

California State Auditor

B U R E A U O F S T A T E A U D I T S

Department of Health Services:

*Some of Its Policies and Practices Result
in Higher State Costs for the Medical
Therapy Program*



August 2004
2003-124

The first five copies of each California State Auditor report are free.
Additional copies are \$3 each, payable by check or money order.
You can obtain reports by contacting the Bureau of State Audits
at the following address:

**California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814
(916) 445-0255 or TTY (916) 445-0033**

OR

**This report is also available
on the World Wide Web
<http://www.bsa.ca.gov/bsa/>**

The California State Auditor is pleased to announce
the availability of an on-line subscription service.
For information on how to subscribe, please contact
the Information Technology Unit at (916) 445-0255, ext. 456,
or visit our Web site at www.bsa.ca.gov/bsa

Alternate format reports available upon request.

Permission is granted to reproduce reports.



CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

August 31, 2004

2003-124

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 requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Health Services' (department) Medical Therapy Program (MTP).

This report concludes that some of the department's policies and practices result in higher state costs for the MTP. During fiscal year 2002–03, the department expended \$7.2 million from the State's General Fund to fully support certain county personnel associated with the MTP without the express statutory authority to do so. Under statute, the department is required to share in MTP costs equally with the counties, which should have resulted in the department expending only \$3.6 million for these costs. Moreover, we noted that the department could further reduce state costs by accurately identifying all revenue to the State's Medicaid program, the California Medical Assistance Program (Medi-Cal), and by using a greater proportion of this revenue to offset its costs. We estimate that the State's MTP costs could have been reduced by an additional \$1 million during fiscal year 2002–03 based on these Medi-Cal payments.

The audit also revealed that a majority of MTP claims are denied for Medi-Cal payment due to a child's lack of eligibility. In addition, the department improperly allows Medi-Cal to pay claims for services to MTP children who are not in special education without requiring that their other health care insurers, if any, be billed first. Further, the department's limits on the number of times Medi-Cal will pay for certain therapy procedures are a barrier to obtaining Medi-Cal reimbursement for MTP services and may be overly restrictive for children in the MTP. We also found that most counties we visited took reasonable steps to follow up on MTP claims denied for Medi-Cal payment. Finally, the relatively low dollar value of MTP claims in fiscal year 2003–04, payable by the Healthy Families Program, casts doubt on whether these payments will significantly reduce MTP costs in the future.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

BUREAU OF STATE AUDITS

555 Capitol Mall, Suite 300, Sacramento, California 95814 Telephone: (916) 445-0255 Fax: (916) 327-0019 www.bsa.ca.gov/bsa

CONTENTS

<i>Summary</i>	1
----------------	---

<i>Introduction</i>	7
---------------------	---

Audit Results

The Department of Health Services' Authority to Fully Fund Certain County Costs Is Unclear, and Its Policies Result in the State Paying More Than Specifically Required for the Medical Therapy Program	15
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

The Department Has Not Adequately Reduced the State's MTP Costs Based on Medi-Cal Revenue to the Program	20
----------------------------------------------------------------------------------------------------------	----

More Than Half the MTP Claims Denied for Medi-Cal Payment Resulted From Children Lacking Medi-Cal Eligibility	29
---------------------------------------------------------------------------------------------------------------	----

The Department Applied an Overly Broad Modification to Its Claims-Processing System That Increased Medi-Cal Payments for MTP Services	30
---------------------------------------------------------------------------------------------------------------------------------------	----

Frequency Limits Imposed by the Medi-Cal Claims-Processing System Are a Barrier to Increased Savings to the State and Counties for the MTP	32
--------------------------------------------------------------------------------------------------------------------------------------------	----

Most Counties We Reviewed Took Reasonable Steps to Follow Up on MTP Claims Denied for Medi-Cal Payment	34
--------------------------------------------------------------------------------------------------------	----

Recent Claims Data Cast Doubt on Whether Payments From the Healthy Families Program Will Significantly Reduce MTP Costs	37
-------------------------------------------------------------------------------------------------------------------------	----

Recommendations	38
-----------------	----

Appendix

Counties Submitted Many Claims for Medical Therapy Program Services That Were Denied Medi-Cal Payment for Various Reasons	41
---------------------------------------------------------------------------------------------------------------------------	----

Responses to the Audit

Department of Health Services 43

***California State Auditor's Comments on the
Response From the Department of Health Services*** 49

Los Angeles County Department of Health Services 53

SUMMARY

RESULTS IN BRIEF

The Department of Health Services (department) administers the Medical Therapy Program (MTP) to provide medically necessary occupational and physical therapy services to children up to 21 years old. Children eligible for MTP services are afflicted with severe medical conditions such as cerebral palsy, neuromuscular conditions, and chronic musculoskeletal and connective tissue diseases. During fiscal year 2002–03, more than 26,600 children were receiving MTP services statewide at a total cost of \$69.1 million. Children receive MTP services in public schools and are treated by physical and occupational therapists. Counties hire and pay the therapists and obtain reimbursement from the department for half these costs on a quarterly basis. State law requires the department and counties to share equally in the costs of the MTP. Reimbursements from the State’s Medicaid program, the California Medical Assistance Program (Medi-Cal), and the Healthy Families Program (Healthy Families) provide federal funding and help pay for MTP services, reducing the burden on both the State and counties to share the total cost of the MTP.

We found that the department’s policies have resulted in the State incurring higher costs for the MTP than do the counties. In fiscal year 2002–03, the State spent \$4.6 million more than state law specifically authorizes to support the MTP, primarily because of the following department policies and practices:

Audit Highlights . . .

Our review of the Department of Health Services’ (department) Medical Therapy Program (MTP) revealed the following:

During fiscal year 2002–03 the department spent \$4.6 million more than state law specifically authorizes because it:

- *Fully funded certain county positions without the express statutory authority to do so.*
- *Used a method for sharing the State’s Medicaid program, the California Medical Assistance Program (Medi-Cal), payments with counties that resulted in the State incurring a larger portion of MTP costs than specifically authorized in law.*
- *Did not identify and reap the State’s share of Medi-Cal payments made to certain counties for MTP services.*

A majority of MTP claims are denied for Medi-Cal payment due to a child’s lack of eligibility.

continued on next page . . .

- *Full funding of the county positions responsible for coordinating MTP services with services provided by special education programs, using state funds without the express statutory authority to do so. This policy caused the State to incur \$3.6 million more in MTP costs than state law specifically authorizes. However, because counties use these funds to support their coordination activities with special education, any change in this funding policy needs to be considered in light of the State’s responsibility under the federal Individuals with Disabilities Education Act to maintain a level of funding for special education and related services at least equal to the level of funding the State provided in the preceding fiscal year.*

- ☑ *Lacking federal approval, the department allows Medi-Cal to pay MTP claims without requiring that other health care insurers, if any, be billed first.*
 - ☑ *Limits on the number of times Medi-Cal will pay for certain therapy procedures are a barrier to obtaining Medi-Cal reimbursement for MTP services and may be overly restrictive for children in the MTP.*
 - ☑ *Except for Los Angeles, the counties we visited took reasonable steps to follow up on and correct MTP claims denied for Medi-Cal payment.*
 - ☑ *The department identified approximately \$24,000 in MTP claims for fiscal year 2003–04 that are covered by the Healthy Families Program, calling into question whether this program will significantly reduce MTP costs in the future.*
-

- A method for sharing Medi-Cal payments with counties that caused the State to incur approximately \$774,000 more in MTP costs than specifically authorized by state law.
- Failure to identify all Medi-Cal payments made to certain counties that caused the State to incur approximately \$254,000 more in MTP costs than specifically authorized by state law.

Further, in July 2003, the department changed its method for sharing Medi-Cal revenue with the counties that we estimate will result in the State paying \$2 million more annually for the MTP than specifically authorized by state law.

We also noted that more than half the MTP claims that Electronic Data Systems Federal Corporation (EDS) denied for Medi-Cal payment in the seven-quarter period we reviewed resulted from children being ineligible for Medi-Cal. In particular, EDS—the department’s Medi-Cal federal fiscal intermediary—denied more than 425,700 MTP claims from July 2002 through March 2004 because the children were either never enrolled in Medi-Cal or not eligible for coverage during the period of service. Under California law, there is no financial eligibility requirement to qualify for MTP services. As a result, children that properly meet medical and residential requirements can participate in the MTP regardless of how much income the child or family earns. However, the child or family must meet certain financial eligibility requirements to qualify for Medi-Cal. Thus, some children receiving MTP services may not meet the income requirements to qualify for Medi-Cal. In addition, even if children enrolled in MTP or their families meet Medi-Cal’s financial eligibility requirements, they are not required to enroll in Medi-Cal. The department requires counties to submit all MTP claims through the Medi-Cal claims-processing system, regardless of a child’s Medi-Cal eligibility, so it can gather statistical data. Therefore, it is reasonable to expect that some MTP claims will be denied because the children are not eligible for Medi-Cal.

Until recently, one barrier to obtaining Medi-Cal reimbursement for MTP claims had been the department’s policy regarding Medi-Cal claims submitted before other health care insurers had been billed. According to state and federal statutes, Medi-Cal is the payer of last resort, paying claims only after any other available health care insurer has been tapped. According to data provided by EDS, a significant number of MTP claims were denied because other health care insurers were not billed first. These denied claims, numbering more than 134,400, amounted to between \$883,000 and \$4.7 million from July 2002 through

March 2004, based on the lowest and highest reimbursement rate for physical and occupational therapy procedures. However, the department concluded that most children receive MTP services in a special education setting. Under federal law, children in special education are entitled to a free and appropriate education, which precludes the department from billing other health care insurers for MTP services received in conjunction with special education. In addition, the department recognized that denying Medi-Cal payment of these MTP claims was resulting in a failure to maximize federal funding. Consequently, the department revised its Medi-Cal payment policy in March 2004 to allow Medi-Cal to pay all MTP claims without requiring that other health care insurers be billed first. However, the department applied this policy change too broadly, without obtaining federal approval, because some of the children in the MTP are not in special education. For claims related to these children, the department should still be ensuring that other available health care insurers are billed before allowing Medi-Cal to pay. The department acknowledges that it has not obtained federal approval for its current practice, asserting that the federal government had denied a similar request in the past and told the department that it was too busy to respond to such requests.

Another barrier to obtaining Medi-Cal reimbursement for MTP services relates to limits on the number of times Medi-Cal will pay for certain therapy procedures. According to data provided by EDS, more than 42,500 MTP claims, equaling 6 percent of claims denied for Medi-Cal payment from July 2002 through March 2004, were denied because the services billed exceeded the Medi-Cal frequency limits established by the department. We estimate that the value of these denied claims was between \$280,000 and \$1.5 million. Although the current frequency limits may be appropriate for the general Medi-Cal population, the department admits that the limits may not be appropriate for children receiving MTP services. Similarly, all four counties we visited indicated that Medi-Cal's current frequency limits on therapy procedures are overly restrictive.

Our review also revealed that most counties we visited took reasonable steps to follow up on MTP claims that were denied for Medi-Cal payment for reasons the counties may be able to control. From July 2002 through March 2004, EDS denied more than 45,000 MTP claims because of errors the counties could apparently correct, such as completing claims incorrectly or not attaching necessary documentation. Three of the four counties we visited took reasonable steps to review, correct, and resubmit

claims that had apparently correctable problems. However, Los Angeles County did not follow up on any individual MTP claims that EDS denied for Medi-Cal payment during the period we reviewed. To the extent that it could have corrected and resubmitted some of these claims, Los Angeles County missed an opportunity to maximize Medi-Cal payments for MTP services and to reduce state and county costs for the program. Los Angeles County, which provided services to approximately 29 percent of the MTP caseload statewide, according to caseload data the counties reported for fiscal year 2002–03, may have missed out on between \$58,000 and \$307,000 in Medi-Cal payments because it did not attempt to correct and resubmit roughly 8,800 MTP claims that were denied for errors the county might have been able to correct or prevent.

