



June 29, 2007

Mr. Stephen W. Mayberg, Ph.D., Director
California Department of Mental Health
1600 Ninth Street, Room 151
Sacramento, CA 95814

Dear Dr. Mayberg:

Final Report—Review of the San Mateo County Pharmacy and Laboratory Services Estimation Process

Enclosed is the final report on our review of the San Mateo County Pharmacy and Laboratory Services estimation process. The Department of Finance, Office of State Audits and Evaluations, performed this review in accordance with an interagency agreement with the California Department of Mental Health (DMH).

The observations in our report are intended to improve DMH's process. DMH has agreed with our observations and we appreciate DMH's willingness to implement corrective action. Please provide us with a corrective action plan within thirty days from the date of this letter. Mail your corrective action plan to:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

We appreciate the DMH's assistance and cooperation with this review. If you have any questions, please contact Frances Parmelee, Manager, or Zach Stacy, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Jim Alves, Assistant Secretary, Health and Human Services Agency
Ms. Elaine Bush, Deputy Director, Administration, California Department of Mental Health
Mr. Sean Tracy, Special Projects Manager, California Department of Mental Health
Mr. Mike Borunda, Acting Deputy Director, Systems of Care, California Department of Mental Health
Ms. Harriet Kiyon, Chief Financial Officer, California Department of Mental Health
Ms. Rita McCabe, Chief, Medi-Cal Mental Health Policy Branch, California Department of Mental Health
Mr. John Doyle, Principal Program Budget Analyst, Department of Finance

A SPECIAL REVIEW

Report on the California
Department of Mental Health

Review of the
San Mateo Pharmacy and Laboratory
Services Estimation Process

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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EXECUTIVE SUMMARY

The California Department of Mental Health (DMH) requested that the Department of Finance, Office of State Audits and Evaluations, review the current San Mateo Pharmacy and Laboratory Services Program (Program) estimate methodology, research prevalent trends within the pharmacy benefit and County Organized Health Systems (COHS) industries, and make recommendations towards improving the Program estimation process. The forecasting of resource requirements for the Program has been overestimated by approximately 9.24 percent over four fiscal years ending June 30, 2005. With the implementation of the Medicare Prescription Drug, Improvement, and Modernization Act (Medicare Part D) in January 2006, the Program expected to significantly reduce its costs. The following observations about DMH's estimation process were identified, and the proposed recommendations, if implemented, would improve the current Program estimation process.

- DMH does not provide adequate oversight of the Program, resulting in inflated cost projections and overpayments of costs. The historic cost data provided by the San Mateo County Mental Health Department (County) is not assessed for reasonableness or verified for accuracy. Specifically:
 - Inflated cost projections and over billing by the laboratory services vendor resulted in estimated laboratory costs exceeding actual costs by more than \$600,000 over a five-year period ending June 30, 2006.
 - Drug rebates received did not appear reasonable compared to rebate percentages received by Medi-Cal and other states. In 2005, the rebates reported by the County equaled \$358,535. Under Medi-Cal, the negotiated rebates for the same year would have reduced the overall Program costs of \$10,573,360 by an additional \$3,555,642 or 34 percent.
 - Administrative fees charged by the County were not supported by a formal agreement.
 - Share of costs/coordination of benefits revenue have not been monitored for consistency.

It is recommended that DMH increase Program oversight in order to reduce the inflated cost projections and overpayments of costs.

- DMH did not adequately assess the impact of Medicare Part D on the Program. DMH's estimate that 23.5 percent of Medi-Cal beneficiaries will be eligible for Medicare Part D (dual eligible) is based on the percentage that had Medicare Part A or B. However, the estimate failed to consider that the Program usage pattern is not a normal distribution and that higher cost users are more likely to be eligible for Medicare Part D. The County indicated the Medicare Part D's impact is currently tracking at 40 – 50 percent; therefore, DMH materially underestimated the impact.

It is recommended that DMH identify the actual dual eligible population and quantify the effect of beneficiaries transitioning to Medicare Part D.

