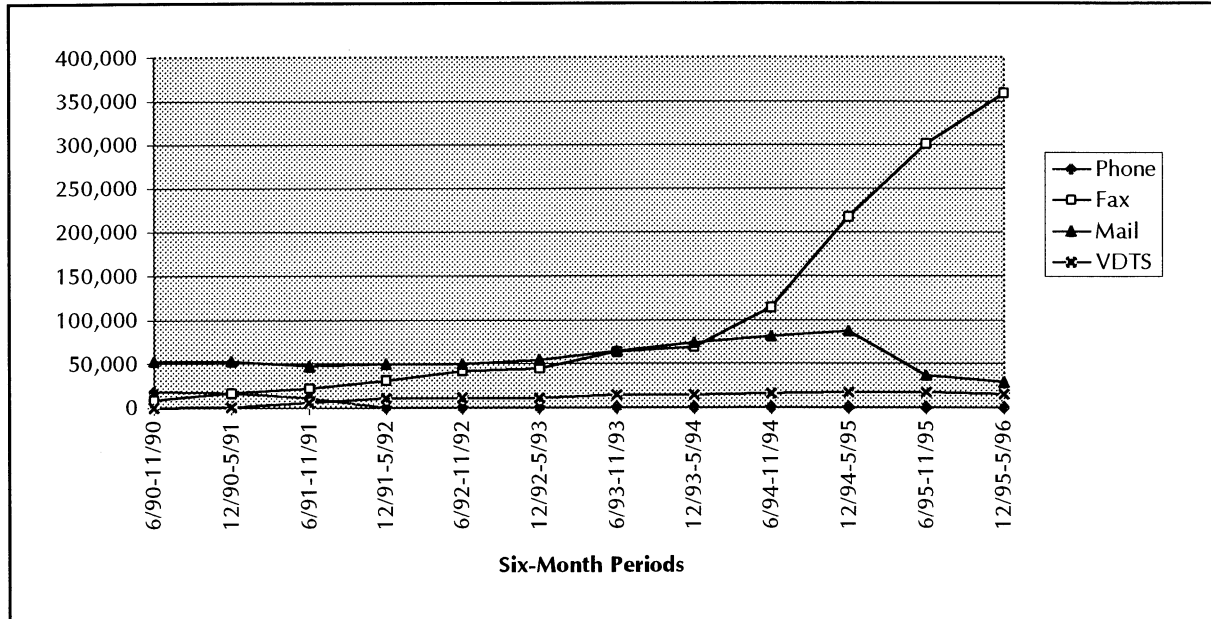
**Methods of Delivery**

As Figure 4 shows, from December 1995 through May 1996, the most common method of submitting drug TARs was by fax. During that period, the number of drug TARs submitted by fax increased from the previous six-month reporting period. From June through November 1995, providers faxed 300,920 drug TARs to the department. From December 1995 through May 1996, providers faxed 358,948 drug TARs to the department, representing a 19 percent increase.

The number of drug TARs received by VDTs also increased. From June 1991 through November 1991, the first period when VDTs was operational for a full six months, the department received 5,074 drug TARs by VDTs. From December 1995 through May 1996, providers submitted 15,034 drug TARs by VDTs (a 196 percent increase). Although the number of drug TARs received by VDTs has trended upward from 1991 through 1996, the number received from December 1995 through May 1996 decreased by 12 percent compared with the number from the prior reporting period of June through November 1995.

**Figure 4**

**Methods of Receiving Drug TARs  
June 1990 Through May 1996**



The number of mailed-in drug TARs decreased during the period of December 1995 through May 1996, continuing the downward trend in mailed-in drug TARs received at the drug units. This decrease first occurred during the last reporting period. During the current reporting period, December 1995 through May 1996, only 28,919 drug TARs were mailed to the department compared with 52,257 mailed from June 1990 through November 1990. The initial six-month period had the fewest mailed-in drug TARs before the current reporting period. Attachment A presents a comparison of the number of drug TARs received by means of delivery from June through November 1990 and from December 1995 through May 1996.