Finally, recent claims data cast doubt on whether payments from the Healthy Families Program (Healthy Families) will significantly reduce MTP costs in the future. According to EDS data for fiscal year 2003–04, Medi-Cal paid about \$24,000 in MTP claims for services provided to children enrolled in Healthy Families—a state insurance program that covers children from low-income families. Although \$24,000 is a small amount compared with the \$69.1 million in total costs for the MTP in fiscal year 2002–03, the department plans to bill Healthy Families for these costs to reimburse the amount Medi-Cal has already paid and to take advantage of the higher federal financial participation under Healthy Families, which is 65 percent instead of 50 percent under Medi-Cal. Although the department’s lack of eligibility information on children enrolled in both the MTP and Healthy Families limits any assessment on billing effectiveness, the relatively low dollar value of Healthy Families claims in fiscal year 2003–04 calls into question whether Healthy Families payments for MTP services will significantly reduce MTP costs in the future.

RECOMMENDATIONS

To ensure that the State minimizes its costs and pays only what is statutorily required for providing MTP services, the department should do the following:

- Seek specific statutory authority from the Legislature to fully fund county personnel whose jobs include coordinating the MTP with special education agencies as required by Chapter 1747, Statutes of 1984 (AB 3632). Should the

Legislature decide to reduce the State's current funding for these activities, it should consider the implications of such an action on the State's responsibility under the federal Individuals with Disabilities Education Act to maintain a level of funding for special education and related services at least equal to the level of funding the State provided in the preceding fiscal year.

- Modify its current method for reducing the State's costs for the MTP to ensure that state costs are offset by the State's full share of all Medi-Cal payments counties receive for MTP services.

To ensure that Medi-Cal appropriately pays MTP claims to the fullest extent possible, the department should do the following:

- Obtain federal approval to allow Medi-Cal to pay for MTP services provided to children who are not in special education without checking for the existence of other health care coverage. Otherwise, the department should modify the current Medi-Cal claims-processing system to ensure that other available health care insurers are charged before Medi-Cal pays for MTP services provided to children who are not in special education.
- Evaluate whether the current limits Medi-Cal places on the frequency of certain therapy procedures are appropriate for MTP services. If the department determines that the Medi-Cal frequency limits are inappropriate, it should seek approval to modify these limits accordingly.

To maximize Medi-Cal payments for MTP services, Los Angeles County and any other counties that do not review MTP claims denied for Medi-Cal payment should attempt to correct and resubmit denied MTP claims when it is cost-effective to do so.

AGENCY COMMENTS

The department agrees with some of our findings and recommendations. However, it has significant concerns with our findings and recommendations related to its policy of fully funding certain county positions and its method for sharing Medi-Cal payments with counties. The department's response and our clarifying comments follow the Appendix. Los Angeles County concurs with the recommendation we directed to it. ■

Blank page inserted for reproduction purposes only.

INTRODUCTION

BACKGROUND

The Department of Health Services (department) administers a broad range of public health programs that serve the needs of Californians. The department's Children's Medical Services Branch administers some of these programs, including California Children's Services (CCS). Established to assist children with cerebral palsy in the public schools, CCS provides diagnostic, treatment, and therapy services to physically handicapped children 21 years old and under. The therapy component of CCS, the Medical Therapy Program (MTP), is conducted primarily in public schools and provides medically necessary occupational and physical therapy as well as physician consultations to children with conditions such as cerebral palsy, neuromuscular conditions, and chronic musculoskeletal and connective tissue diseases.

County personnel respond to referrals to the MTP, develop an appropriate therapy plan for each child, and provide direct therapy services in school-based Medical Therapy Units (therapy units). Anyone—a parent, teacher, physician, or school nurse, for instance—can refer a child to the MTP by contacting the program in the child's county of residence. The referral must include the name of the child and his or her parent or guardian, contact information, and the name of the referring party. When the county MTP receives the referral, it attempts to contact the parent, legal guardian, or the child, providing them notification of the referral and a program application. A parent or legal guardian of a minor child, or the prospective participant if she or he is 18 or older, must submit a written application and in some cases a release of information form to the county to receive MTP services. On receiving the signed application and necessary release forms, county personnel request pertinent medical records to determine the child's medical eligibility for MTP services. County personnel also attempt to contact the child's family to determine the child's residential eligibility. Once the county has determined that the child meets the medical and residential requirements for MTP services, a medical therapy conference team, composed of therapists and physicians, develops a comprehensive therapy plan that is based on the child's diagnosis and needs and is coordinated with the child's individualized education program. The findings and

recommendations of the physicians on the medical therapy conference team are incorporated into the child's therapy plan, which includes information on the frequency, duration, and objectives of the therapy.

Once the medical therapy conference team has approved the therapy plan, the child can begin receiving MTP services from a therapist at a therapy unit. Therapy units are located in public schools throughout the State. A child who does not attend a school with a therapy unit receives transportation to the nearest therapy unit by a school bus or care provider.

Funding for the MTP Comes From Federal, State, and Local Governments

The State and counties share in funding the MTP. By law, the State is required to match county expenditures up to an amount equal to one-half the counties' actual expenditures from fiscal year 1990–91. The State matches any additional county expenditures over this amount on a dollar-for-dollar basis, to the extent that funds are available from the State's General Fund. In 1992, the department began considering its ability to obtain federal reimbursement for children who receive MTP services and are covered by California's medical assistance Medicaid program (Medi-Cal). The department determined that to bill Medi-Cal for MTP services, the therapy units would need to be certified as rehabilitation centers in accordance with the State's federally approved Medicaid plan. In 1993, the department began certifying therapy units, and by July 1994, it began billing Medi-Cal for MTP services.

Medi-Cal is the State's medical assistance program under Title XIX of the Federal Social Security Act. Under Medi-Cal, California receives federal matching funds to implement a single comprehensive medical care program. In fiscal year 2002–03, the MTP served more than 26,600 children statewide at a total cost of \$69.1 million. According to unaudited data from the department and counties, Medi-Cal paid \$7.9 million of this total cost, and the federal government's share was 50 percent, or roughly \$3.9 million, with the State paying the remainder.

In addition to Medi-Cal funding, California receives federal matching funds for the State Children's Health Insurance Program under Title XXI of the Federal Social Security Act. Known as the Healthy Families Program (Healthy Families) in California, this insurance program provides coverage for

children aged one through 19 whose families' incomes range from 100 percent to 250 percent of the federal poverty level. In fiscal year 2002–03, the federal portion of each payment from Healthy Families was roughly 65 percent and the State's portion was 35 percent. The department told us that the Managed Risk Medical Insurance Board, the State's oversight agency for Healthy Families, concurred with the department's decision to claim federal funds for MTP services provided to children covered by Healthy Families. The department has identified approximately \$24,000 in MTP costs for fiscal year 2003–04 that it plans to bill to Healthy Families.

Billing Medi-Cal and Healthy Families for Medical Therapy Services Starts With the Counties

For each child receiving MTP services, the child's therapist records the type and duration of the services rendered on a Patient Therapy Record, which serves as the basis for billing Medi-Cal and Healthy Families. The mechanism for billing Medi-Cal and Healthy Families is the same. The department requires counties to use the Patient Therapy Record to prepare claims for all billable MTP services and submit the claims to the department's Medi-Cal federal fiscal intermediary, Electronic Data Systems Federal Corporation (EDS). Each claim EDS receives must include information about the child receiving services, including name, birth date, gender, and diagnosis, as well as the name and address of the therapy unit, a description of the services, and the county authorizing the claim.

EDS enters all MTP claims into the California Medicaid Management Information System—the Medi-Cal claims-processing system—which subjects the claims to a series of checks, called edits and audits. The edits and audits verify and validate claim information to determine if a claim should be paid, denied, or suspended for manual review. Edits and audits include determining whether the child is eligible for Medi-Cal and receives therapy services in a frequency that does not exceed the department's established limits. A claim that fails an edit or audit is reviewed by an EDS claims examiner, who identifies and corrects any input errors, and a physician or other qualified medical professional reviews a claim requiring medical judgment. If the claim continues to fail the edits or audits process, EDS denies it. A claim that passes edits and audits is listed on a payment tape and sent to the State Controller's Office, which generates a warrant and accompanying Remittance Advice Details (remittance advice). Among the information included in the remittance advice are the child's name, date

of service, total charges, charges that Medi-Cal does not cover, and the paid amount. The remittance advice also includes information relating to denied claims. Within six months from the date of the remittance advice, counties can resubmit denied claims for further consideration.

Although EDS is responsible for processing Medi-Cal claims, three county-organized health system (COHS) agencies administer a capitated, comprehensive, case-managed health care delivery system for five counties: Napa, San Mateo, Santa Barbara, Solano, and Yolo. Under their state contracts, the three COHS agencies agree to pay for health care, including MTP services, provided to Medi-Cal beneficiaries who are residents of the five counties.

The Department Reimburses Counties Quarterly for MTP Costs

Requirements of Interagency Agreements Between California Children's Services and Local Education Agencies to Provide MTP Services

- Contact persons within each local education agency in the special education local planning area (planning area) and within the county CCS agency. The local education agency—a school district or county office of education—is responsible for providing special education and related services within the planning area.
- Process to refer children who may require medically necessary occupational or physical therapy.
- Process to exchange medical and educational information.
- Proper notice of all meetings of the teams overseeing children's individualized education programs and any impending changes in medical therapy services that may necessitate changes in the individualized education programs.
- Process for transporting children who receive services at therapy units or unit satellites.

Sources: Title 2, California Code of Regulations, sections 60000 through 60330 (state interagency regulations implementing AB 3632).

Each quarter counties submit expenditure reports that detail the costs they incurred for the MTP. The department reimburses the counties quarterly for 50 percent of their costs for the salary and benefits, differential pay, and travel expenses of therapy unit staff who provide direct patient care or supervision. Additionally, counties receive reimbursement for 50 percent of the costs for therapists they contract with and for items purchased to serve individual patients at therapy units, such as splinting materials. However, the department reduces the counties' costs by the amount they receive in Medi-Cal payments. Throughout the fiscal year, EDS provides the department with information on the amount of Medi-Cal payments each county received each quarter for MTP services. Using the counties' expenditure reports and EDS's Medi-Cal data, the department calculates the quarterly net cost for the MTP and reimburses the counties for half that amount.

State law holds the superintendent of public instruction and the secretary of the Health and Human Services Agency jointly responsible for ensuring the maximum utilization of all state and federal resources available to provide a free, appropriate education and designated instruction and services to every child with a disability. State regulations require local education agencies and county CCS agencies to develop

and implement interagency agreements to provide medically necessary occupational and physical therapy to children. CCS also enters into an interagency agreement with the Department of Developmental Services and assumes responsibility for the medical case management of children who are eligible for MTP services.

The department fully funds the counties to pay the costs of personnel working to implement the coordination activities contained in the interagency agreements. To receive departmental funding, each county must report the following statistics every fiscal year: (1) the number of children receiving MTP services; (2) the number of children receiving MTP services under an individualized education program; (3) the number of children receiving MTP services under an individualized family service plan, which provides early intervention services to eligible infants or toddlers and their families; and (4) the number of special education local planning areas (planning areas) in their counties. These statistics are used to help the department calculate the number of full-time equivalent positions the counties need to coordinate activities within the planning areas and to participate in special education team meetings to discuss children's individualized education programs. According to MTP claims submitted by the counties in fiscal year 2002–03, these coordination efforts cost approximately \$7.2 million.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) review department and county billing practices for the MTP and evaluate whether such practices minimize the State's costs for MTP services. Specifically, the audit committee asked the bureau to review the department's policies and procedures for overseeing MTP billing practices, review counties' MTP billing policies, and identify and evaluate controls at the State and county level to ensure that MTP services are appropriately billed to Medi-Cal. The audit committee also asked the bureau to determine whether the department and counties effectively bill services to Medi-Cal and other third-party providers. Finally, the audit committee asked the bureau to examine the Medi-Cal billing codes used for MTP services and determine whether the use of such codes negatively affects the number of billable visits that Medi-Cal reimburses.

