



Office of the City Auditor

INFORMATION CALENDAR

October 5, 2004

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Impact of Medi-Cal Provider Rate Reduction on Medi-Cal Reimbursements

INTRODUCTION

In the fiscal year 2004-2005 state budget proposal introduced in November 2003, the Governor called for a 10% reduction in Medi-Cal provider rates, in addition to the 5% approved reduction made in the state Budget Act of 2003.

Since the rate reductions might significantly reduce Medi-Cal reimbursements and worsen the City's budget deficits, the City Manager requested the City Auditor's Office to evaluate its financial impact. We agreed to perform this nonaudit service. We examined the impact based on budget information made available to the public. **Our purpose was to identify the trend and impact of unreimbursed Medi-Cal expenses in consideration of the enacted and proposed rate reductions.**

CURRENT SITUATION AND ITS EFFECTS

On July 29, 2004, the Assembly passed the 2004-2005 state budget in which the Governor lifted the 10% rate reduction. The 5% rate reduction is likely to be permanently prohibited by the federal court. The direct financial impact for this fiscal year resulting from the Medi-Cal provider rate reductions has been substantially reduced or eliminated. However, in January 2004, the Governor also announced his intent to redesign and restructure Medi-Cal to improve operational efficiencies and to reduce state spending on the program. The reform plan scheduled for release in May was postponed until August, and now has been re-scheduled for release in January 2005. Although the plan has not been finalized, it is expected to bring significant structural and operational changes to the Medi-Cal program and agencies participating in the program.

BACKGROUND

On December 8, 2003, the auditor met with the Director of Health and Human Services (HHS) and staff from both the Mental Health and Public Health Divisions. During the meeting, the auditor was advised that:

- The 15% rate reduction would only affect private Medi-Cal service providers. It would not affect mental health services provided by the City. However, if private service providers refused to provide services to Med-Cal patients, more patients would seek services from community clinics, potentially increasing the workload of community clinics.
- The loss of reimbursement for the Family PACT program which helps to fund the family planning and sexually transmitted infection services at the public health clinic and the high school health center was estimated to be \$75,000, based on billings of \$500,000 per year.

After the initial meeting, the auditor interviewed managers and staff from the Mental Health and Public Health Divisions to gather background information on programs that were expected to be impacted by the rate reductions. At that point, the impact could not be accurately determined because the 5% rate reduction was the subject of a lawsuit filed by various medical groups. In December 2003, the U.S. District Court issued a preliminary injunction to block the state from implementing the 5% cut scheduled to go into effect on January 1, 2004. On February 11, 2004, the state Department of Health and Human Services filed for reconsideration of the injunction. On February 12, 2004, the Court denied the request to reverse the injunction. A hearing will be set for a permanent injunction towards the end of 2004. According to the California Association for Health Services at Home (an organization that joined the lawsuit on behalf of over 60 service providers), because of the favorable results regarding the preliminary injunction, their attorneys felt that a permanent injunction would likely be granted. We did not investigate or fully verify their statements because the subject matter became a moot point. We decided to wait until more information surfaced before proceeding with additional work. However, one of the auditor's concerns was the impact of the rate reductions on billings. The auditor made limited inquiry about Medi-Cal billings and receivables and the following were brought to the auditor's attention early this year:

- The County owed the City two years of payment for Medi-Cal Administrative Activities (MAA) totaling \$1,600,000. The two back years were later paid on March 30, 2004.
- Family PACT billings were not timely processed and were four months delayed due to lack of clerical staff to do billings. According to the Manager of Health Promotion, the hiring process was cumbersome and the Family Planning unit experienced a long delay in hiring clerical staff. As of May 2004, the Family Planning unit was at full staffing level and was only two weeks behind in billings according to the Health Services Supervisor.

On May 18, 2004, the Governor lifted the 10% Medi-Cal provider rate reduction in the May Revision. The assumption of savings from the 5% rate reduction was also reversed due to uncertainties over whether the state would be allowed to implement the cut.

On July 29, 2004, the Assembly passed the 2004-2005 state budget providing full funding for Medi-Cal provider rates. Thus far, the potential impact of Med-Cal provider rate reductions has been substantially reduced or eliminated.

SUMMARY

The successful challenge of the 5% rate reduction would make it more difficult for the state to achieve savings through cutting Medi-Cal payments to providers. Any future similar proposed reduction is likely to trigger the same legal proceeding that will take a long time to resolve. Even if the injunction of the 5% reduction were to be reversed, it would not take place until the end of 2004 according to the experts. However, if a similar cut were imposed on other service agencies, it could impact City services by increasing the workload to the City's local clinics or service centers. Given the Governor's plan to restructure Medi-Cal to reduce state spending on the program, the City should continue to bear in mind the potential for significant changes in City Health and Human Services Department funding in the near future.

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