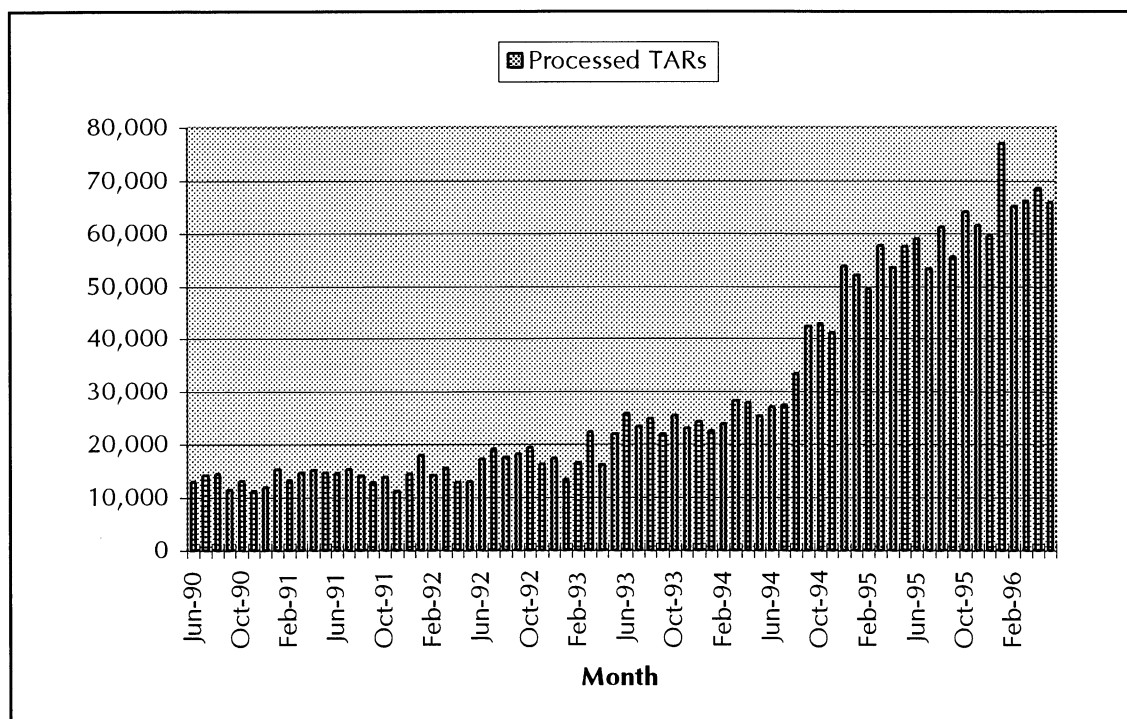
The decrease in the number of mailed-in drug TARs is attributable to a policy change at the department. Before April 1995, the department allowed drug TARs only for initial supplies of prescribed drugs and drugs that were urgently needed to be submitted by fax or VDTs. In April 1995, providers were allowed to fax all drug TARs to the drug units, which resulted in the decrease in the number of mailed-in drug TARs (and the increase in the number of drug TARs received by fax).

## ***Drug TARs Processed***

Figure 5 shows the number of drug TARs processed at the drug units from June 1990 through May 1996. 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 December 1995 through May 1996, the drug units processed 402,424 drug TARs, an increase of more than 325,142 (421 percent).