We reviewed the laws, regulations, and departmental policies regarding state and county billing practices for the MTP. Based on our review, we identified the general areas of responsibility for the department and counties. Our review of the department's policies identified the criteria used to process Medi-Cal claims for children enrolled in the MTP, explaining why the State's federal fiscal intermediary, EDS, denies more than half the MTP claims counties submit. Our review also included an analysis of the department's guidance to counties regarding billing practices and reporting requirements. We also identified the extent to which the department had complete data on MTP expenditures and revenues. Our review of MTP billing practices did not include billing practices related to the other diagnostic and treatment services under CCS. We did not review these areas because medical providers, not counties, bill for these services.

With the assistance of the department and EDS, we obtained information on the number of Medi-Cal claims submitted, approved, and denied for children receiving MTP services. To understand why Medi-Cal claims for MTP services are denied, we obtained information on the reasons for denial from EDS for all claims it denied and learned the criteria behind the majority of denials.

To review the billing practices of a sample of counties, we chose four counties to review based on their fiscal year 2002–03 reported costs and Medi-Cal payments received. We selected three counties—Alameda, Sacramento, and Butte—because they had relatively high or low levels of Medi-Cal reimbursement compared with their total MTP costs. We also decided to review Los Angeles County because it reported the largest caseload of the State's 58 counties: nearly 29 percent of MTP cases reported by counties statewide. Los Angeles also had the greatest total cost for the MTP of any county: roughly \$15.6 million of the total MTP cost of \$69.1 million for fiscal year 2002–03.

At each county we visited, we identified and assessed the effectiveness of its process for referring potentially eligible children to Medi-Cal and Healthy Families. Our review also included an analysis of whether the county had a process in place to identify children who had lost coverage with the goal of getting them back into Medi-Cal or Healthy Families if they were eligible. Our testing at each county also involved reviewing a sample of claims to evaluate the county's billing practices. Through this review, we identified county Medi-Cal claims for MTP services that were

denied, and we evaluated the reasons for denial. Further, we assessed whether the county identified and resubmitted Medi-Cal claims that had reasonably correctable errors.

By reviewing the completeness of the department's data on program expenditures, assessing Medi-Cal data provided by EDS, and interviewing department and county staff, we attempted to determine whether the department and counties effectively identify and bill Medi-Cal or other third-party payers for MTP services, thereby minimizing MTP costs for the State. Our review included evaluating the billing codes used by counties and any negative impact the codes had on the level of Medi-Cal reimbursement.

Finally, the audit committee asked the bureau to identify and evaluate the controls in place at the county level to ensure that vendors or providers appropriately bill for MTP services. However, our review of the counties' use of vendors showed that such expenditures constituted only 3 percent of total MTP costs for fiscal year 2002–03. Further, we found that a sample of counties decided to use vendors appropriately based on departmental guidance and incurred costs for vendors, per procedure billed, that were comparable to Medi-Cal. As a result, we concluded that further analysis in this area would likely not yield opportunities for increased savings to the State for the MTP. ■

Blank page inserted for reproduction purposes only.

AUDIT RESULTS

THE DEPARTMENT OF HEALTH SERVICES' AUTHORITY TO FULLY FUND CERTAIN COUNTY COSTS IS UNCLEAR, AND ITS POLICIES RESULT IN THE STATE PAYING MORE THAN SPECIFICALLY REQUIRED FOR THE MEDICAL THERAPY PROGRAM

Although state law requires the State to fund only 50 percent of counties' costs for the Medical Therapy Program (MTP), the Department of Health Services (department) has fully funded the costs for county personnel to coordinate the activities of the MTP with special education programs in public schools. To support these coordination efforts in fiscal year 2002–03, the department paid counties nearly \$7.2 million, which represented more than 10 percent of the total expenditures for the MTP that year. Chapter 1747, Statutes of 1984 (AB 3632), requires the coordination of the MTP with special education but does not require or authorize the department to fully fund these activities. The department asserts that full funding for coordination of the MTP and special education has been included in the department's budget each year; however, neither the annual budget act nor related legislation has modified existing state law to specifically authorize the department to pay 100 percent of county costs for coordinating with special education.

If the department and the counties had shared equally in the costs of coordinating the MTP with special education, as directed by statute, the costs to the State would have been \$3.6 million in fiscal year 2002–03, half the amount the State actually paid. Additionally, we found that the department's method of calculating counties' coordination costs is based on estimates developed in 1998 rather than on actual costs. Moreover, one factor used in the calculation is not consistent with actual data the counties annually report to the department. As a result, the department cannot be certain that it is paying an appropriate amount for the costs counties incur under AB 3632.

Paying All the Costs Counties Incur to Coordinate MTP Services With Special Education Is Not Clearly Within the Department's Authority

Because the MTP provides therapy services in public school settings to children with physical disabilities, it is not surprising that some children receiving MTP services also receive therapy as part of their special education programs. Recognizing the potential overlap in therapy services between the MTP and special education, the Legislature passed AB 3632 in 1984, requiring the department and the California Department of Education to adopt interagency regulations specifying the responsibilities and level of coordination between the programs. The coordination called for under AB 3632 requires a county MTP representative to attend special education team meetings if MTP services are being considered for inclusion in a child's special education plan. Further, state interagency regulations require county education agencies and agencies in the county associated with California Children's Services (CCS) to develop and implement local interagency agreements to help provide children with medically necessary therapy services. To meet this requirement, the county CCS agency and education agencies must establish processes for exchanging medical and educational information concerning children with disabilities, provide notices of special education team meetings and changes in children's MTP plans that could affect special education services, and perform various other coordinating activities. After interagency regulations were established in 1998 specifying counties' coordination responsibilities, the department determined that these were new requirements and that it would pay for the costs of these efforts in full.

After interagency regulations were established in 1998 specifying counties' coordination responsibilities, the department determined that these were new requirements and that it would pay for the costs of these efforts in full.

Although AB 3632 does not require it, the department contends that it has the budget authority to pay 100 percent of county costs for coordinating the delivery of MTP services with special education. Specifically, for fiscal year 1998–99, the department says that it included new costs in its budget estimate and received funding for implementing AB 3632. The budget included costs for county coordination as well as expected increases in costs for fair hearings and therapy. The budget proposal stressed that the AB 3632 regulations were needed to comply with federal requirements related to special education. The department contends that failure to meet federal special

education requirements could have caused the California Department of Education to lose \$280 million in federal funding for special education.

Neither provisional language in the budget act nor language in the MTP's implementing statute authorizes a deviation from Section 123940, which requires the State and counties to equally divide MTP costs.

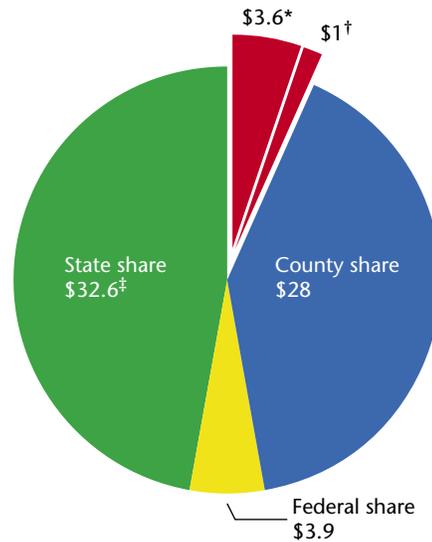
The department's statutory requirement to divide MTP costs equally between the State and counties is stated in Section 123940 of the Health and Safety Code (Section 123940). Despite the department's practice of fully paying for the additional county costs related to coordinating activities under AB 3632, the department has not received express statutory authority to fund these county activities at a level greater than 50 percent of county costs. In particular, neither provisional language in the budget act nor language in the MTP's implementing statute authorizes a deviation from the requirements of Section 123940. Consequently, the department's legal authority to fully fund these county coordinating activities is unclear.

As Figure 1 on the following page shows, the total cost for the MTP in fiscal year 2002–03 was \$69.1 million, and the State paid \$4.6 million more than specifically required under Section 123940. Of the total, \$3.6 million represents half the total costs of \$7.2 million for the coordination activities under AB 3632. The remaining \$1 million relates to the portion of payments made by the State's Medicaid program, the California Medical Assistance Program (Medi-Cal), to counties and not offset by the State from its share of MTP costs, as discussed in the next major section of this report.

Should the Legislature decide to discontinue fully funding county costs for coordinating the delivery of MTP services with special education, it should consider the impact such a decision might have on the State's overall financial obligations related to special education. Specifically, the State receives federal funding each year under the Individuals with Disabilities Education Act (IDEA). As a condition of receiving this federal funding, the State is prohibited from reducing the amount of state financial support for special education and related services below the level of that support in the preceding fiscal year. Because some children receive MTP services as part of their special education plans under IDEA, any reduction in the State's annual support for the MTP must also be evaluated in the context of the State's responsibility to spend an amount at least equal to the amount spent in the preceding fiscal year on special education services. Otherwise, the State might face a possible reduction in federal special education funds.

FIGURE 1

The State Paid \$4.6 Million More Than Specifically Authorized of the Total \$69.1 Million in Costs for the MTP in Fiscal Year 2002–03 (in Millions)



Source: County quarterly MTP claims and Medi-Cal payment data provided by EDS and county-organized health system agencies.

* This represents the additional costs the State incurred because it funded 100 percent of the coordination activities under AB 3632.

† This represents additional costs the State incurred because it did not reduce its costs by its full share of Medi-Cal payments.

‡ This represents the State's maximum funding obligation according to Section 123940 of the Health and Safety Code.

The Department's Estimate of the MTP Costs Counties Incur to Coordinate With Special Education May Not Reflect Actual Costs

The department's method of determining the county resources required to comply with AB 3632 is formula driven and based largely on estimates rather than on actual costs incurred. In addition, one factor used in the calculation is not consistent with the information counties report to the department. As a result, the department cannot be sure what costs the counties are actually incurring to coordinate MTP services with special education.

According to department staff, after establishing the counties' coordination responsibilities in 1998, the department began to develop a way to pay counties for these costs. In August 1998, the department issued guidance to counties, informing them that the State would reimburse counties for 100 percent of their coordination costs and describing the general method it would use to calculate the amounts and make the payments. Each year, the department requires each county to submit data specifically relating to its coordination activities: the number of special education local planning areas (planning areas) that coordinate with the county's MTP; the number of Medical Therapy Units (therapy units) in the county; the total number of children on the county's MTP caseload; and the number of children in the county with individualized education programs or related plans. The department uses some of this information, along with other estimated workload factors, to calculate the number of full-time equivalent positions (FTEs) it will pay for.

The department's formula for determining the number of state-funded FTEs is divided into two parts. The first part of the formula calculates the number of county FTEs needed for the coordination duties specified in AB 3632. The department inputs the county-reported information on planning areas and therapy units and multiplies it by the number of hours needed annually for liaison duties. The formula assumes 188 hours are necessary per year for coordination activities for each planning area and an additional eight hours per year for each therapy unit. The department also calculates the number of county therapist FTEs needed to participate in special education meetings, using the MTP caseload data each county reports. The department's formula assumes that 85 percent of the children enrolled in the MTP are also receiving services through special education programs and that it takes an MTP representative 0.115 hour per week per child to attend special education team meetings. Although the department developed these workload standards in 1998 to address counties' initial and continuing obligations, staff at the department told us that it has not required county MTPs to complete time studies to validate its workload assumptions.

The department's estimation that 85 percent of children receiving MTP services are also in special education is not consistent with data the counties reported to the department for fiscal years 2002–03 and 2003–04.

