

March 5, 2015

Letter Report 2015-606

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

Dear Governor and Legislative Leaders:

This letter report provides an update on our assessment of the California Department of Health Care Services' (Health Care Services) status as a high-risk agency. Health Care Services remains a high-risk agency due to its increased responsibilities under the federal Patient Protection and Affordable Care Act (Affordable Care Act) and the state Mental Health Services Act (MHSA), as well as outstanding audit recommendations from our past audit reports. In addition, in two recent audit reports we identified a concern with Health Care Services' beneficiary eligibility system, which we found to have weaknesses that caused inappropriate reimbursements and payments. It is important that Health Care Services appropriately perform its increased responsibilities to ensure that all eligible beneficiaries receive timely access to services under the Affordable Care Act and to ensure proper oversight of counties' MHSA-funded programs. As a result of the Affordable Care Act's expansion of the California Medical Assistance Program (Medi-Cal), Health Care Services experienced a surge of Medi-Cal applicants, causing a widely publicized backlog of 900,000 applications. However, it has since significantly reduced the backlog to 3,600 as of December 2014. Therefore, although we monitored this backlog, it is not one of the reasons we continue to designate Health Care Services as high risk.

### **Background on Our State High Risk Audit Program**

State law authorizes the California State Auditor (state auditor) to establish a state high risk audit program and to issue reports with recommendations for improving state agencies or statewide issues it identifies as high risk. State law also authorizes the state auditor to require state agencies identified as high risk and those responsible for high-risk issues to report periodically to the state auditor on the status of the implementation of recommendations made by the state auditor. Programs and functions that are high risk include not only those particularly vulnerable to fraud, waste, abuse, and mismanagement, but also those that have major challenges associated with their economy, efficiency, or effectiveness.

From June 2014 through February 2015, we periodically monitored Health Care Services. We interviewed staff at Health Care Services to gain their perspective on the extent of the risks we identified and reviewed the efforts under way that they offered as mitigating the risks. We considered how Health Care Services performed the increased responsibilities identified in our September 2013 high risk report and its progress in implementing unresolved recommendations from our past audit reports. We also identified a new area of concern that affects its high risk status, which, as we describe later in this letter report, involves its beneficiary eligibility system. We considered a number of qualitative and quantitative factors, as well as whether or not an agency has taken measures to correct previously identified deficiencies. Ultimately, the determination of high risk is based on the independent and objective judgment of the state auditor's professional staff.

## **Background on Health Care Services' Increased Responsibilities**

Health Care Services provides Californians with access to affordable, high-quality health care, including medical, dental, mental health, substance use treatment services, and long-term care. The federal Medicaid program provides funds to states to pay for the medical treatment of the needy, and California participates in the federal Medicaid program through Medi-Cal. Health Care Services is the single state agency responsible for administering Medi-Cal.

The MHSA was approved by California voters in 2004 to expand existing mental health programs and services and to use innovative methods to identify, mitigate, and treat mental illness. The responsibility for overseeing MHSA programs was primarily assigned to the California Department of Mental Health and the Mental Health Services Oversight and Accountability Commission.<sup>1</sup> However, changes in law effective June 2012 transferred oversight responsibilities for the MHSA to Health Care Services.

Beginning in 2014 the Affordable Care Act provided states the authority to expand Medicaid eligibility to individuals under the age of 65 with household incomes below 133 percent of the federal poverty level. The Affordable Care Act also restructured the rules for determining eligibility and providing benefits through Medicaid. As a result of the Affordable Care Act, California experienced a surge in Medi-Cal applications in 2014. Health Care Services was required to collaborate with Covered California, the State's online enrollment administrator for health insurance, to offer consumers a convenient way to apply for Medi-Cal. However, Covered California's enrollment system, which launched in October 2013, experienced design and capability challenges. Problems with the system, along with other factors, contributed to the growth of a backlog of up to 900,000 Medi-Cal applications at Health Care Services.

## **Recent Audits Have Exposed Concerns With Health Care Services' Beneficiary Eligibility System**

Recent audits of Health Care Services issued by the state auditor identified concerns regarding outdated information in its beneficiary eligibility system. This outdated information caused Health Care Services to inappropriately authorize reimbursements and payments to deceased beneficiaries. In our audit report titled *California Department of Health Care Services: Weaknesses in Its Medi-Cal Dental Program Limit Children's Access to Dental Care* (issued in December 2014), we found that Health Care Services and its fiscal intermediaries authorized reimbursements of more than \$70,000 for dental services purportedly provided to 153 deceased beneficiaries because it had not updated its beneficiary eligibility system with death information. We had a similar finding in an earlier report titled *California Department of Health Care Services: Its Failure to Properly Administer the Drug Medi-Cal Treatment Program Created Opportunities for Fraud* (issued in August 2014). Specifically, we reported that Health Care Services and the California Department of Alcohol and Drug Programs authorized reimbursements totaling more than \$10,300 for 323 services purportedly provided to 19 deceased beneficiaries under the Drug Medi-Cal Treatment Program.