***Figure 5***

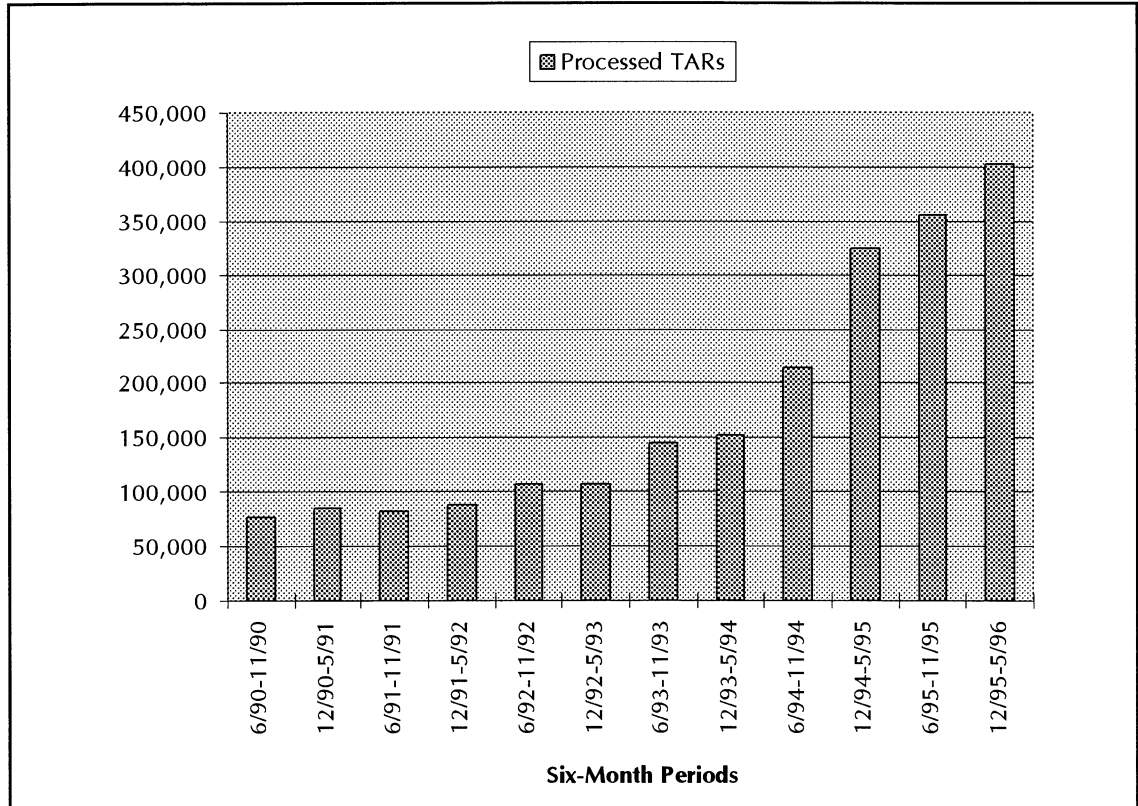
### ***Number of Processed Drug TARs Each Month June 1990 Through May 1996***



The increase in the number of drug TARs processed from December 1995 through May 1996 is directly related to the 413 percent increase in the number received during the first period of our review, from January 1990 through June 1990. Attachment B presents a comparison of the number of drug TARs that the department processed from June 1990 through November 1990 and from December 1995 through May 1996. Figure 6 shows the number of drug TARs processed every six months from June 1990 through May 1996. Attachment C compares the number of drug TARs approved, modified, denied, and returned from June 1990 through November 1990 and from December 1995 through May 1996.

**Figure 6**

**Number of Drug TARs Processed  
During Each Review Period  
June - November 1990 Through  
December 1995 - May 1996**



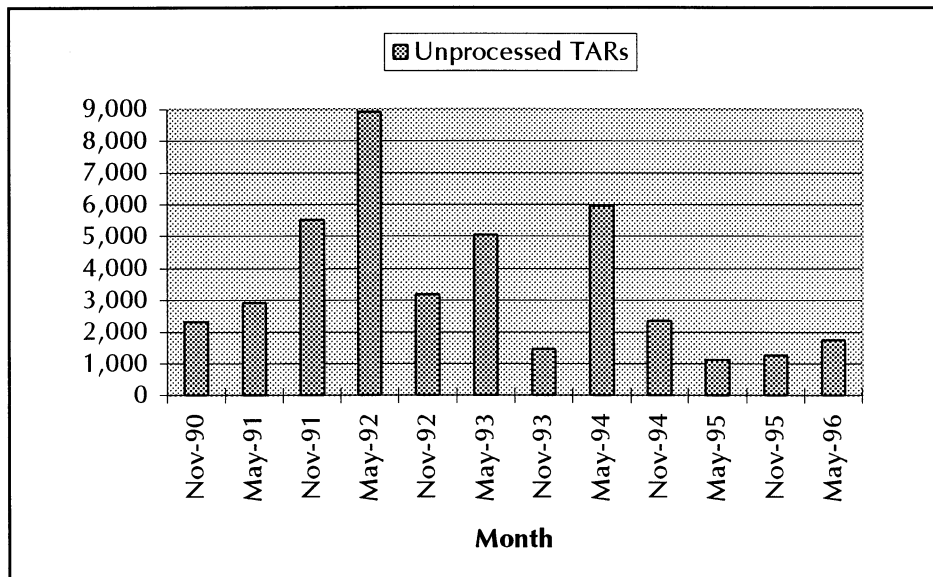
Of the 402,424 drug TARs that the drug units processed from December 1995 through May 1996, 63 percent were approved, 21 percent were modified, 8 percent were denied, and 8 percent were returned.