Further, our review revealed that the department's estimation that 85 percent of children receiving MTP services are also in special education is not consistent with the data counties reported to the department. Specifically, in fiscal year 2002–03, counties reported that about 20,500 of the 26,600 children in the MTP statewide were also enrolled in special education; this

equates to roughly 77 percent of children in the MTP. For fiscal year 2003–04, counties reported that only 54 percent of children in the MTP received services through special education.

When we asked the department to reconcile the 85 percent figure used in the formula with the county-reported data, the department attributed the lower reported percentages to its recent requirement that only children whose individualized education programs or related plans are filed with the county are considered recipients of special education. However, the department believes that its original 85 percent estimate of children enrolled in both MTP and special education is correct, explaining that the 54 percent reported in fiscal year 2003–04 was the result of counties struggling to obtain the necessary documentation from local education agencies. According to the department, its 85 percent estimate was reasonable based on the department’s perception of conditions in 1998 when it created the formula. However, we noted that the department has not validated the original estimate.

The department’s formula does not result in a reliable estimate of the costs counties incur for coordinating the delivery of MTP services with special education.

Overall, the department’s formula does not result in a reliable estimate of the costs counties incur for coordinating the delivery of MTP services with special education, primarily because the formula is not based on actual data but rather on estimates of needed personnel. By requiring counties to track the time staff spend on coordination activities and submitting this documentation as support for their actual efforts, the department would be in a stronger position to know the true costs of these activities.

THE DEPARTMENT HAS NOT ADEQUATELY REDUCED THE STATE’S MTP COSTS BASED ON MEDI-CAL REVENUE TO THE PROGRAM

The department’s policies for identifying Medi-Cal revenue to the MTP and sharing it with counties result in the State paying more than specifically required for MTP costs. By law, the State and counties must share MTP costs equally, which also requires equal sharing of MTP revenues that reduce those costs and come from sources other than the State or counties, such as the federal portion of Medi-Cal payments. However, as part of its quarterly process for reconciling total state and county MTP costs for fiscal year 2002–03, the department did not reduce the State’s costs for its full share of Medi-Cal payments made to counties that were processed by the State’s federal fiscal

intermediary, Electronic Data Systems Federal Corporation (EDS). As a result, the State paid \$774,000 more than specifically required for the MTP. Similarly, the department did not reduce state costs by a total of \$1.4 million in Medi-Cal payments processed by EDS for the preceding four fiscal years.

The department also did not reduce the State's MTP costs by an additional \$254,000 for fiscal year 2002–03 because it did not detect and account for Medi-Cal payments made by county-organized health system (COHS) agencies—managed-care systems that arrange and pay for services that are covered under their contracts with the department and are provided to Medi-Cal clients living in those counties. Some of these covered services are those provided by the CCS program, which includes MTP. Moreover, in July 2003, the department revised its method of applying Medi-Cal revenue when calculating state and county shares of MTP costs. Consequently, the State paid more than the law specifically requires. In fact, we estimate that the department's new procedures will result in the State paying about \$2 million more annually than specifically required by Section 123940, assuming that Medi-Cal payments in future years approximate the level of payments in fiscal year 2002–03.

The Department Continues to Pay More Than Statute Specifically Requires for the MTP Because It Does Not Reduce Costs by the State's Full Share of Medi-Cal Revenue

The State's costs for the MTP were higher than counties' costs by more than \$774,000 during fiscal year 2002–03 because the department allowed counties to realize a greater benefit from Medi-Cal revenue than it allowed the State.

The department's method of reducing state and county MTP costs by the amount of Medi-Cal revenue to the program results in the State paying more than is specifically required under Section 123940. In particular, the State's costs for the MTP were higher than counties' costs by more than \$774,000 during fiscal year 2002–03 and more than \$1.4 million in the four preceding fiscal years because the department allowed counties to realize a greater benefit from Medi-Cal revenue than it allowed the State. Law governing the MTP requires the State to match county expenditures under the program. For this to occur, the State and counties must also share equally in any federal revenue the program receives.

Beginning in 1994, the department directed counties to bill Medi-Cal for therapy services provided to children enrolled in the MTP. Every Medi-Cal payment for MTP services is funded by both the State's General Fund and federal Title XIX funds. The federal funds represent revenue to the program that reduces the costs that the State and counties must share to pay for the MTP.

Because Medi-Cal payments are made directly to the counties, the department considers the impact of these payments when it performs a quarterly reconciliation of the overall state and county responsibilities for funding the MTP. As shown in Table 1, for the State and counties to share equally in the costs of the MTP, the department needs to reduce the State’s MTP costs by 75 percent of all Medi-Cal payments a county receives during a quarter—that is, the General Fund portion plus half the federal portion of total Medi-Cal payments.

TABLE 1

The State Must Reduce Its Share of MTP Costs by 75 Percent of Medi-Cal Payments to Share Costs Equally With Counties

	Example of Quarterly MTP Costs			Totals
	County Cost (Offset)	State Cost (Offset)	Federal Cost	
Total cost incurred by county	\$500,000			\$500,000
State’s share of total cost*	(250,000)	\$250,000		
Medi-Cal payments to county†	(160,000)	80,000	\$80,000	
Share of cost before state reduces its share by portion of Medi-Cal payments	90,000	330,000	80,000	500,000
75 percent of Medi-Cal payments‡ (160,000 x 75 percent)	120,000	(120,000)		
Share of cost after state reduces its share by portion of Medi-Cal payments*	210,000	210,000	80,000	500,000

* In accordance with Section 123940 of the Health and Safety Code, the State matches county MTP costs.

† County receives Medi-Cal payments for a portion of the MTP services it provides. The State’s General Fund and federal Title XIX funds pay approximately equal portions.

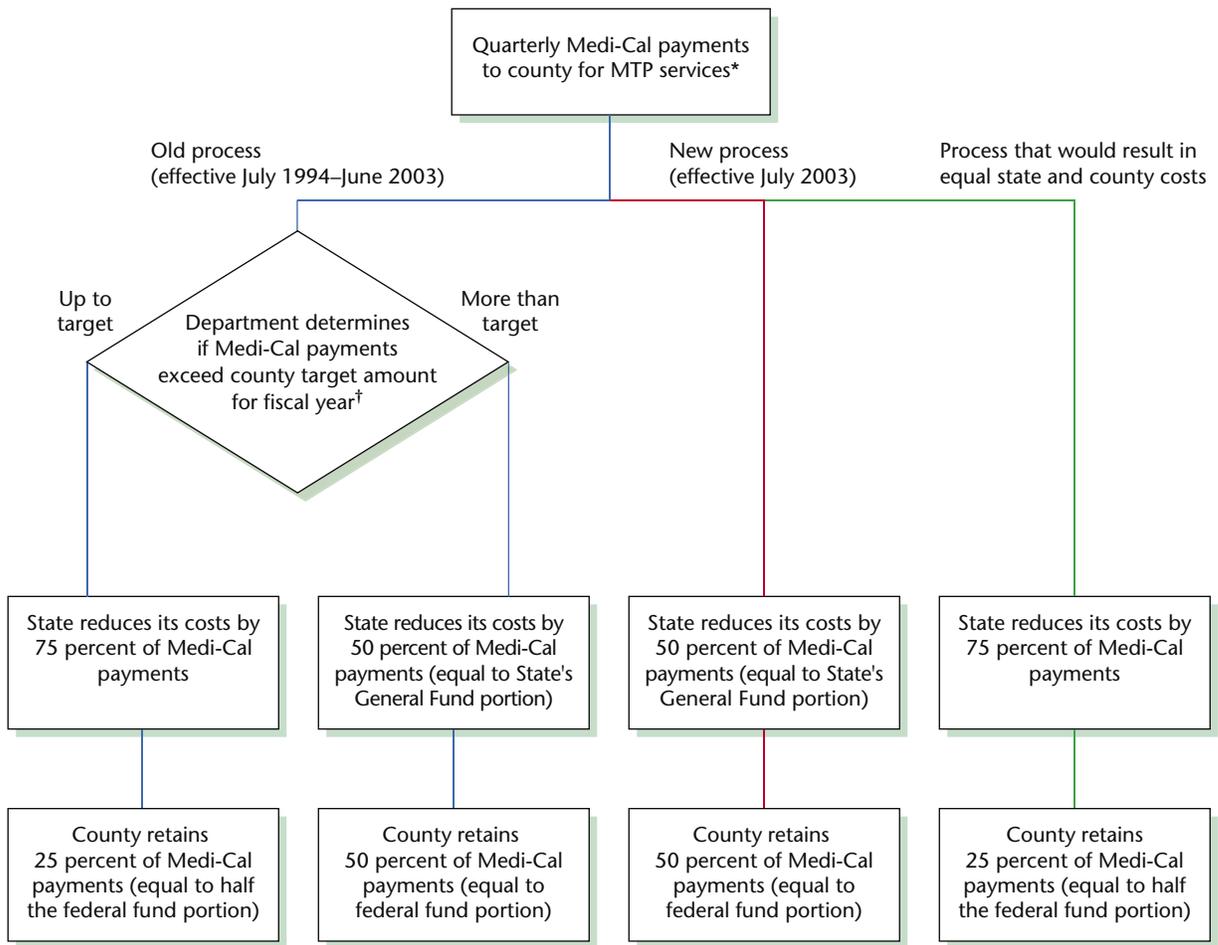
‡ An amount equal to the State’s General Fund portion (\$80,000) plus half the federal funds portion (\$40,000) of the Medi-Cal payments.

The department has used two methods for reducing the State’s MTP costs based on the Medi-Cal payments counties received for MTP services. As shown in Figure 2, the method used from July 1994 through June 2003 set a target amount based on the Medi-Cal payments the department estimated each county would receive for MTP services in a fiscal year. This properly reduced the State’s costs by 75 percent of the Medi-Cal payments up to the target amount. However, after a county had received its target amount for the fiscal year, state costs were only reduced by 50 percent of the Medi-Cal payments. The department established the target amounts as part of its fiscal year 1994–95 budget and, based on our review of the target amounts used

in fiscal year 2002–03, these estimates had not significantly changed since that time. By using this method, the department did not allow the State to reduce its costs by 75 percent of any Medi-Cal revenues that exceeded each county’s target.

FIGURE 2

The Department’s Process to Calculate the State and County Shares of Medi-Cal Payments Has Changed



* The State’s General Fund and Title XIX federal funds provide approximately equal shares of funding for these Medi-Cal payments.

† Target amount is the department’s 1994 estimate of Medi-Cal payments each county would receive in a fiscal year.

The department's authority for allowing counties to retain 50 percent of the Medi-Cal payments once they reached the target amount is unclear.

Department staff told us that this method simply implemented the Legislature's approved budget for fiscal year 1994–95 and that counties were allowed to retain 50 percent of the Medi-Cal payments once they reached the target amount specified in the schedule used to build the budget. The department explained that reducing the State's MTP costs by 75 percent of the Medi-Cal payments beyond the estimates would deviate from the budget. As such, the department maintained that it was appropriate to allow counties to retain 50 percent of any Medi-Cal payments exceeding the budgeted estimates. However, there is no language in the fiscal year 1994–95 budget act or related legislation that authorizes the department to discontinue reducing its share of MTP costs by the full 75 percent of Medi-Cal payments to ensure that the State and counties equally share MTP costs, as state law specifically requires. Further, policy change memos that the department told us that it submitted to the Department of Finance as part of the budget process indicated that the department would continue to reduce the State's cost for the MTP by 75 percent of the Medi-Cal revenue to the program. Thus, the department's authority for allowing counties to retain 50 percent of the Medi-Cal payments once they reached the target amount is unclear.