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<sup>1</sup> The California Department of Mental Health became the California Department of State Hospitals as of July 1, 2012.

We recommended that Health Care Services develop more robust procedures for promptly updating all records in its beneficiary eligibility system with available death information and recover any inappropriate payments that may have already occurred. This issue has implications that extend beyond the programs identified in our past two reports, because Health Care Services, as well as others, uses the beneficiary eligibility system to verify beneficiary eligibility for the broader Medi-Cal program. In Health Care Services' six-month response to our August 2014 audit report, in which we recommended that it develop and implement procedures for routinely identifying and initiating recovery efforts for inappropriate payments, Health Care Services indicated that it is working with its information technology division to develop a system to identify inappropriate payments. Health Care Services expects the recommendation to be fully implemented by September 2015. Until Health Care Services resolves the issues with its beneficiary eligibility system, it poses risk to the State of making inappropriate payments and reimbursements to ineligible recipients, and thus wasting state and federal resources.

### **Health Care Services Still Has Recommendations Outstanding From Our MHSA Audit**

Health Care Services has not fully implemented nine recommendations from our August 2013 audit report titled *Mental Health Services Act: The State's Oversight Has Provided Little Assurance of the Act's Effectiveness, and Some Counties Can Improve Measurement of Their Program Performance*, which called for more oversight of the counties in their implementation of the MHSA. As of January 2015 Health Care Services is still working to implement these nine outstanding recommendations. Some of the recommendations include entering into performance contracts with each county that contain assurances that allow for effective oversight, conducting comprehensive on-site reviews of counties' MHSA-funded programs, issuing necessary regulations to ensure that all MHSA requirements are met, and collecting complete and relevant MHSA data from counties. In its most recent response, Health Care Services indicated that it expects to fully implement all of the recommendations by March 2018. Health Care Services outlined various steps it has taken to implement the nine outstanding recommendations and provided updated timelines for when it expects to fully implement them. Until Health Care Services has at least substantially implemented our recommendations regarding its increased responsibilities under the MHSA, we have little assurance that it has resolved this area of risk.

### **Health Care Services Has Addressed the Recent Medi-Cal Application Backlog**

Health Care Services has made significant progress in addressing a large backlog of Medi-Cal applications, which reportedly reached a high of over 900,000 applications in March 2014. Health Care Services is required by law to process applications for Medi-Cal within 45 days. However, it failed to process hundreds of thousands of applications within the 45-day time frame, thus creating a large backlog that affected many Californians' access to health care. The backlog posed a risk to Medi-Cal beneficiaries, some of whom indicated that they postponed or were delayed in seeking medical treatment as a result of the long wait for their applications to be processed. As of December 2014, Health Care Services had reduced the backlog to 3,600. In addition to addressing the bulk of the backlog, Health Care Services has developed a mitigation plan and has put into effect new policies to help prevent the reoccurrence of a backlog.

According to Health Care Services, three major factors contributed to the large Medi-Cal application backlog. These three factors were (1) a larger-than-anticipated volume of applications, (2) technological problems, and (3) duplicate applications and data entry errors from consumers. Health Care Services has taken various actions to address the backlog, including policy and automation changes to reduce processing time, data mining and matching to identify and apply data fixes, and county visits to discuss problems experienced by different counties. In addition, Health Care Services has identified work-arounds and alternate processes, developed desk aids for county workers, dedicated teams to identify and fix technological defects and enhance system design and functionality, and created a mitigation plan. Health Care Services has also worked to identify duplicate applications and improve Web site information provided to consumers in order to prevent data entry errors.

To hold Health Care Services accountable for addressing the application backlog, the Centers for Medicare and Medicaid Services (CMS), an agency of the U.S. Department of Health and Human Services, requested Health Care Services to, beginning in June 2014, develop a mitigation plan and submit biweekly updates on the application backlog. The mitigation plan was last updated in December 2014 and includes descriptions of specific technical problems Health Care Services has identified, the proposed solutions, and the status of those solutions.

CMS concluded that Health Care Services' process for addressing the current backlog of Medi-Cal applications is satisfactory. However, CMS requested that Health Care Services adjust the process for new applications being submitted during open enrollment, the time when Health Care Services receives the greatest number of Medi-Cal applications, to achieve the timeliness standard of 45 days. As of November 2014 Health Care Services had begun making preliminary determinations of eligibility during open enrollment to ensure that it processes applications within 45 days. Under this new policy, Medi-Cal applicants who have not received a determination of their eligibility by the 45-day mark are granted preliminary eligibility and access to medical care until a formal determination can be made. We therefore no longer consider the backlog of Medi-Cal applications to be an area of concern.

Nevertheless, because of its increased responsibilities and the concern we identified with its beneficiary eligibility system, Health Care Services remains on our high risk list. We will continue to monitor the risks we have identified in this letter report and the actions Health Care Services takes to address them. When, in our professional judgment, Health Care Services' actions result in progress toward resolving or mitigating these risks, we will remove the high risk designation.

We prepared this report under the authority vested in the state auditor by Section 8546.5 of the California Government Code.

Respectfully submitted,



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