- DMH forecasts Program requirements on trended historic costs at the program level and does not incorporate specific user and service level data, such as demographics or diagnostic services. Actuaries from the California Department of Health Services indicated that its COHS program estimates are based on a sum of regressed historic costs of various user and service levels. Utilizing user and service level details provide tools to isolate variances between actual and projected costs and adequately assess implications of new mandates or other policy changes.

It is recommended that DMH break down service level details into more relevant component levels and utilize these components to prepare the Program base estimate.

- There has been consideration to implement this Program statewide. However, DMH has not assessed the cost effectiveness of the Program.

Prior to any expansion, it is recommended that DMH determine the cost effectiveness of the Program by conducting an analysis that includes a comparison of drug rebates, the impact of Medicare Part D, and administration fees.

DMH should develop a plan to address the observations and recommendations noted in this report. If DMH does not have the in-house expertise to address the specific observations of the Program's estimation process, it should consider entering into an interagency agreement with the California Department of Health Services or hiring an independent outside consulting firm with expertise in computing health services estimates.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In April 1995, the San Mateo County Mental Health Department (County) began operating as the Mental Health Plan (Plan) under the provisions of a Medi-Cal managed mental health care field test (field test) waiver. The field test was established under the authority of the Welfare and Institutions Code Section 5719.5 and the federal freedom of choice waiver under the Social Security Act Section 1915(b)(4) granted by the Centers for Medicare and Medicaid Services. The field test authority was enacted to allow the California Department of Mental Health (DMH) to test managed care concepts in support of an eventual move to a full risk model for the delivery of Medi-Cal specialty mental health services.

The field test began by the County assuming responsibility for both psychiatric inpatient hospital services and outpatient specialty mental health services. The County received a fixed annual General Fund allocation from DMH and claimed federal financial participation (FFP) on a case rate basis. In July 1998, the County's field test was expanded to include the management of the pharmacy and laboratory services prescribed by its psychiatrist network.

For the pharmacy and laboratory services, DMH and the County initially entered into a risk sharing agreement establishing the San Mateo Pharmacy and Laboratory Services Program (Program). This agreement created the only County Organized Health System (COHS) in the state that does not carve out drug benefits to Medi-Cal. Under the risk-sharing agreement, the County would retain surplus funding at the end of the contract term (state share only); however, in the event of a funding deficit, the County assumed responsibility for payment up to a 10 percent threshold, after which the County and state would split the costs. Proponents of the risk-sharing model indicate that the County would have additional incentive to contain costs in order to generate and retain surplus funding. Additionally, the state benefited because theoretically, the plan would eliminate funding augmentation requests except in circumstances where the deficit was greater than the 10 percent risk threshold. In 2002, the agreement between the County and DMH was modified to eliminate the 10 percent risk-sharing threshold because either the annual state General Fund allocation was more than sufficient to meet the state's matching requirement or any state match shortfalls were covered by the Plan's realignment funds.

In 2005, the Plan's case rate reimbursement portion of the field test was discontinued and the traditional Short Doyle Medi-Cal claiming system was instituted. Continued operation of the pharmacy and laboratory components did not require a separate waiver. This part of the field test continued under the authority of Title 9 of the California Code of Regulations Section 1810.110(d) that permits DMH to waive specific requirements of the regulations. The state portion of the Program continues to be funded under the full risk model established in 2002.

The County contracts with MedImpact Healthcare Systems, Inc. (MedImpact) to provide pharmacy management services and Quest Diagnostics (Quest) to provide laboratory services. MedImpact also represents the County as its Pharmacy Benefits Manager (PBM). The role of

the PBM is to deliver cost-efficient and clinically effective prescription drug management for the County in an effort to manage overall costs while increasing quality of care. Except for supplemental rebates negotiated by the County with Eli Lilly and Company and IVAX Pharmaceuticals, Inc., the PBM negotiates and collects all other pharmaceutical rebates.