During fiscal year 2002–03, the department reported that EDS processed Medi-Cal payments to counties for MTP services totaling \$7.5 million. This amount was split about equally between federal funds and the State's General Fund. If the department had reduced the State's MTP costs by 75 percent of the Medi-Cal payments counties received, the State's MTP costs would have been reduced by an amount equal to half the federal funds associated with the Medi-Cal payments, or \$1.9 million, in addition to \$3.7 million in state funds. However, instead of reducing the State's MTP costs by the total \$5.6 million, the department only reduced costs by \$4.8 million. As a result of the department's method of calculation, the State incurred additional MTP costs of \$774,000. Table 2 shows the additional amount the State paid for fiscal year 2002–03 as well as the \$1.4 million in additional costs for this reason in the preceding four fiscal years.

TABLE 2

**The Department Did Not Deduct All the
Medi-Cal Payments It Should Have to Reduce
the State's Share of MTP Costs**

Fiscal Year Ending June 30	Medi-Cal Payments Not Deducted From State MTP Costs
1999	\$ 130,000
2000	208,000
2001	325,000
2002	754,000
2003	774,000
Total	\$2,191,000

Source: Bureau of State Audits' calculations based on EDS data on Medi-Cal payments and department's determination of state's share of Medi-Cal payments.

As shown in Figure 2 on page 23, the department modified its method of sharing Medi-Cal payments with counties effective July 2003 to reduce the State's MTP costs by only 50 percent of the Medi-Cal payments counties receive. This methodology is similar to the department's former one for Medi-Cal payments that exceeded the targeted amount. However, instead of applying only to the Medi-Cal payments in excess of the targeted amounts, the new process applies to all Medi-Cal payments made to counties.

The department told us that its new method is appropriate because Medi-Cal payments are obligations of the State's General Fund and federal funds, and counties have no financial responsibility for any part of the Medi-Cal payments. Further, the department told us that the Medi-Cal payments should be viewed as a third-party source of funds to the program when determining the state and county shares of MTP costs; that is, the Medi-Cal payments should be deducted from total MTP costs before determining the State and county shares of remaining MTP costs. However, doing so results in the State paying more than half the MTP costs, which is not consistent with Section 123940. To provide perspective on the effect of this change, if Medi-Cal payments for future fiscal years equal the amounts in fiscal year 2002–03, the State would annually pay \$1.9 million more than its half share of MTP costs under the department's new method.

The Department Did Not Gather Complete Data on Medi-Cal Payments by COHS Agencies, Resulting in Greater Costs to the State for the MTP

Until fiscal year 2003–04, the department did not have a reliable process to collect information on the Medi-Cal payments that COHS agencies make for MTP services. As previously discussed, the department needs this information when it calculates quarterly reimbursements to counties so it can accurately reduce the State’s share of MTP costs based on any Medi-Cal payments the counties receive. Because it did not gather all the information related to Medi-Cal payments made by COHS agencies, the department did not reduce the State’s MTP costs by a total of approximately \$733,000 over the four-year period ending in fiscal year 2002–03, based on data four counties reported to us.

Because it did not gather all the information related to Medi-Cal payments made by COHS agencies, the department did not reduce the State’s MTP costs by a total of approximately \$733,000 over the four-year period ending in fiscal year 2002–03.

The State has encouraged the formation of COHS agencies as a managed-care model for providing services to Medi-Cal beneficiaries. The department contracts with COHS agencies to provide certain health care services to Medi-Cal beneficiaries who enroll in the managed-care plans. Three COHS agencies covering five counties pay the counties’ MTPs for the services they provide to Medi-Cal beneficiaries in those counties. Therefore, the MTPs in the five counties must submit MTP claims to the COHS agencies, rather than to EDS, to obtain Medi-Cal payments for children enrolled in COHS plans. The counties still must submit MTP claims to EDS to receive Medi-Cal payments for MTP services provided to children not covered by COHS plans.

We found that the department did not obtain complete information on Medi-Cal payments made by COHS agencies for the MTPs in four of the five counties. The information is available from county MTPs or directly from the COHS agencies. Lacking this information, the department could not accurately reduce the State’s share of costs for the counties’ MTPs based on these payments. On our request, the MTPs in the four counties provided us with the amounts of Medi-Cal payments they received from COHS agencies in fiscal years 1999–2000 through 2002–03. Based on this information, we estimate that the department did not reduce the State’s MTP costs by more than \$254,000 in Medi-Cal payments for fiscal year 2002–03 and \$479,000 over the three preceding fiscal years. As Table 3 indicates, the department’s failure to obtain complete data on Medi-Cal payments made by COHS agencies for MTP services was particularly detrimental because the department did not reduce the State’s costs for any portion of the Medi-Cal payments.

TABLE 3

The State Did Not Reduce Its Share of Costs by Any Portion of Certain Medi-Cal Payments COHS Agencies Made to Counties for MTP Services

1	2	3	4	5
For Fiscal Year Ending June 30	Medi-Cal Payments Made to Counties by COHS Agencies	Federal Portion of COHS Payments Not Deducted From State Costs (Column 2 x 25%)	General Fund Portion of COHS Payments Not Deducted From State Costs (Column 2 x 50%)	Total Amounts Not Deducted From State Costs (Column 3 + Column 4)
Napa County				
2000	\$30,907	\$ 7,727	\$15,453	\$23,180
2001*	2,455	614	1,228	1,842
2002†	—	—	—	—
2003	32,560	8,140	16,280	24,420
Totals	\$65,922	\$16,481	\$32,961	\$49,442
San Mateo County				
2000	\$ 92,488	\$23,122	\$ 46,244	\$ 69,366
2001	88,279	22,070	44,140	66,210
2002	63,841	15,960	31,921	47,881
2003	152,887	38,222	76,443	114,665
Totals	\$397,495	\$99,374	\$198,748	\$298,122
Santa Barbara County				
2000	\$ 71,354	\$17,839	\$ 35,677	\$ 53,516
2001	77,289	19,322	38,644	57,966
2002	87,822	21,955	43,911	65,866
2003	153,350	38,337	76,675	115,012
Totals	\$389,815	\$97,453	\$194,907	\$292,360
Solano County				
2000	\$ 23,637	\$ 5,909	\$11,818	\$17,727
2001	38,550	9,637	19,275	28,912
2002	62,325	15,581	31,162	46,743
2003‡	—	—	—	—
Totals	\$124,512	\$31,127	\$62,255	\$93,382
Total of all 4 counties				
2000	\$218,386	\$ 54,597	\$109,192	\$163,789
2001	206,573	51,643	103,287	154,930
2002	213,988	53,496	106,994	160,490
2003	338,797	84,699	169,398	254,097
Totals	\$977,744	\$244,435	\$488,871	\$733,306

Source: Bureau of State Audits' calculations based on county-reported data of cash receipts from COHS agencies for MTP services.

Note: Any differences in the amounts presented in columns three and four are the result of rounding.

* Napa County's figures for fiscal year ending June 30, 2001, include data for one quarter. Napa County did not bill its COHS agency for the other three quarters.

† Napa County did not report any COHS payments in the fiscal year ending June 30, 2002.

‡ Solano County reported COHS agency payments for the fiscal year ending June 30, 2003, using the new form the department directed counties to use beginning in fiscal year 2003–04. The department used this data to properly reduce state costs by 75 percent of the Medi-Cal payments.

Under the legislation authorizing the MTP, the department must require counties to provide program data, including the cost of treatment, to enable the department, the Department of Finance, and the Legislature to evaluate and adequately fund the MTP. When we asked the department why it had not established a process for counties with COHS agencies to report their Medi-Cal payment information, the department indicated that it was unaware that these counties were not reporting the Medi-Cal payments made by COHS agencies.

Although the department asserts that it did not know of the Medi-Cal payments made by COHS agencies for county MTPs, it reasonably should have. Beginning in fiscal year 1994–95, the department required county MTPs to submit all their claims to EDS, regardless of a child’s eligibility for Medi-Cal. Each quarter, EDS sends the department data regarding MTP claims it processed during the quarter and whether the claims were paid or denied. A review of this data could have led the department to question counties about anomalous claims activity. For example, for fiscal year 2002–03, 97 percent and 98 percent of MTP claims submitted to EDS by Santa Barbara and San Mateo counties, respectively, were denied compared with 53 percent of MTP claims statewide. One of the main reasons for appropriate denials of both counties’ claims was that the patients were enrolled in managed-care plans, and COHS agencies rather than EDS should pay for the services provided to enrollees in such plans. Statewide, this was the fourth most prevalent reason for claim denials, comprising more than 7 percent of all denied claims, as shown in Table A.1 in the Appendix. Further, MTP claims denied for this reason from Santa Barbara and San Mateo counties accounted for 86 percent of all such denials over the seven quarters we reviewed. However, the department did not apparently recognize the high denial rate and question the counties as to the cause or consider this as an indicator of the amount of Medi-Cal payments COHS agencies might be making. Had the department considered the cause of the high denial rates, it might have noticed sooner that payments had been made by the COHS agencies.

Had the department considered the cause of the high denial rates, it might have noticed sooner that payments had been made by the COHS agencies.

Similarly, the department apparently did not notice that Napa County submitted a very small number of MTP claims. In fact, the county did not submit any MTP claims for six consecutive quarters in fiscal years 2000–01 and 2001–02. Napa County staff told us that high staff turnover during that period resulted in new employees who were not familiar with how to bill EDS or the COHS agency. Eventually, the new

employees learned how to perform the billing, but because of the time elapsed, the county was not able to bill Medi-Cal for these quarters.

Once it learned that it was not receiving complete data, the department revised the form counties use to report their quarterly MTP costs to include a section for reporting Medi-Cal payments COHS agencies made for MTP services.

When asked why it was not aware of the payments that COHS agencies made to counties for MTP services, department staff indicated that it was the counties' responsibility to report Medi-Cal payments made by COHS agencies. However, without having provided specific instructions requesting the counties to report this data, the department's expectation is somewhat questionable. Once it learned that it was not receiving complete data, the department revised the invoices for counties to report their quarterly MTP costs to include a section for reporting payments made by COHS agencies. Although this should help ensure that the department receives complete data, the State's share of MTP costs will not likely drop because of the department's new process for reconciling the State and county shares of MTP costs, as discussed earlier. In particular, the State's MTP costs are now only reduced by an amount equal to 50 percent of the Medi-Cal payments counties receive, including payments made by COHS agencies. As a result, we estimate that the State will annually pay about \$100,000 more for MTP costs than is specifically required in counties with COHS agencies, assuming that Medi-Cal payments from the COHS agencies in future years approximate the level of payments in fiscal year 2002–03.

MORE THAN HALF THE MTP CLAIMS DENIED FOR MEDI-CAL PAYMENT RESULTED FROM CHILDREN LACKING MEDI-CAL ELIGIBILITY

As described in the Introduction, EDS enters MTP claims into the California Medicaid Management System—the Medi-Cal claims-processing system—which subjects them to a series of checks called edits and audits. Some of these edits and audits result in MTP claims being denied for payment. More than half the MTP claims that EDS denied for Medi-Cal payment in the seven-quarter period we reviewed were the result of children lacking Medi-Cal eligibility. From July 2002 through March 2004, EDS denied more than 425,700 claims because the children were either never enrolled in Medi-Cal or not eligible for coverage during the period of service.

As shown in Table A.1 in the Appendix, nearly 200,000, or 28.1 percent, of the claims EDS denied from July 2002 through March 2004 related to children who had never enrolled in or

To gather statistical data, the department requires counties to submit all claims for therapy services through the Medi-Cal claims-processing system, regardless of a child's Medi-Cal eligibility.

become eligible for Medi-Cal benefits. California law imposes no financial eligibility requirement to qualify for MTP services. Therefore, a child that meets the MTP's medical and residential requirements can participate in the MTP, regardless of how much income the child or the family earns. However, the child or family must meet certain financial eligibility requirements to qualify for Medi-Cal. Thus, some children receiving MTP services may not meet the income requirements to qualify for Medi-Cal. In addition, children or families meeting Medi-Cal's financial eligibility requirements are not required to enroll in Medi-Cal. On receiving MTP claims for children who have never enrolled for Medi-Cal coverage and are not in the Medi-Cal system, EDS denies the claims. To gather statistical data, the department requires counties to submit all claims for therapy services through the Medi-Cal claims-processing system, regardless of a child's Medi-Cal eligibility. Therefore, it is reasonable to expect that some MTP claims will be denied because the children are not eligible for Medi-Cal.

