DEPARTMENT OF HEALTH SERVICES

It Needs to Significantly Improve Its Management of the Medi-Cal Provider Enrollment Process

REPORT NUMBER 2001-129, MAY 2002

Department of Health Services' response as of November 2002

Audit Highlights . . .

Our review of the Department of Health Services' Provider Enrollment Branch's management of the Medi-Cal provider enrollment process revealed that:

- ☑ *It lacks reliable data to determine the size of its backlog.*
- ☑ *It could not substantiate its decisions to designate certain providers as being at high risk for fraud.*
- ☑ *It did not always review disclosure statements required by the federal Health and Human Services Agency, aimed at identifying applicants with a history of defrauding or abusing the Medicaid system.*
- ☑ *It will continue to have difficulty effectively managing its operations until it develops a strategic plan and fully implements its data tracking system.*

The state Department of Health Services (department) administers California's Medicaid program, referred to as Medi-Cal, which accounts for almost $27 billion in annual expenditures. A provider must obtain a valid Medi-Cal provider number in order to bill the Medi-Cal program for services provided to an eligible Medi-Cal beneficiary. The department's Provider Enrollment Branch (branch) is responsible for reviewing applications for providers such as physicians, physician groups, pharmacies, and clinical laboratories. The branch received more than 27,000 applications between February 14, 2001, and January 31, 2002.

The Joint Legislative Audit Committee requested that we examine the process used by the department for enrolling Medi-Cal providers. Our audit concluded that until the branch addresses certain deficiencies, it would continue to have difficulty meeting its regulatory timelines, securing additional staff, and effectively managing its operations. Specifically:

Finding #1: The branch cannot determine the number of applications remaining to be processed.

The branch does not know how many of the roughly 27,000 applications it received between February 14, 2001, and January 31, 2002, have been approved, denied, or remain to be processed. In February 2001, the branch instituted a new database—the Provider Enrollment Tracking System (PETS)—which can provide such information. However, branch management is unable to use PETS to provide management reports that will allow it to determine the number of applications awaiting final disposition because staff have not always entered data into the database consistently. Although

the branch had devoted time and resources to develop PETS and train staff, we found no evidence that the branch has implemented a procedure to review periodically the data that staff input into PETS. Because staff do not enter data into PETS consistently, the branch can neither effectively track the applications it processes nor use the reports PETS is capable of producing to identify its backlog and manage its operations.

We recommended that to improve the management of the Medi-Cal provider enrollment process, the branch should use PETS more effectively to track how long an application has been in a certain step of the enrollment process, making sure that notification is sent to the applicant at proper intervals; and modify PETS so it can track the status of high- or low-risk provider types and determine whether the average processing times vary. The branch also should identify all applications that, according to PETS, are still in progress, determine their actual status, and update PETS, if necessary. Further, the branch should review PETS-generated reports at least monthly and perform analyses to determine whether staff are entering data accurately and consistently. Finally, it should fully use the capabilities of PETS for developing reports on a variety of productivity indicators, including, for example, aging reports and reports showing the number of applications approved, denied, and in progress.

Department Action: Partial corrective action taken.

In its six-month response dated November 20, 2002, the department stated that some procedures have been implemented to use PETS to determine the length of time an application is in process, track the status of high- and low-risk provider types, and determine the average processing time for both. Additionally, in order to conform to the time frames required by the enrollment regulations, PETS now generates several reports for department staff to use to track the progress and status of pending applications. Further, PETS has been modified to allow staff to track those applications that are resubmitted and to automate requests for onsite visits. The department expects to complete its modifications to PETS and implement them by the end of fiscal year 2002–03.

At the end of December 2002, the department completed the establishment of additional edits in the PETS database to ensure data is valid. The branch will continue to monitor and review reports produced by PETS and add edits to meet program report needs if required.

Finding #2: The branch does not ensure that it reviews applications within 180 days.

Although PETS cannot provide meaningful information for those applications that are pending branch action, it does show that the branch frequently took more than 180 days to process some applications. We found that the data was reliable when branch staff entered both the receipt and completion date. In addition to not consistently tracking the applications it processes internally, the branch also does not monitor applications it refers to the department's Audits and Investigations (A&I) unit for on-site reviews. The branch does not use PETS to establish or track dates indicating when it should receive a response back from A&I so that it can meet its regulatory deadlines.

We recommended that to improve its monitoring of referrals, the branch should use PETS to track applications it refers to A&I. Also, the branch should work closely with A&I to monitor the status of its referrals to ensure that the total review time for applications does not exceed regulatory requirements. In addition, the department should establish policies and procedures for the branch and A&I to coordinate their review processes so it is able to meet regulatory requirements and ensure that A&I implements its new case-tracking system by late 2002.

Department Action: Partial corrective action taken.

The department reported that by the end of fiscal year 2002–03, in addition to having the data in PETS, the branch will enter all of its referrals directly into A&I's new case-tracking system. Some branch staff have received training in the use of the new system, which will enable both A&I and the branch to determine the status of any referrals. In addition, procedures for A&I and branch staff to coordinate their review processes will be finalized with full implementation of A&I's new case-tracking system by the end of fiscal year 2002–03.

Finding #3: The branch could not substantiate its decisions to designate certain providers as high- or low-risk.

The branch's objective is to prevent providers with fraudulent intent from participating in the Medi-Cal program. Consequently, it is reasonable that the branch should use relevant and available information to identify those provider types that pose a greater risk of fraud. Further, the branch should document these

decisions and review them periodically to ensure that they are still relevant. However, the branch could not substantiate how it determines the risk that it assigns to certain provider types, nor does it reevaluate its risk assessment periodically.

We recommended that the branch periodically perform an analysis to justify its existing risk assessments for high- and low-risk provider types and submit its analysis for department approval. Upon approval of the analysis, the branch should issue a policy memo to staff. Further, the department should formalize its process for determining which provider types should be subject to increased scrutiny and when, based upon the most recent anti-fraud trend information available.

Department Action: Partial corrective action taken.

The department stated that informally it continually evaluates risk assessments for effectiveness and applicability. The department told us that it will continue to work with its partners to identify and evaluate risk indicators and trends. If any significant changes in current assessments of high- and low-risk providers are proposed, formal documentation will occur. Also, A&I and the branch have established monthly meetings with the first meeting occurring in January 2003, to address anti-fraud issues and to review all provider types that need closer scrutiny. The meetings will include the division chiefs from both programs.

Finding #4: The branch needs to rectify its poor decision to cease reviewing certain provider disclosure statements, which exposes the State to loss of federal funds.

Although both state and federal regulations require applicants or providers to submit disclosure statements with their applications, in its effort to reduce its backlog, the branch inappropriately stopped reviewing disclosure statements for certain applicants or providers. Specifically, the branch did not review all disclosure statements received between October 2000 and September 2001 for physician and allied group applicants or providers. As a result, the branch increased the risk of enrolling providers who may have disclosed questionable financial relationships or a past history of fraud, abuse, or criminal convictions relating to other Medicare or Medicaid programs.

We recommended that the branch identify all physician providers who were enrolled between October 2000 and September 2001 and review their disclosure statements in accordance with federal requirements. The branch should direct staff to continue to review disclosure statements for all providers.

Department Action: Partial corrective action taken.

The department reported that it plans to implement this recommendation on a flow basis. Specifically, as the branch receives requests or inquiries from providers who enrolled between October 2000 and September 2001, staff will review the initial application. If the initial application does not include a disclosure statement, one will be requested and reviewed.

Finding #5: Reenrollment of existing providers could strengthen the Medi-Cal enrollment process.

To strengthen the enrollment process and weed out potentially fraudulent providers, the branch should expand its efforts to reenroll existing providers. In August 1999, the department began to reenroll certain provider types identified as problematic. The branch is continuing its efforts to reenroll durable medical equipment and non-emergency medical transportation providers. However, due to the increase in workload resulting from its reenrollment efforts, the branch has postponed its reenrollment of independent pharmacies until summer 2002.

We recommended that the branch complete its current reenrollment efforts and consider expanding these efforts to include all provider types to ensure provider integrity in the Medi-Cal program.

Department Action: Partial corrective action taken.

The department told us that its reenrollment efforts of durable medical equipment, orthotics and prosthetics, and non-emergency medical transportation providers are substantially complete. Further, with the passage of the state budget for fiscal year 2002–03 in October 2002 and the approval of 20 new positions, the branch moved forward in October 2002 with a reorganization package to establish a reenrollment section to fully expand the anti-fraud activities and expand the branch to incorporate reenrolling all provider types on a rotating basis with a focus on pharmacy and physician providers.

With the delay in the passage of the state budget and the hiring freeze, the reenrollment section became fully staffed on December 31, 2002.

Finding #6: A strategic plan would help the branch address its performance deficiencies.

The branch has addressed only a few of the essential elements of strategic planning such as defining its mission and establishing its top priorities. However, the branch has not described the actions necessary to achieve its top priorities. For example, the branch states that it will reduce the backlog of physician applications, but does not address critical questions relevant to doing so, such as how it will determine the number of applications in progress and whether it has sufficient staff.

We recommended that the branch should develop a strategic plan to identify key responsibilities and establish priorities. This plan should clearly describe how the organization would address its many short- and long-term responsibilities, particularly those that we observed it has not sufficiently accomplished. In addition, the branch should conduct a study to determine how long it takes staff, on average, to process applications for the various provider types. Using results from the study and accurate workload standards, the branch should assess whether it has the appropriate staffing levels.

Department Action: Partial corrective action taken.

The department reported that it developed a draft strategic plan for management review and approval. In addition, the branch's analysis of how long it takes staff to process applications for the various provider types should be complete in the spring of 2003. The department believes the strategic plan will be completed by June 2003.

Finding #7: The department did not adhere to state hiring practices in its efforts to seek additional resources for the branch.

Although state laws establish the standards to use in contracting for personal services, the department did not follow these standards when attempting to secure employees to assist the branch with processing provider enrollment applications. Specifically, the department had not obtained approval to use up to 10 contractor staff to assist the branch during the period

of July 2001 through January 2002, but had incurred costs of roughly $490,000. Also, the department may not have met the State's standards for using personal services contracts when it hired student assistants through contracts with the California State University Sacramento Foundation (foundation). Between March 1, 2001, and January 31, 2002, the branch incurred costs of more than $138,000 in salaries, employment taxes, and fees to reimburse the foundation for the 22 student assistants it hired. However, the department did not prepare an analysis to demonstrate that contracting with the foundation could result in actual overall cost savings to the State.

We recommended that the department should discontinue its use of contractor staff to assist the branch in processing provider enrollment applications. It should also ensure that it adheres to state standards for using personal services contracts when hiring employees such as student assistants.

Department Action: Corrective action taken.

The department stated it discontinued its use of contractor staff by May 31, 2002, and that it adheres to state standards for using personal service contracts when hiring employees such as student assistants.