DMH's Medi-Cal Mental Health Policy Branch prepares the Program's annual estimate. Vendor billing data along with County and PBM administrative costs are reported to DMH for use in developing the following year's estimate. In 2002, DMH commissioned a detailed study of the Program to evaluate pharmacy and laboratory costs. Because the laboratory analysis was based on limited data due to complications in obtaining data from the vendor, the legitimacy and validity of the study is questionable. DMH did not use the 2002 study as a basis for its laboratory estimation; therefore, we did not evaluate or use that portion of the study for this review. DMH commissioned another study in 2006 to review pharmacy costs and assess the implications of Medicare Part D.

SCOPE/OBJECTIVES

DMH requested the Department of Finance, Office of State Audits and Evaluations, to perform an evaluation of the Program's estimation process. The primary objectives of our review were to gain an understanding of the Program and the methodologies used to estimate Program resources and to make recommendations for improving the estimation process.

Our scope did not include an assessment of the accuracy of claims data; however, we did assess the reasonableness of amounts reported by the County. Due to the unique nature of the Program, we were unable to determine best practices or compare the estimation results to a set of benchmarks. Additionally, this review does not assess or evaluate the efficiency or effectiveness of this Program with respect to service or quality of care.

METHODOLOGY

To determine if improvements to the estimation process could be made, we gained an understanding of the Program and evaluated the methodologies used to estimate Program resources. To document the Program's current estimation methodology, we interviewed the DMH management, Program personnel, DMH's outside consultant, and County staff. We obtained source documentation from the County and DMH and performed a reasonableness test on reported costs. We also reviewed the 2002 and 2006 studies prepared by the outside consultant. Additionally, we reviewed the following contracts:

- Pharmacy and laboratory services agreement between the County and DMH.
- Pharmacy benefits management agreement between the County and MedImpact.
- Laboratory services contract between the County and Quest.
- Drug rebate agreement between the County and Eli Lilly and Company.
- Drug rebate agreement between the County and IVAX Pharmaceutical, Inc.

To gain insight on the managed care and pharmaceutical industries, we interviewed California Department of Health Services (DHS) staff from several specialty units, including:

- Medi-Cal Managed Care Division.
- Medi-Cal Fiscal Analysis Unit.
- Medi-Cal Pharmacy Benefits Unit.
- Fiscal Forecasting and Data Management Branch.

We interviewed staff from the California Medical Assistance Commission, Medi-Cal Managed Care Division, to gain an understanding about negotiation strategies and prevalent trends in the managed care industry, the role of COHS in providing services, and the trends in contracting with these entities. Finally, we utilized internet resources to research drug rebates, contracting trends, and the pharmacy benefits management industry.

Recommendations were developed based on data analysis, the documentation made available to us, and interviews with subject matter experts. This review was conducted during the period February 2007 through May 2007.

OBSERVATIONS and RECOMMENDATIONS

A review was performed of the California Department of Mental Health's (DMH) current estimate methodology for the San Mateo Pharmacy and Laboratory Services Program (Program). The following observations were identified:

OBSERVATION 1: Lack of DMH Oversight Over Costs

Monitoring and controls over the Program are lacking. Specifically, Program revenue and cost components are not verified for accuracy or analyzed for reasonableness by DMH.

DMH's Medi-Cal Mental Health Policy Branch prepares the annual estimate for the Program using data provided by the San Mateo County Mental Health Department (County). This estimate is then incorporated into DMH's annual Budget Change Proposal (BCP) funding request. In 2002 and 2006, DMH commissioned two separate studies to review the Program's estimate.¹ These studies were analyzed by DMH and incorporated into the annual estimate.

The Program estimate is comprised of estimated laboratory costs, trended historical pharmacy claims, and adjustments for any known policy changes. Different methodologies are used to develop each component's estimate.

Laboratory Estimate—Because DMH has not been consistently provided laboratory services claim history by Quest Diagnostics (Quest), the estimate is based on previously contracted rates instead of reported laboratory services claims.