Similarly, as shown in Table A.1 in the Appendix, the primary reason EDS denies claims relates to children who were at some point eligible for Medi-Cal but were no longer eligible for coverage at the time the claimed services were provided. From July 2002 through March 2004, more than 226,000 claims were denied for this reason. Children receiving MTP services who are enrolled in Medi-Cal may lose their coverage for various reasons. For example, a family's financial situation might change, raising the parents' or child's income beyond the limit to qualify for Medi-Cal. Additionally, some families who qualify for Medi-Cal have income levels that require them to pay a portion of the costs for MTP services before Medi-Cal begins to pay. Therefore, some claims are denied because families have not yet paid their full share of costs.

THE DEPARTMENT APPLIED AN OVERLY BROAD MODIFICATION TO ITS CLAIMS-PROCESSING SYSTEM THAT INCREASED MEDI-CAL PAYMENTS FOR MTP SERVICES

Another reason that EDS denied MTP claims for Medi-Cal payment in the period we reviewed was that counties submitted the claims before determining whether the children were covered by other available health care insurers that would pay for the services. As shown in Table A.1 in the Appendix, EDS denied

The department is improperly allowing Medi-Cal to pay MTP claims for services to children who are not in special education without requiring that their other health care insurers, if any, be billed first.

more than 134,400 claims for this reason from July 2002 through March 2004. Based on the lowest and highest reimbursement rate for physical and occupational therapy procedures, we estimate that the value of these claims ranged from about \$883,000 to \$4.7 million. Realizing that EDS was denying many claims for this reason, the department implemented a modification to the Medi-Cal claims-processing system to allow all MTP claims for children with Medi-Cal and other health care coverage to be paid without checking to see if the other health care insurers would pay. The department justified the system modification on compliance with federal law when claims are for MTP services to children in special education programs. Although we agree that its action is appropriate for children in special education, the department has not obtained the necessary federal approval to apply the modification when claims are for services to children enrolled in MTP who are not in special education. As a result, the department is improperly allowing Medi-Cal to pay MTP claims for services to children who are not in special education without requiring that their other health care insurers, if any, be billed first.

Federal law and state Medi-Cal regulations require that if an individual eligible for Medi-Cal has other health care coverage, such as Medicare or private insurance, providers must bill the other health care insurer before billing Medi-Cal. Therefore, according to the department, the Medi-Cal claims-processing system is designed to ensure that Medi-Cal is the payer of last resort. However, based on its interpretation of other federal and state laws, the department has issued policies that instruct counties not to bill a child's private health care insurer for MTP services to avoid imposing any financial burden on the child's family. The department asserts that according to the federal Individuals with Disabilities Education Act, children in special education with therapy identified as a component of an individualized education program are entitled to a "free and appropriate" education. According to the department, billing the child's other health care insurer could result in the family incurring a cost for the therapy, such as a deductible or copayment charged by a private insurance company. Further, state law provides that children receiving MTP services in public schools are exempt from financial eligibility standards and are not required to pay enrollment fees. The department has interpreted these laws to mean that the MTP is a free program and other health care insurers should not be billed for MTP services because of the possible financial burden to the families.

Therefore, until recently, EDS routinely denied payment on MTP claims for services provided to children who were eligible for Medi-Cal but also had other health care coverage. The department recognized that denying Medi-Cal payment on these MTP claims was resulting in a failure to maximize federal funding. Accordingly, the department implemented a modification to the Medi-Cal claims-processing system in March 2004, allowing MTP claims for services to children with other health care coverage to be paid without attempting to bill the other health care insurers first.

The department's action was reasonable given the federal law regarding children receiving MTP services as part of a special education program. However, because some children enrolled in the MTP are not in a special education program, the department's action was too broad and is not in compliance with state Medi-Cal and federal Medicaid laws. When asked about obtaining federal approval, the department acknowledged it had not obtained approval to modify the system for the MTP, asserting that the federal government had denied a similar request in the past and told the department that it was too busy to respond to such requests. Further, the department said that it had to make the change for the whole MTP population because neither the department nor EDS can distinguish between children who are in special education and those who are not when claims are processed. Finally, the department asserted that other health care insurers do not cover the kinds of services the MTP provides. Nevertheless, because it has not obtained federal approval to apply this modification when claims are for services to children who are enrolled in MTP but not in special education, the department is violating federal and state laws designed to ensure that Medi-Cal is the payer of last resort.

EDS denied more than 42,500 claims, or 6 percent of MTP claims denied for Medi-Cal payment in the period we reviewed, because the number of therapy services provided exceeded that allowed by the Medi-Cal claims-processing system.

FREQUENCY LIMITS IMPOSED BY THE MEDI-CAL CLAIMS-PROCESSING SYSTEM ARE A BARRIER TO INCREASED SAVINGS TO THE STATE AND COUNTIES FOR THE MTP

EDS denied more than 42,500 MTP claims, or 6 percent of MTP claims denied for Medi-Cal payment in the period we reviewed, because the number of therapy services provided exceeded that allowed by the Medi-Cal claims-processing system. State regulations limit how frequently Medi-Cal will pay for some therapy services. However, the department admits that some of the current frequency limits may not be appropriate for the MTP. Generally, counties echo

this sentiment, contending that the chronic nature of the medical conditions treated in the MTP necessitate more frequent therapy sessions. Based on data provided by EDS, approximately \$280,000 to \$1.5 million in Medi-Cal claims were denied because of frequency limits from July 2002 through March 2004. When Medi-Cal does not pay claims for MTP services, the State and counties must pay more for the program because they lose the federal funding available under Medi-Cal.

State law requires the department to place utilization controls on covered health care services, including physical and occupational therapy. These utilization controls may include requiring prior authorization for services and allowing only a certain number of services during a specified period. Specifically, state regulations dictate that Medi-Cal will pay for one physical and occupational therapy evaluation every six months and one medical therapy conference per month. Similarly, the Medi-Cal claims-processing system limits consultations to one per month.

The department told us that frequency limits were established for the general population of Medi-Cal beneficiaries and not specifically for children with special health care needs receiving MTP services. In addition, the department's Children's Medical Services Branch said that the department has not made a blanket determination that the frequency limits are inappropriate for these children; however, a plausible case can be made that some of the limits may be inappropriate for the MTP. When we talked with staff at the four counties we visited, they said that a child in the MTP might need many consultations and evaluations for reasons that would not apply to the general Medi-Cal population. For example, a child enrolled in the MTP might need to be reevaluated at certain developmental stages, after receiving new equipment, and every time equipment is adjusted or modified. Additionally, implementing a child's therapy plan requires the therapist to consult with the child's teacher, physician, family, and any other vendors or caseworkers working on the child's case. Therefore, county staff asserted that the existing frequency limits overly restrict Medi-Cal reimbursement, given the chronic health conditions and needs of the children in the MTP.

County staff asserted that the existing frequency limits overly restrict Medi-Cal reimbursement, given the chronic health conditions and needs of the children in the MTP.

Our visits to the counties confirmed that many children in the MTP receive therapy procedures more often than the Medi-Cal claims-processing system permits. For instance, we noticed that children with a diagnosis such as cerebral palsy received up to three evaluations in one month, yet this procedure is

limited to payment only once every six months. Further, we noticed children with this type of diagnosis received up to four consultations in one month, yet the frequency limit for this service is once per month. As a result, it appears that a different set of frequency limits might be warranted for the services provided to children in the MTP.

MOST COUNTIES WE REVIEWED TOOK REASONABLE STEPS TO FOLLOW UP ON MTP CLAIMS DENIED FOR MEDI-CAL PAYMENT

Counties may be able to control the reasons that EDS denies many MTP claims for Medi-Cal payment. In fact, from July 2002 through March 2004, EDS denied more than 45,000 of approximately 710,000 MTP claims for reasons the counties could apparently correct, such as not completing the claim correctly or not attaching the necessary documentation. Based on the lowest and highest reimbursement rate for occupational and physical therapy procedures, we estimate that the value of these MTP claims ranged from about \$299,000 to \$1.6 million. Although none of the counties we visited follow up on all denied MTP claims, three of the four counties took reasonable steps to review claims that had apparently correctable problems. However, Los Angeles County (Los Angeles) did not follow up on any individual MTP claims that EDS denied for Medi-Cal payment. To the extent that it could have corrected and resubmitted some of these claims, Los Angeles missed an opportunity to maximize Medi-Cal payments for MTP services and to reduce state and county costs for the MTP.

EDS denies MTP claims because of the department's legitimate efforts to control costs and ensure that Medi-Cal payments are for legitimate services. However, it denied some claims for reasons counties should be able to control. According to our estimates, counties might have been able to correct and resubmit more than 45,000 MTP claims that EDS denied from July 2002 through March 2004. As shown in Table A.1 in the Appendix, this represents more than 6 percent of the MTP claims EDS denied over the period. Specifically, EDS denied about 14,700 MTP claims for reasons such as the lack of required documentation or service authorization. In the same period, EDS denied another 28,500 MTP claims that had invalid or incorrect information on the claim forms, such as invalid diagnosis or billing codes or incorrect provider numbers. Lastly, EDS denied more than 2,000 MTP claims because they were submitted more

Counties might have been able to correct and resubmit more than 45,000 MTP claims that EDS denied from July 2002 through March 2004.

than one year after the date of service. Counties can prevent denials related to late claims by ensuring that they submit claims promptly. However, counties can also correct a late claim if, for example, the date of service was entered incorrectly on the claim form or the claim was not submitted with the accompanying documentation EDS requires.

It should be noted that according to the department's Payment Systems Division, claims submitted with unreadable or invalid data fields, usually the result of clerical errors, are denied in the first phase of claims-processing because the first thing the system looks at is whether or not all fields are readable and meet certain criteria. Therefore, it is possible that even if some of these claims were corrected and resubmitted, they could still be denied for other reasons. In other cases, however, such as when a claim is denied for an invalid diagnosis code, the claim has already successfully passed through several phases of processing and, if corrected, would likely only be denied again if the billed procedure was in excess of frequency limits or the claim was a duplicate.

We acknowledge that counties may have subsequently corrected, and Medi-Cal paid, many of the roughly 45,000 MTP claims EDS denied for payment for apparently correctable or preventable reasons. In addition, we recognize that counties may decide not to follow up on all denied claims because they find that the cost of this effort exceeds the benefit of receiving payment. However, to the extent that counties are able to correct denied claims and receive payment from Medi-Cal, this ultimately reduces state and county costs for the MTP.

Out of the 40 denied MTP claims we tested at two counties, we identified a total of eight claims as correctable, and the counties correctly identified and resubmitted all of them.

Three of the four counties we reviewed appear to effectively identify and follow up on denied MTP claims that are more easily correctable. For example, although Alameda and Sacramento counties do not have a formal process describing the types of denied claims they require staff to review for possible correction, they appear to effectively identify and follow up on denied MTP claims that are correctable. In fact, out of the 40 denied MTP claims we tested at these two counties, we identified a total of eight claims as correctable, and the counties correctly identified and resubmitted all of them. Further, Medi-Cal paid seven of the eight resubmitted MTP claims, which illustrates the effectiveness of the counties' follow-up procedures. The one claim that was not ultimately paid was submitted by Alameda County and denied for missing a treatment authorization. Although the county resubmitted the claim with the authorization, EDS rejected it again because of a clerical error, and the county did not submit the claim a third time.

The remaining 32 MTP claims tested at these counties were denied primarily for the reasons discussed earlier in the report over which counties have less control.