***Backlog of Unprocessed Drug TARs***

Figure 7 shows the department's backlog of drug TARs at the end of each six-month reporting period, from June 1990 through May 1996. At the end of the most recent reporting period, the department had 1,743 unprocessed drug TARs. This backlog represents fewer drug TARs than the drug units typically process in one day. Attachment B provides detailed information on the monthly number of drug TARs not yet processed from June 1990 through November 1990 and from December 1995 through May 1996.

**Figure 7**

***Number of Unprocessed Drug TARs Each Month  
November 1990 Through May 1996***



***Compilation of Drug TAR Statistics***

To test the department's processes for compiling drug TAR statistics, we sampled statistics maintained in each drug unit for April 1996. Both drug units maintain data on a daily and weekly basis from which they compile monthly drug TAR statistics. Based on our sample, we found that the Los Angeles and Stockton drug units accurately compiled and reported their drug TAR statistics.

***Changes in the Department's Policy  
for Processing 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. The department defines a working day as one on 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 receiving it, the request is considered approved. In contrast, 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.

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 "one working day" 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 before April 1995 were to be processed within five working days. Drug TARs received by fax or VDTs were to be processed within 24 hours.

Although the department's new policy of processing all drug TARs within one working day conforms more closely to the 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, the processing might not be completed until 5 p.m. on Friday, an elapsed time of 31 hours. In another example, a drug TAR 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 almost 48 hours. During previous audits, we were informed that HCFA would be issuing a formal opinion on the department's new policies. Through our most recent contacts with both the department and HCFA, we determined that no formal opinion has been issued.

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

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During this audit, we selected at random and reviewed 988 drug TARs faxed or mailed to the drug units during April 1996. All the drug TARs in our sample were processed within one working day. Similarly, we reviewed 85 drug TARs submitted to the Los Angeles drug unit by VDTs in April 1996, and all were processed within one working day.

In prior audit periods, the drug units have calculated the amount of time it takes to process a drug TAR to ensure that state requirements were met. We validated the drug units' calculations, which were prepared monthly. However, in March 1996, the department conducted a study and determined that the methods used to prepare the calculations were inefficient. The department directed the drug units to stop using the current methods. Although the study suggested an

alternative to the drug units' current methods, the department had not developed and implemented a new methodology at the time of our review. For this reason, we were unable to validate the department's current methods for calculating the amount of time it takes to process a drug TAR in this audit.

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

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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. From December 1995 through May 1996, 93 fair hearing requests were submitted to the Department of Social Services. This figure represents a decrease of 108 (54 percent) from the prior review period, June 1995 through November 1995. Of the 93 requests submitted, 64 (69 percent) were withdrawn or dismissed, 4 were denied, 4 were approved, and the decisions on the remaining 21 were still pending at the time of our review.

### ***Recommendation***

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As discussed above, the drug units recently stopped calculating the amount of time being taken to process drug TARs. We believe, however, that measuring turnaround time for drug TARs is a way for the department to gauge the drug units' effectiveness. For this reason, the department should develop a standardized methodology to measure the time it takes to process a drug TAR in the drug units. This methodology should be:

- Based on a sample of drug TARs processed on a monthly or quarterly basis;
- Calculated separately for drug TARs received in the mail, by fax, and by VDTS;
- Easy to implement and require minimal staff time; and
- Implemented consistently in the department's drug units.

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.