Pharmacy Estimate—DMH calculates the pharmacy estimate by trending multiple years of reported pharmacy claims. Reported pharmacy claims are comprised of the following components:

Total Reported Drug Costs	
Less:	Drug Rebate Revenue
Less:	Share of Costs/Coordination of Benefits Revenue
Plus:	Pharmacy Benefit Manager (PBM) Administrative Costs
Plus:	County Administrative Costs
Equals:	Net Reported Pharmacy Claims

Policy Changes—The estimate is adjusted by any known policy changes, such as Medicare Part D. DMH reduced the fiscal year 2006-07 estimate by 23.5 percent to account for beneficiaries, whose prescription drug costs transitioned to Medicare Part D because they had both Medicare and Medi-Cal, also known as dual eligibles.

¹ Refer to Appendix I and II for these studies.

To assess the reasonableness of the claims reported by the County to DMH, we reviewed pharmacy claims for 2004-05 and laboratory services claims reported between March 12, 2001 and November 26, 2002. The review raised questions about the following issues:

- Integrity of the reported laboratory costs.
- Reasonableness of the drug rebate revenue reported by the PBM.
- Appropriateness of the County's administrative costs.
- Accounting for the beneficiaries' share of costs/coordination of benefits revenue.

Reported Laboratory Costs

There was no support or factual basis for the 2002-03 or 2003-04 budgeted laboratory costs. DMH indicated there were problems with the County obtaining billing data from Quest. Therefore, DMH estimated laboratory costs based on previously contracted rates, keeping the 2002-03 estimate at \$225,000 and increasing the 2003-04 estimate by 10 percent to account for inflation.

DMH later recognized that laboratory estimates have been overestimated; therefore, the DMH's 2005-06 Budget Change Proposal (BCP) reduced the budgeted laboratory costs from \$250,000 to \$114,000. The BCP indicates that the reduction was based on a review of actual laboratory claims submitted by the County over the past four fiscal years ending June 30, 2005. The BCP also indicated changes in laboratory costs would be monitored and adjusted if necessary.

For our review, we obtained detailed laboratory transaction history from the County from March 12, 2001 through November 26, 2002 to assess the reasonableness of reported claims. We identified many duplicate tests billed to the same beneficiary on the same date as well as claimed rates that were in excess of the contracted rates. Our preliminary analysis indicates that inflated cost projections and incorrect billings resulted in an overpayment of more than \$600,000 over a five-year period ending June 30, 2006. Under the negotiated rate plan, the County retains excess state funding. At our request, both the County and DMH are attempting to independently quantify the incorrect billing. The County will arrange for repayment of the over billed federal share. If collection is not made, DMH could be responsible for the federal repayment. The County announced that it has subsequently changed its laboratory services vendor.

Drug Rebates

Drug rebate revenue reported to DMH by the County appear extremely low. The reported rebates are incorporated into the estimate and hence reduce the Program costs to the state. In 2005, these rebates accounted for approximately \$358,535 or 3.4 percent of the \$10,573,360 reimbursed drug costs. Our research indicated that drug rebate amounts are generally much higher for state Medicaid programs; in fact, Medicaid offers a negotiated rate of 15.1 percent for innovator drugs and 11 percent for generic drugs. In California, Medi-Cal negotiates primary and supplemental rebate terms well in excess of the abovementioned Medicaid rates.

To assess the reasonableness of reported drug rebates, we provided the Program's 2004-05 pharmacy services activities by drug to the California Department of Health Services (DHS) and

requested DHS to quantify the rebate amount that Medi-Cal would have received under the rebate contracts in place during the same period. The following table demonstrates the comparison:

Reported Pharmacy Services Rebates Per the County	Pharmacy Services Rebates That Medi-Cal Would Have Received	Difference
\$358,535	\$3,914,177	\$3,555,642

The 2004-05 Medi-Cal negotiated rebates would have reduced the overall Program costs of \$10,573,360 by an additional \$3,555,642 or 34 percent.

The Program contracts with a PBM to negotiate and collect rebates. County staff requested copies of the contracts that the PBM had in effect with the different pharmaceutical companies and were denied access to the information based on non-disclosure clauses in those contracts.

DMH indicated it would be working with County staff to further evaluate the reasonableness of reported rebates. DMH should review the implications of rebate underpayments to determine if a cost offset is due on the federal share. In addition, DMH should revisit the terms of the Medi-Cal Specialty Mental Health Services Consolidation Waiver (Waiver) to ensure the Program meets the cost effectiveness requirements. This is the only local program where drugs are carved out from the Medi-Cal process. DMH should collaborate with DHS to determine whether a continued drug carve out is feasible.

Administrative Costs

Both the County and the PBM are reimbursed for administrative fees. We noted that the contract between the County and DMH does not address administrative fees for either the County or the PBM; rather, there are provisions for reimbursement to participating pharmacies on a per prescription basis.

The PBM's reimbursement is based on the contract with the County. The contract also contains standard fees, such as per transaction processing fees, and optional service fees, such as preparation of non-standard reports. The PBM fees were less than .5 percent of drug reimbursements for 2004-05.

The County also charges the Program an administrative fee based on specific salaries of Program staff. However, there is no formal agreement regarding these fees. For 2004-05, the County administrative fees totaled \$251,410 or 2.4 percent of the drug reimbursements reported for the same period. We requested the County provide documentation to support the administrative fees, but at the time of this reporting, the County did not provide supporting documentation. Further, DMH was not able to specify the basis for the County administrative charges.

Share of Costs/Coordination of Benefits

There is no regular accounting, reporting, or monitoring of share of costs payments. Medi-Cal beneficiaries that meet a certain income threshold are required to pay a share of the costs to maintain eligibility. These costs were reported as revenue to the Program up to September 2002. After September 2002, share of costs revenue was not tracked. The County states that because its accounting method changed, the share of costs revenue was no longer

tracked and was to be treated as a deductible incurred before the beneficiary's prescriptions could be submitted through the pharmacy benefits system.

Regular accounting, reporting, or monitoring was also not performed regarding the coordination of benefits revenue. When a beneficiary has other health insurance, Medi-Cal becomes the secondary insurer, paying the residual portion of the claim after the primary insurer pays its share. Thus, these coordinated benefits reduce the cost of services that the Program pays for any given service or prescription.

Recommendations: As the oversight agency, DMH should exercise control to ensure that Program revenue and cost components are verified for accuracy or are analyzed for reasonableness. Specifically:

- Institute an audit function to periodically analyze the accuracy of reported data.
- Obtain all data necessary to prepare an accurate estimate of Program costs. Question the vendors' and the County's inability to provide billing data.
- Ensure the County arranges for repayment of the over billed federal financial participation of laboratory costs.
- Consider the loss of eligible rebate funds when determining the cost efficiency of the Program.
- Negotiate the terms of all administrative fees charged to the Program, formalize an agreement for administrative fees, and memorialize this agreement within the contract. Ensure that administrative fees are Program-related, necessary, and reasonable.
- Quantify and evaluate the reasonableness of the share of costs/coordination of benefits revenue reported by the County.

OBSERVATION 2: Inadequate Assessment of Medicare Part D's Impact

DMH underestimated the impact of Medicare Part D on the Program. Medicare Part D established a voluntary outpatient prescription drug benefit for people on Medicare. The drug benefit took effect in January 2006 and is available to all 43 million elderly and disabled beneficiaries enrolled in Medicare-approved private plans. Under Medicare Part D, Medicare also replaces Medicaid (Medi-Cal) as the primary source of drug coverage for dual eligibles. As a result, overall Program costs have been reduced.

DMH's initial attempt to assess the impact of Medicare Part D on the Program was to reduce the pharmacy estimate by 10 percent.² DMH later noted that data from DHS indicated that approximately 23.5 percent of the Medi-Cal beneficiaries in San Mateo County had Medicare Part A and/or Part B coverage as of July 2005. Therefore, the 2006-07 pharmacy estimate was reduced by 23.5 percent. However, the County indicated the Medicare Part D's impact is currently tracking at 40 – 50 percent. This would indicate that the Program was significantly overpaid for 2006-07. Even though the County is paid a negotiated rate, DMH stated its intent to negotiate with the County to recover the excess funding.

DMH, through DHS, had the ability to quantify the effects of Medicare Part D based on actual costs associated with the dual eligible population. DHS indicated that the Centers for Medicare and Medicaid Services (CMS) provided a specific listing of dual eligibles prior to the implementation of Medicare Part D. Had DMH provided the appropriate beneficiary information to DHS, DHS could have determined which of the 3,324 beneficiaries utilizing the prescription

² This statement is according to DMH's November 2006 BCP.

drug benefits were dual eligibles, and a more accurate impact on the Program could have been computed.

We assessed the DMH's estimation of Medicare Part D's impact and have concerns regarding the methodology and certain assumptions made. Specifically:

- Not all Medi-Cal beneficiaries are utilizing mental health services. Instead of using the 23.5 percent average of Medi-Cal beneficiaries that are eligible under Medicare Part D, DMH should have factored in the percentage of Medi-Cal beneficiaries that utilize mental health services, and then determine the applicable percentage of beneficiaries that were eligible for Medicare Part D.
- DMH assumed that all mental health beneficiaries utilize the same level of resources. Based on the reported 2004-05 prescription drug reimbursement data, we determined that the utilization of resources did not reflect a standard distribution. That data shows the bottom 50 percent of the mental health beneficiaries utilized only 10.7 percent of the pharmacy services resources. Alternatively, the top 50 percent of pharmacy services beneficiaries utilized 89.3 percent of the resources.

Based on our analysis of the pharmacy services distribution among the Medi-Cal population, we hypothesized that some of the higher cost users (incurred costs greater than \$10,000 per year) would be disabled; therefore, those users would be receiving Supplemental Security Income benefits and be eligible for Medicare. We provided a listing of the top 200 users (out of a population of 3,324) to DHS and concluded that 118 out of 200 users or 59 percent were dual eligibles.

- The 2006-07 pharmacy services estimate was created by trending the last five years of reported claims data, resulting in an increase of 7.56 percent. The trended amount was reduced to account for the impact of Medicare Part D. The use of trend models that are based on costs incurred prior to the implementation of Medicare Part D should be carefully considered. Once the effects were determined to be material and ongoing, trend models that use both pre and post Medicare Part D cost data would be skewed.

Recommendations: DMH should work with DHS to identify the specific dual eligible beneficiary population, and then quantify actual utilization associated with these beneficiaries. This computation will result in a more accurate estimate.

OBSERVATION 3: The Program Estimate Lacks Essential User and Service Level Detail

The current Program estimate is based on trended historic costs at the program level and does not incorporate specific user and service level detail, such as demographics or diagnostic services. DHS actuaries indicated that their County Organized Health System (COHS) estimates are based on a sum of regressed historic costs of various user and service level detail. Tracking costs at the user and service levels, or component units, would allow variances between actual costs and projected costs to be isolated and would provide stakeholders with more relevant information. For instance, if new medication therapy is identified for an affected class of users, having detail about the affected class will enhance the Program's ability to quantify the potential effects to the Program. When variances occur at these detailed levels, Program staff can analyze the causes and modify future estimate assumptions.

Recommendations: DMH should work with the County to break down user and service level categories. Utilize this information to quantify treatment or policy changes that may materially

affect the Program. Review Program cost components independently and form the estimate based on the aggregate of these costs rather than at the program level. Consult with DHS to gain an understanding on how other COHS estimates are based.

OBSERVATION 4: The Program Was Not Assessed for Cost Effectiveness

The Program's cost effectiveness should be quantified and documented. The pharmacy and laboratory components were added in 1998 to the existing managed care test program that was granted by the CMS. In 2005, the field test ended and the Program was consolidated into the Waiver. It would appear reasonable to expect some form of report to support the Program's movement from field test status to a permanent condition. We requested documentation that would substantiate the cost effectiveness of the Program. However, DMH and the County have not been able to provide any documentation at the time of this reporting. There has been consideration to implement this Program statewide. An analysis of the cost effectiveness of the Program is imperative, especially since this Program is being considered for statewide implementation.

Recommendations: DMH should perform an analysis of the cost effectiveness of the Program that includes a comparison of drug rebate amounts, the impact of Medicare Part D, and administration fees. This analysis should be performed prior to any statewide expansion.