Butte County contracts with a billing service to submit its MTP claims for Medi-Cal payment. In contrast to the informal processes Sacramento and Alameda counties use, Butte County's billing service has formal guidelines for reviewing specific denied claims and attempting to correct and resubmit them for payment when possible. Although the billing service's guidelines do not indicate that it will follow up on all denial codes we identified as potentially correctable, the billing service told us that it would follow up on claims denied for reasons it thought could be corrected, including reasons not specifically identified in its procedural guidelines. Out of 20 denied MTP claims we tested at Butte County, we identified two that were denied for reasons we believe were potentially correctable, and both were reasons also identified in the billing service's guidelines. In addition, the billing service appropriately followed up on both of these MTP claims.

Los Angeles County provided services to approximately 29 percent of the MTP caseload statewide according to caseload data the counties reported for fiscal year 2002–03. In contrast to the other three counties, Los Angeles does not follow up on individual denied claims. As a result, it may have missed out on \$58,000 to \$307,000 in Medi-Cal payments from July 2002 through March 2004 because it did not attempt to resolve and resubmit roughly 8,800 MTP claims denied for potentially correctable or preventable errors. For example, 89 percent of the county's denied claims were the result of missing documentation or invalid data on the claim form. The director of the Los Angeles County MTP said that the county assumed responsibility for billing MTP services and discontinued using a billing service in 2001. She also indicated that the county decided at the time not to resubmit individual denied MTP claims because the county did not have the required knowledgeable staff to follow up on the claims. In addition, the director told us that the county is currently considering the cost-effectiveness of reviewing and resubmitting denied claims. Although Los Angeles County has not yet completed an analysis to determine the amount of revenue that could be generated by resubmitting denied claims and the cost-effectiveness of doing so, it could limit required resources by focusing its review on the types of errors that are easiest to correct. Finally, with regard to about 950 MTP claims we identified from July 2002 through March 2004 that EDS denied for Medi-Cal payment because Los Angeles County submitted them more than one year after the date of service, the

Eighty-nine percent of Los Angeles County's denied claims were the result of missing documentation or invalid data on the claim form.

county's MTP director agreed that this could be prevented and that the county will more closely monitor submission dates in the future.

RECENT CLAIMS DATA CAST DOUBT ON WHETHER PAYMENTS FROM THE HEALTHY FAMILIES PROGRAM WILL SIGNIFICANTLY REDUCE MTP COSTS

The Healthy Families Program (Healthy Families) is California's implementation of the federal State Children's Health Insurance Program, established under Title XXI of the Federal Social Security Act. Healthy Families provides health, dental, and vision care coverage to children up to 19 years old whose families' incomes range from 100 percent to 250 percent of the federal poverty level. Although services provided under CCS are among those covered by Healthy Families, MTP services were not billed to Healthy Families before fiscal year 2003–04. According to the department, there is no comprehensive eligibility data that allows it to identify how many children receiving MTP services are also enrolled in Healthy Families. However, the department determined it could identify and pay claims through the Medi-Cal claims-processing system for children enrolled in Healthy Families beginning in July 2003. Federal funds are available to cover 65 percent of the costs of Healthy Families claims compared with 50 percent for Medi-Cal claims.

EDS data identified about \$24,000 in MTP claims in fiscal year 2003–04 that Medi-Cal paid for MTP services provided to children enrolled in Healthy Families.

According to the department, its process for billing Healthy Families for MTP services requires Medi-Cal to pay the counties on behalf of Healthy Families first, and then Healthy Families reimburses Medi-Cal at the end of each quarter. In January 2004, the department told counties that, effective July 1, 2003, it would automatically bill Healthy Families for MTP claims using the same process used to submit MTP claims for Medi-Cal payment. EDS data identified about \$24,000 in MTP claims in fiscal year 2003–04 that Medi-Cal paid for MTP services provided to children enrolled in Healthy Families—a small amount compared with the total cost of \$69.1 million for the MTP in fiscal year 2002–03.

Although the lack of eligibility information on children enrolled in both the MTP and Healthy Families limits any assessment on billing effectiveness, the relatively low dollar value of Healthy Families claims in fiscal year 2003–04 casts doubt on whether Healthy Families payments for MTP services will significantly reduce MTP costs in the future. Department staff told us that

it would have comprehensive enrollment data available to evaluate the effectiveness of accessing Healthy Families coverage once a planned enhancement to its Children's Medical Services Network system (CMS Net) was fully implemented. However, not all counties are participating in CMS Net, including Los Angeles, which has the largest MTP in the State. Further, because the enhancement to CMS Net has not yet been fully implemented, it is too early to tell whether it will serve as an effective tool to identify the number of children who are enrolled in both MTP and Healthy Families and whether services to these children are effectively billed.

RECOMMENDATIONS

To ensure that the State minimizes its costs and pays only what is statutorily required for providing MTP services, the department should do the following:

- Seek specific statutory authority from the Legislature to fully fund county personnel whose jobs include coordinating the MTP with special education agencies as required by AB 3632. Should the Legislature decide to reduce the State's current funding for these activities, it should consider the implications of such an action on the State's responsibility under the federal Individuals with Disabilities Education Act to maintain a level of funding for special education and related services at least equal to the level of funding the State provided in the preceding fiscal year.
- Reevaluate its method for calculating county costs for coordinating the delivery of MTP services with special education services to ensure that amounts reasonably reflect actual county efforts.
- Modify its current method for reducing the State's costs for the MTP to ensure that state costs are reduced by an amount equal to the entire General Fund portion and one-half the federal portion of all Medi-Cal payments made for MTP services.
- Require COHS agencies to report to the department all Medi-Cal payments they make to counties for MTP services.

To ensure that Medi-Cal appropriately pays MTP claims to the fullest extent possible, the department should do the following:

- Obtain federal approval to allow Medi-Cal to pay for MTP services provided to children who are not in special education without checking for the existence of other health care coverage. Otherwise, the department should modify the current Medi-Cal claims-processing system to ensure that other available health care insurers are charged before Medi-Cal pays for MTP services provided to children who are not in special education.
- Evaluate whether the current limits Medi-Cal places on the frequency of certain therapy procedures are appropriate for MTP services. If the department determines that the Medi-Cal frequency limits are inappropriate, it should seek approval to modify these limits accordingly.

To maximize Medi-Cal payments for MTP services, Los Angeles County and any other counties that do not review MTP claims denied for Medi-Cal payment should attempt to correct and resubmit denied MTP claims when it is cost-effective to do so.

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 the report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: August 31, 2004

Staff: John F. Collins II, CPA, Audit Principal
Grant Parks
Christopher Lief
Cameron Swinko, CMA
Alysha Loumakis-Calderon

Blank page inserted for reproduction purposes only.

APPENDIX

Counties Submitted Many Claims for Medical Therapy Program Services That Were Denied Medi-Cal Payment for Various Reasons

During the seven quarters between July 2002 and March 2004, the Electronic Data Systems Federal Corporation (EDS) denied more than 700,000 Medi-Cal claims for services provided by the Medical Therapy Program (MTP) for various reasons. Table A.1 on the following page categorizes these denials by general reasons. As noted in the Audit Results, counties can correct or prevent some denials more easily than others. Table A.1 also lists the 10 most common errors causing denied MTP claims that counties could easily correct or prevent. These errors represent 94 percent of the total errors in that category of denied claims.

TABLE A.1

EDS Denied Claims for Medi-Cal Payment for Various Reasons

Reason for Denial	Number of Claims Denied	Percentage of Total Claims Denied
Child was not eligible for coverage during the period of service	226,396	31.9%
Child has never been eligible for Medi-Cal	199,312	28.1
Child's other health care coverage was not billed	134,413	18.9
Child is enrolled in a managed-care plan	51,200	7.2
Claim was denied for a potentially correctable or preventable reason*	45,477	6.4
Claim was denied due to frequency limit of specific procedure	42,551	6.0
Claims denied for any other reason	10,432	1.5
Total	709,781	100.0%

Source: Department of Health Services, Payment Systems Division.

* Correctable claims may be later resubmitted and paid, but the data provided to us does not indicate whether a claim has been corrected. However, in our testing, we identified 110,574 claims denied due to an electronic claims submission error by Los Angeles County. Because the county indicated that it corrected and resubmitted these claims, we removed them from the table.

Top 10 Correctable or Preventable Errors Causing Denied MTP Claims	
RAD Code	Description
0368	Provider type is not acceptable for the place of service.
0031	The rendering provider was not eligible for the services billed on the date of service.*
0180	This service requires a Treatment Authorization Request (TAR) for the billing provider type on the date of service billed.
0610	Not authorized to electronically bill California Children's Services (CCS). Resubmit hard copy claim to CCS program office for approval.
0691	The diagnosis code is invalid for the date of service.
0243	The TAR Control Number submitted on the claim is not found on the TAR master file.*
0021	The claim was received after the one-year maximum billing limitation.*
0005	The service billed requires an approved TAR.*
0075	The necessary documentation was not received.
0628	The Medi-Cal provider/recipient identification number or service billed is not consistent with the CCS' Authorization Form.

Source: Medi-Cal Provider Manual, Remittance Advice Details (RAD) Codes and Messages.

* Billing tips are provided in the Medi-Cal Provider Manual.

Agency's comments provided as text only.

Department of Health Services
1501 Capitol Avenue, Suite 6001
Sacramento, CA 95814

Elaine Howle*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

The California Department of Health Services appreciates the opportunity to respond to the Bureau of State Audits' (BSA) draft report entitled, "Department of Health Services: Some of Its Policies and Practices Result in Higher State Costs for the Medical Therapy Program" (Report number 2003-124), issued August 9, 2004. This review was undertaken at the request of the Legislature to ensure that the billing practices of the Medical Therapy Program (MTP) component of the California Children's Services program minimize state costs for the provision of services.

The Department agrees with some of BSA's recommendations and appreciates acknowledgement of on-going efforts to improve policy and practices related to the MTP. However, we disagree with the BSA's interpretation that the Department lacks "express statutory authority" to provide 100 percent state funding for state mandated coordination functions associated with the implementing regulations for AB 3632. This funding policy has been statutorily enacted through the Budget Act each year. The Department believes the statutory distinction is between the enactment of the annual Budget Act and the codified statutes that otherwise determine the state-county funding shares.

The BSA recommends that the Department pursue an allocation formula that would require counties to pay a share of Medi-Cal costs in the MTP. Since the Administration is undertaking a thorough review of the California Performance Review's recommendation that county and State responsibilities for health and human services be realigned, we will explore the BSA's recommendation as part of that review. As you are aware, there is currently no county responsibility for bearing part of the cost of Medi-Cal; this recommendation would be precedent setting to other Medi-Cal funded services and would have implications for county budgets.

Once again, we appreciate the opportunity to respond to the BSA's draft report. If you have any questions, please feel free to call Catherine Camacho, Deputy Director for Primary Care and Family Health, at (916) 440-7600.

Sincerely,

(Signed by: Tom McCaffrey for Sandra Shewry)

Sandra Shewry
Director

* California State Auditor's comments begin on page 49.

RESPONSES TO BSA RECOMMENDATIONS

BSA Recommendation 1

To ensure that the State minimizes its costs for providing MTP services, the department should do the following:

- a. Seek specific statutory authority from the Legislature to fully fund county personnel whose jobs include the required coordination activities with special education agencies per Section 7525 of the Government Code. Should the Legislature decide to reduce the State's current funding for these activities, it should consider the implications of such an action on the State's responsibility to maintain an appropriate level of funding for special education services under the maintenance of effort requirements of the federal Individuals with Disabilities Education Act.

DHS Response 1

The interagency regulations that implemented AB 3632 (CH.1747, Statutes of 1984) resulted in new workload for the county Medical Therapy Programs (MTPs). Because this workload was a new State mandate, the Governor's Budget for fiscal year (FY) 1998-99 requested 100 percent State funding for county positions to handle this workload. This request for 100 percent State funding was approved by the Legislature and included in the enacted Budget Act for FY 1998-99. County costs for AB 3632 workload, funded with 100 percent state funds, have been included in the enacted state budget each subsequent year. Since the Department has budgeted this amount and the Legislature has provided approval since 1998, the legal authority for the Department's actions appears to be sufficient. However, the Department would not oppose clarification of this authority in the codified statutes.

In its discussion and findings, the State Auditor refers to the Department's lack of "express statutory authority" to provide 100 percent state funding for functions associated with the implementing regulations for AB3632. The Department disagrees that it has not had express statutory authority for this funding policy as it has been statutorily enacted through the Budget Act each year. The Department believes the statutory distinction is between the enactment of the Budget Act annually and the codified statutes that otherwise determine the state-county funding shares.

The Department disagrees with the title of Figure 1, "The State paid \$4.6 Million More Than Necessary of the Total \$69.1 million in Costs for the MTP During Fiscal Year 2002-03." \$3.6 million of the \$4.6 million is the additional costs the State incurred because it funded 100 percent of the coordinating activities under AB3632. The Audit report also states, "... any reduction in the State's annual support for the MTP must also be evaluated in the context of the State's responsibility to spend an amount at least equal to the amount spent in the preceding fiscal year on special education services. Otherwise, the State might face a possible reduction in federal special education funds." This comment suggests that there should be further consideration as to whether the \$3.6 million was "unnecessary" as stated in Figure 1.

BSA Recommendation 1b

- b. Re-evaluate its method of calculating county costs for coordinating the delivery of MTP services with special education services to ensure that amounts reasonably reflect actual county efforts.

DHS Response 1b

The Department continues to refine its methodology for calculating the level of reimbursement for individual counties for mandated workload resulting from the AB 3632 interagency regulations.

BSA Recommendation 1c

- c. Modify its current method for reducing the State's costs for the program, ensuring that the State's costs are reduced by an amount equal to the entire General Fund portion, and one-half the federal portion of all Medi-Cal payments made for MTP services.

DHS Response 1c

The Department's current policy is to deduct all third-party payments, including Medi-Cal, from the cost of services before State and county share of cost is determined. Children who are eligible for the CCS program have many different types of third party coverage, one of which is Medi-Cal. The net cost of services after third party payments have been deducted is shared by the Department and the counties on a 50/50 basis as required by Health and Safety Code 123940.

In addition to being inconsistent with the Department's current policy for cost sharing in the MTP, the State Auditor's proposal would be inconsistent with the Department's current interpretation of Section 14000 et seq. of the Welfare and Institutions Code that provides for the cost of Medi-Cal services to be shared by the federal and State governments.

The Department will discuss this recommendation of the State Auditor in the larger context of the California Performance Review (CPR) recommendations dealing with realignment of state and county responsibilities for health and human services programs. The Department will be participating in the Administration's considerations on this topic.

BSA Recommendation 1d

- d. Require county-organized health system agencies to report to the department all Medi-Cal payments they make to counties for MTP services.

DHS Response 1d

The Department agrees with the intent of BSA recommendations and will direct county CCS programs to report reimbursements received from County Organized Health System (COHS) Medi-Cal managed care plans for therapy services provided to COHS enrollees by county MTP. The Department will offset these reimbursements as a reduction in gross MTP costs prior to determining a county's share for cost for its MTP.

While the State Auditor specifically recommends that COHS report to the Department on the payments made to CCS MTUs, the Department believes it is more appropriate for the county CCS programs to report receipt of funds from COHSs to the CMS Branch as part of its quarterly cost report. County CCS programs are in a position to validate the dollars received from the COHS and this approach would avoid requiring COHS to perform duplicate work.

BSA Recommendation 2

To ensure that Medi-Cal appropriately pays MTP claims to the fullest extent possible, the department should:

- a. Obtain federal approval for allowing Medi-Cal to pay for MTP services provided to children who are not in special education without checking for the existence of other health coverage. Otherwise, the department should modify the current claims-processing system to ensure that other available health insurance is charged before Medi-Cal pays for MTP services provided to children who are not in special education.

DHS Response 2a

On issues similar to this, the federal Centers for Medicare and Medicaid Services (CMS) has advised the Department that it would not review a waiver request from the State because of workload considerations. It would not be productive to develop and submit a waiver request to CMS on this issue, as that agency would not consider it.

Also, the Medi-Cal claims processing system currently does not have access or linkage to a database or data files that would enable the system to determine if a Medi-Cal beneficiary participates in Special Education or is otherwise covered by the federal Individuals with Disabilities Education Act (IDEA). Although the Department will discuss this with the Department of Education, based on prior experience, it is anticipated that development of such a system would be extremely challenging due to dependence on data submission from multiple entities throughout the State and the legal requirement that schools keep their data confidential. This recommendation would be inconsistent with the two main goals of 1) ensuring a child's right to a "free and appropriate" education and 2) maximizing federal funding, as the cost to design, implement, and later support a "Special Education" tracking system that interfaces with the Department's claims processing system would undoubtedly exceed the anticipated federal financial participation.

BSA Recommendation 2b

- b. Evaluate whether the current Medi-Cal frequency limits on therapy procedures are appropriate for the services provided in the MTP program. If the department determines such frequency limits are in appropriate, it should seek approval to modify these limits accordingly.

DHS Response 2b

The Department agrees that frequency limits on occupational and physical therapy services in the claims payment system should be reevaluated. The Department will continue to review the edits to determine their appropriateness for application to the MTP and modify them accordingly.

BSA Recommendation 3

To ensure that counties do all they reasonably can to maximize Medi-Cal payments for MTP services, Los Angeles County, and any other counties that do not review denied Medi-Cal claims, should attempt to correct and resubmit denied Medi-Cal claims when it is cost-effective to do so.

DHS Response 3

The Department supports this recommendation and will remind counties of the resources available to assist them in preparation and submission of Medi-Cal claims. These include a toll-free number for billing support, a correspondence unit dedicated to extensive research on provider claims, multiple training seminars that are free to the provider community, and provider billing representatives located throughout the State who are available for onsite provider billing assistance and training. All of these services augment a fully comprehensive provider manual that makes program billing policy information available in either hard copy or via the Medi-Cal internet site.

Blank page inserted for reproduction purposes only.

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 response to our audit report from the Department of Health Services (department). The numbers below correspond with the numbers we have placed in the margin of the department's response.

- The department asserts that the coordination activities it has fully funded are a state mandate. However, the Commission on State Mandates (commission) is the authority designated by the Legislature to determine whether a mandate exists. The commission has not determined that a state mandate exists for the Medical Therapy Program (MTP) coordination activities under AB 3632. Further, the department does not receive an appropriation under the state mandated local programs portion of its annual budget for this purpose.
- The department is inaccurate when it maintains that its policy of fully funding AB 3632 costs has been statutorily enacted through the budget act each year. Although the department states that it included new costs in its 1998–99 fiscal year budget estimate and received funding for implementing AB 3632, as we indicate on page 17 of the audit report, neither provisional language in the budget act nor language in the MTP's implementing statute authorizes a deviation from the requirement to divide MTP costs equally between the State and counties in accordance with Section 123940 of the Health and Safety Code (Section 123940).
- The department misinterprets our recommendation by stating that it would require counties to pay a share of the State's Medicaid program, the California Medical Assistance Program (Medi-Cal), costs in the MTP. As noted in Table 1 and Figure 2 of the audit report, we recognize that the State's General Fund and Title XIX federal funds provide approximately equal shares of funding for Medi-Cal payments. However, because the State funds about half of the Medi-Cal payments for MTP services, our recommendation to the department is that it recognize the State's contribution to the MTP through these Medi-Cal

payments and reduce the State's costs for the MTP in a way that results in equal costs to the State and counties as shown in Table 1 and Figure 2 of the audit report.

- While the department was reviewing our draft audit report for comment, we slightly amended the text of our recommendations. However, the substance of the recommendations is unchanged.
- While the department was reviewing our draft audit report for comment, we amended the title of Figure 1 by replacing the phrase “more than necessary” with “more than specifically authorized.” As we indicate on page 17 of the audit report, neither provisional language in the budget act nor language in the MTP’s implementing statute authorizes a deviation from the requirement to divide MTP costs equally between the State and counties in accordance with Section 123940. As a result, the department’s decision to fully fund AB 3632 costs, instead of sharing these costs equally with the counties, resulted in the State paying more for the MTP than specifically authorized by statute.
- The department has misconstrued our discussion related to discontinuing full funding of county costs for coordinating the delivery of MTP services with special education. Our comments do not suggest that fully paying these county costs is necessary in the context of the State’s responsibility to fund special education services. Rather, as discussed on page 17 of the audit report, should the Legislature discontinue fully funding these county costs, it should consider the impact such a decision might have on the State’s overall financial obligations related to special education. For example, if the AB 3632 costs are considered part of the State’s effort to fund special education, the Legislature could choose to shift funds from the MTP to other special education programs and still meet the State’s financial obligations.
- The department’s interpretation of Section 123940 is incorrect and has been inconsistent. Section 123940 states that “the State shall match county expenditures” under the MTP. The statute does not refer to the net cost of these services. As described on pages 20–21 of the audit report, in order to share MTP costs equally, the State and counties must also share equally in MTP revenues, such as the federal portion of Medi-Cal payments. Further, as we discuss on page 22 of the audit report, this means that the department needs to reduce the State’s MTP costs by 75 percent of all Medi-Cal payments a county receives—that is,

the General Fund portion plus half the federal portion of total Medi-Cal payments. The department's current practice of using the net cost of services to compute the State's share results in the State paying more than half of the MTP costs. Moreover, as we discuss on page 22 of the audit report, from July 1994 through June 2003, the department reduced the State's cost for the MTP by 75 percent of the Medi-Cal revenue to the program up to a target amount, suggesting that at least until June 2003 it concurred with our interpretation of Section 123940.

- The department's proposal is inconsistent with the requirements of Section 123940. As we discuss in note 7 above, to share MTP costs equally with the counties the department should reduce the State's MTP costs by 75 percent of the Medi-Cal reimbursement.
- We believe that obtaining Medi-Cal payment data directly from the COHS agencies that make the payments would provide the department with a greater level of assurance that it has complete and accurate data. In addition, this would be consistent with the department's practice of obtaining Medi-Cal payment data directly from Electronic Data Systems Federal Corporation, which processes other Medi-Cal payments for the department.
- We agree that a main goal of the department should be to maximize federal funding by having Medi-Cal appropriately pay for MTP services. However, as we describe on pages 31–32 of the report, not all children in the MTP receive special education services and are thus entitled to a free and appropriate education. As a result, the department is improperly allowing Medi-Cal to pay claims for services to MTP children who are not in special education without first determining whether other available health care plans will pay. Lacking the necessary federal approval to implement its current process, the department needs to take the appropriate steps to comply with federal Medicaid requirements.

Blank page inserted for reproduction purposes only.

Agency's comments provided as text only.

County of Los Angeles
Department of Health Services
313 N. Figueroa, Los Angeles, CA 90012

August 3, 2004

TO: Elaine M. Howle, State Auditor
Bureau of State Audits

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

**SUBJECT: RESPONSE TO BUREAU OF STATE AUDITS REPORT (#2003-124) –
CALIFORNIA CHILDRENS' SERVICES MEDICAL THERAPY PROGRAM**

We have reviewed the excerpts of the draft findings and recommendations for Los Angeles County from the Bureau of State Audits Report No. 2003-124 regarding the California Children's Services Medical Therapy Program (MTP). Following is the response to the Bureau of State Audits' recommendation:

Audit Recommendation:

"To ensure that counties do all they reasonable can to maximize Medi-Cal payments for MTP services, Los Angeles County ...should attempt to correct and resubmit denied Medi-Cal claims when it is cost-effective to do so."

County of Los Angeles Response:

We concur. California Children's Services of Los Angeles County is currently analyzing the cost effectiveness of correcting and resubmitting denied Medi-Cal claims.

Please let me know if you have any questions or need additional information.

TLG:ll

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