Respectfully submitted,



KURT R. SJOBERG  
State Auditor

Attachments

- A Comparison of Drug Treatment Authorization Requests Received by Means of Delivery  
June Through November 1990 and December 1995 Through May 1996
- B Comparison of Drug Treatment Authorization Requests Processed  
June Through November 1990 and December 1995 Through May 1996
- C Comparison of Drug Treatment Authorization Requests  
Approved, Modified, Denied, and Returned  
June Through November 1990 and December 1995 Through May 1996



**Comparison of Drug Treatment Authorization Requests  
Received by Means of Delivery  
June Through November 1990 and  
December 1995 Through May 1996**

		Telephone	Fax	Mail	VDTS	Monthly Total
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	December	0	52,237	4,585	2,532	59,354
1996	January	0	69,365	5,265	3,248	77,878
	February	0	57,925	4,631	2,256	64,812
	March	0	59,430	4,696	2,399	66,525
	April	0	60,560	5,189	2,431	68,180
	May	0	59,431	4,553	2,168	66,152
<b>Total</b>		<b>0</b>	<b>358,948</b>	<b>28,919</b>	<b>15,034</b>	<b>402,901</b>

Source: California Department of Health Services

**Comparison of Drug Treatment Authorization Requests Processed  
June Through November 1990 and  
December 1995 Through May 1996**

		<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	December	1,266	59,354	60,620	59,560	1,060	98.25
1996	January	1,060	77,878	78,938	77,041	1,897	97.60
	February	1,897	64,812	66,709	65,174	1,535	97.70
	March	1,535	66,525	68,060	66,128	1,932	97.16
	April	1,932	68,180	70,112	68,593	1,519	97.83
	May	1,519	66,152	67,671	65,928	1,743	97.42

<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 drug unit stated that unit staff did a hand count of the actual unprocessed drug TARs at the end of October 1990 and found that 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

**Comparison of Drug Treatment Authorization Requests  
Approved, Modified, Denied, and Returned  
June Through November 1990 and  
December 1995 Through May 1996**

		<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	December	36,011	14,331	4,397	4,821	59,560
1996	January	47,140	18,809	5,585	5,507	77,041
	February	38,702	15,999	5,025	5,448	65,174
	March	42,111	13,429	5,060	5,528	66,128
	April	44,983	13,224	5,106	5,280	68,593
	May	46,573	9,632	4,950	4,773	65,928
<b>Totals</b>		<b>255,520</b>	<b>85,424</b>	<b>30,123</b>	<b>31,357</b>	<b>402,424</b>

<sup>a</sup>An approved drug TAR has been authorized by the drug unit as submitted.

<sup>b</sup>A modified drug TAR has been changed by the drug unit in some way and then approved. Changes could include 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.

<sup>c</sup>A denied drug TAR has been rejected as submitted.

<sup>d</sup>A returned drug TAR 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

**DEPARTMENT OF HEALTH SERVICES**

714/744 P Street  
P. O. Box 942732  
Sacramento, CA 94234-7320  
(916) 657-1425



July 24, 1996

Mr. Kurt R. Sjoberg  
State Auditor  
Bureau of State Audits  
660 J Street, Suite 300  
Sacramento, CA 95814

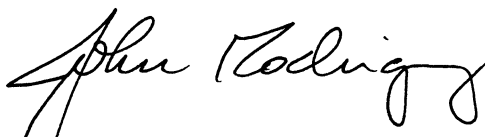
Dear Mr. Sjoberg:

We are in receipt of your letter dated July 22, 1996, to Sandra R. Smoley, R.N., Secretary, Health and Welfare Agency, and accompanying draft audit report entitled "Department of Health Services: Drug Treatment Authorization Requests Continue to Increase." Secretary Smoley has forwarded the report to the Department of Health Services (Department) for our review and response.

The draft audit report has been carefully reviewed by our supervising pharmaceutical consultants assigned to the Department's Northern and Southern pharmacy sections, Medi-Cal Operations Division, who substantially concur with its findings and conclusions. We agree with your recommendation for the Department to develop a standardized methodology to measure the time it takes to process a drug Treatment Authorization Request (TAR) in the drug units. In this regard we will work with the Department's Medi-Cal program fiscal intermediary, Electronic Data Systems, to ensure the development of a mechanism to accurately measure drug TAR turnaround time.

Thank you for providing the Department with an opportunity to comment on the draft report. Please feel free to contact me or Mr. Virgil J. Toney, Jr., Chief, Medi-Cal Operations Division, at 657-0582, if you should have any questions or require additional information prior to the release of the final audit report.

Sincerely,



S. Kimberly Belshé  
Director

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Attorney General  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps