

## Department of Health Care Services

### It Needs to Streamline Medi-Cal Treatment Authorizations and Respond to Authorization Requests Within Legal Time Limits

#### REPORT NUMBER 2009-112, ISSUED MAY 2010

This report concludes that the Department of Health Care Services (Health Care Services) is missing opportunities to streamline the provision of California Medical Assistance Program (Medi-Cal) services and improve its level of service. Specifically, Health Care Services manually adjudicates all medical treatment authorization requests (TAR) even though it only denied a relatively small portion of these TARs in almost half of the instances in fiscal years 2007–08 and 2008–09. Health Care Services' data indicates that the TAR process as a whole saves substantially more money in claims it avoids having to pay to Medi-Cal providers than it costs to administer. However, despite compelling reasons for Health Care Services to perform a cost-benefit analysis of the segment of its TAR process associated with service categories with low denial rates, low service costs, or high administrative costs it has not done so. We believe a cost-benefit analysis of such TARs would identify opportunities for Health Care Services to streamline the TAR process and improve its overall response times.

Health Care Services is not processing drug TARs within legal time limits for prescriptions requiring prior approval. Specifically, it took longer than 24 hours to respond to 84 percent and 58 percent of manually adjudicated drug TARs in fiscal years 2007–08 and 2008–09, respectively. Finally, Health Care Services does not specifically monitor its processing times for prior-authorization medical TARs despite its acknowledgement that state law requires that TARs submitted for medical services not yet rendered must be processed within an average of five working days.

In the report, the California State Auditor (state auditor) made the following recommendations to Health Care Services. The state auditor's determination regarding the current status of recommendations is based on Health Care Services' response to the state auditor as of May 2011.

#### **Recommendation 1.1—See pages 18—22 of the audit report for information on the related finding.**

To streamline the provision of Medi-Cal services and improve its level of service, Health Care Services should conduct cost-benefit analyses to identify opportunities to remove authorization requirements or to auto-adjudicate those medical services and drugs with low denial rates, low paid claims, or high TAR administrative costs.

#### ***Health Care Services' Action: Fully implemented.***

Health Care Services' contractor completed a cost-benefit analysis of the TAR process and found that a small number of medical services did not meet the cost benefit test and recommended that Health Care Services consider auto-adjudicating those services. The contractor also identified certain drugs with low costs and high approval rates that would be the best candidates for auto-adjudication and recommended that Health Care Services use the analysis as the basis for further study to identify any additional opportunities for auto-adjudication.

#### **Recommendation 1.2—See pages 25—29 of the audit report for information on the related finding.**

To ensure that Medi-Cal recipients receive timely access to prescribed drugs, Health Care Services should abolish its policy of responding to drug TARs by the end of the next business day and should instead ensure that prior-authorization requests to dispense drugs are processed within the legally mandated 24-hour period. Alternatively, it should seek formal authorization from the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers the Medicaid program, to

deviate from the 24-hour requirement, and should seek a similar modification to state law. In addition, Health Care Services should begin recording the actual time it receives TARs through the mail or by fax, so that it can begin to measure accurately its processing times for these paper TARs.

***Health Care Services' Action: No action taken.***

Health Care Services disagrees with our recommendation that it abolish its existing policy of adjudicating drug TARs by the end of the next business day. Health Care Services indicated that it has operationalized the 24-hour requirement as the end of the next business day because the offices where drug TARs are processed are not staffed or budgeted for 24-hour, seven-day-per-week operations. Health Care Services also reported that it has not sought formal authorization from CMS to deviate from the 24-hour requirement because it asserts that CMS is aware of Health Care Services' next business day practice and that emergency drug supplies are available to Medi-Cal beneficiaries as needed. In addition, Health Care Services stated that it does not plan to seek a modification to state law regarding the 24-hour time frame at this time. Health Care Services made similar statements in its response at the time we published our report in May 2010. However, as we indicated in our report, we are aware of no legal authority that authorizes Health Care Services to deviate from the unambiguous, plain language of federal and state law and, in the absence of an interpretative regulation, to "operationalize" the 24-hour requirement in a manner inconsistent with the law for any purpose, including staffing and budgetary constraints. Further, although Health Care Services has asserted that CMS has an awareness of Health Care Services' "next business day" practice, the department could provide no evidence that CMS actually approves of the practice. While we sought CMS' opinion about whether Health Care Services' interpretation of "24 hours" as meaning the "next business day" was appropriate, we received no official response. Accordingly, we concluded that, in the absence of any formal interpretation or guidance by the federal government, the plain language of the federal law and conforming state law controlled. We therefore stand by our recommendation that Health Care Services should abolish its policy of responding to drug TARs by the end of the next business day and comply with the legal mandate requiring it to process prior-authorization drug TARs within the specified 24-hour period. As we recommended, it may be more practical for Health Care Services to seek formal authorization from CMS to deviate from the 24-hour requirement, which could result in a change to the federal statute or implementing regulation or a formal waiver from CMS, whereupon it would be appropriate to make conforming changes to state law.

Finally, Health Care Services reported that it has identified the system and business processes that would need to be modified to record the actual time it receives TARs through the mail or by fax, and that these changes are complex and costly. Given the lengthy time frame to make the necessary changes and the high cost, Health Care Services concluded that modifying the current system is not viable. Health Care Services reported that it will instead implement this change through the system that the new California Medicaid Management Information System contractor will develop.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of January 5, 2012.

**Recommendation 1.3—See pages 30—34 of the audit report for information on the related finding.**

To ensure that Medi-Cal recipients are receiving timely medical services from providers, Health Care Services should start tracking prior-authorization medical TARs separately and should ensure that such TARs are processed within an average of five working days. Although state law and regulations specifically require prior authorization for certain medical services, Health Care Services generally does not require prior authorizations in practice. Consequently, Health Care Services should seek legislation to update existing laws and amend its regulations to render them consistent with its TAR practices.

***Health Care Services' Action: Partially implemented.***

Health Care Services reported that it implemented a manual sorting process that identifies prior-authorization paper TARs as they are received. These TARs are placed in a designated location and are processed before retroactive paper TARs. However, Health Care Services indicated that it will defer modifying the current system to track all prior-authorization TARs due to the lengthy time frame and high cost to implement such changes, but it will ensure that the replacement system described in the previous finding includes the ability to track and report on prior-authorization TAR processing.

Finally, Health Care Services reported that it is not currently seeking legislation to update existing laws and amend its regulations to render them consistent with its TAR practices because California's health care system will change significantly with the implementation of a recently approved federal waiver of certain Medicaid requirements and through provisions of the Affordable Care Act. Health Care Services believes it is premature to make the recommended legislative changes at this time, but will consider seeking such legislation, as warranted, in the future.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of January 5, 2012.