CONCLUSION

The California Department of Mental Health's (DMH) needs to significantly increase its oversight over the San Mateo Pharmacy and Laboratory Service Program's (Program). The lack of oversight has resulted in inflated cost estimates and overpayments causing the efficiency and cost effectiveness of the Program to be compromised. Because of the nature of the negotiated rate plan in which the San Mateo County Mental Health Department (County) keeps surplus funding in exchange for assuming risk, there is an incentive for the County to overstate Program costs. Because of this, it is vital that DMH assess Program costs for reasonableness and verify that Program costs reported by the County are accurate. Additionally, poor oversight could result in a loss of federal funding to the Program.

Due to the lack of controls relating to the estimation of the Program's cost and revenue components and the lack of an objective and independent study, we would recommend that DMH conduct a detailed assessment of this Program from a fiscal perspective. There has been consideration to implement this Program statewide. Before any decision is made for statewide implementation, not only should a cost benefit study be prepared to substantiate this Program's unique model, but also DMH should address the implications of the specific observations addressed in this report.

If DMH does not have the expertise in house to address the specific observations of the Program's estimation process, it should consider entering into an interagency agreement with the California Department of Health Services or hiring an independent outside consulting firm with expertise in computing health services estimates.

**San Mateo Field Test Waiver
Pharmacy and Laboratory Cost Review**

Background

The San Mateo County Mental Health Plan (MHP) began providing all mental health pharmacy and laboratory services in San Mateo County beginning January 1, 1999, as part of the Medi-Cal Mental Health Field Test (San Mateo County) Waiver renewal. The MHP contracted with MedImpact Healthcare Systems, Inc. (MedImpact) to provide pharmacy management services under the waiver, and with Quest Diagnostics (Quest) for laboratory services.

The MHP is reimbursed for the Medi-Cal federal share (Federal Financial Participation-FFP) of pharmacy and laboratory services based on actual costs incurred for these services. The MHP submits a monthly claim to State DMH to obtain federal reimbursement. The MHP obtains Medi-Cal State match through a combination of an annual allocation of State General Funds (SGF) and realignment funds.

The costs of pharmacy and laboratory services estimated in the waiver renewal were developed based on historical trends in such costs as provided by the Health Plan of San Mateo. These same costs were used to develop the annual SGF allocations to the MHP for Medi-Cal pharmacy and laboratory services.

Because these were estimated amounts, the State and MHP entered into a risk sharing agreement with respect to the funds required to match FFP. The MHP is at full risk for the entire State match if the cost of pharmacy and related laboratory services exceeds the state allocation by 10 percent or less. The State assumes 50 percent of the risk of costs that exceed the state allocations by more than 10 percent and up to 50 percent. The State assumes the entire risk for costs that exceed allocations by more than 50 percent.

Prior to this study, the Department of Mental Health has not conducted a detailed review of what has been paid under the waiver with the actual costs of such services and reconciled payments made under the risk sharing agreement.

Historical Data

Table 1, below, shows the estimated fiscal year costs of MHP pharmacy and laboratory services. These estimated costs were used to calculate the annual SGF allocations for pharmacy and laboratory services, and to determine whether the risk corridor was applicable in a given fiscal year.

**Table 1
MHP Fiscal Year Estimated Costs for
Pharmacy and Laboratory Services
(FFP and SGF)**

	1998-99 ^a	1999-2000	2000-01	2001-02	2002-03
Pharmacy	\$2,720,569	\$6,419,039	\$7,966,027	\$9,885,840	\$11,961,840
Laboratory	214,879	506,998	178,015	209,168	245,772
Total Estimated Costs	\$2,935,448	\$6,926,036	\$8,146,041	\$10,097,007	\$12,209,611

^a Fiscal year 1998-99 represents six months of services in this table and all subsequent tables.

Exhibit 1, at the end of this document, shows Medi-Cal mental health monthly paid claims for pharmacy services in San Mateo County since the MHP assumed responsibility for pharmacy services in January 1999. The total Medi-Cal mental health pharmacy claims consist of the cost of drugs, the pharmacy management company's administrative costs, and the MHP's administrative costs, less Medi-Cal rebates or Medi-Cal beneficiary share of costs paid by the MHP.

The MHP encountered problems obtaining accurate and timely claims from the laboratory services contractor (Quest). As a result, only 14 months of claims have been submitted to State DMH for FFP reimbursement. **Table 2**, below, shows the amount and number of months of actual laboratory claims submitted by the MHP for each fiscal year.

Table 2
Actual MHP Fiscal Year Laboratory Services Claims

	1998-99	1999-2000	2000-01	2001-02
Claim Amount	\$0	\$35,717	\$9,171	\$41,904
Number of Months	0	6	4	4
Average Monthly Claim	\$0	\$5,953	\$2,293	\$10,476

Due to the inconsistency in claims and the problems identified by the MHP in obtaining reports from the laboratory contractor, for the purposes of this analysis, monthly estimated laboratory claims were developed. **Table 3**, below, shows the estimated annual laboratory claims developed based on assumed average monthly claims for each fiscal year.

Table 3
Estimated MHP Fiscal Year Laboratory Services Claims

	1998-99	1999-2000	2000-01	2001-02
Assumed Average Monthly Claim	\$5,000	\$6,000	\$8,500	\$11,000
Annual Estimated Claims	\$30,000	\$72,000	\$102,000	\$132,000

Reconciliation of Data

The data from the above tables and exhibits was used to compare estimated costs to actual and estimated claims for MHP pharmacy and laboratory services. **Table 4**, on the next page, compares the estimated costs for pharmacy and laboratory services with the actual pharmacy and estimated laboratory fiscal year claims.

Table 4
Comparison of Pharmacy and Laboratory Claims

	1998-99	1999-2000	2000-01	2001-02
<i>Estimated Costs</i>				
Pharmacy	\$2,720,569	\$6,419,039	\$7,966,027	\$9,885,840
Laboratory	214,879	506,998	178,015	209,168
Total Estimated Costs	\$2,935,448	\$6,926,037	\$8,144,042	\$10,095,008
<i>Actual and Estimated Claims</i>				
Pharmacy Claims (Actual)	\$3,076,235	\$7,267,491	\$8,029,665	\$9,367,310
Laboratory Claims (Estimated)	30,000	72,000	102,000	132,000
Total Claims	\$3,106,235	\$7,339,491	\$8,131,665	\$9,499,310
<i>Difference</i>				
Pharmacy	-\$355,666	-\$848,452	-\$63,638	\$518,530
Laboratory	184,879	434,998	76,015	77,168
Total Difference	-\$170,787	-\$413,454	12,377	595,698
Percent Difference	-5.8%	-6.0%	0.2%	5.9%

Table 4 shows that estimated costs were slightly lower than actual claims in fiscal years 1998-99 and 1999-2000 and were slightly overstated in fiscal years 2000-01 and 2001-02. Thus, the MHP had to provide county realignment funds as Medi-Cal match for pharmacy and laboratory services in fiscal years 1998-99 and 1999-2000 and received more SGF than required for match in fiscal years 2000-01 and 2001-02. All the percent differences between estimated and actual amounts fall within 10 percent of the estimated costs, so the MHP incurred all of the additional match requirements and retained all of the additional SGF for the matching funds in accordance with the risk corridor agreement.

The laboratory claims in the above analysis are estimated because of limited data reporting by the MHP as a result of the laboratory services contractor. If actual laboratory claims are higher once the contractor is able to submit additional claims, the above analysis would be slightly different. However, the laboratory claims would have to significantly exceed the contracted amounts between the MHP and Quest in order for the loss to exceed 10 percent and the State required to provide additional matching funds. Laboratory claims would have to exceed \$153,000 in fiscal year 1998-99 (six months) and \$351,000 in fiscal year 1999-2000 for the total difference to exceed 10 percent in either of the fiscal years. By comparison, the laboratory services contract was approximately \$225,000 for MHP Medi-Cal laboratory services in fiscal year 2001-02. Thus, actual claims most likely would fall within ten percent of estimated costs and the MHP would be liable to provide all additional matching funds or be able to retain all additional SGF allocations.

Table 5, below, shows actual SGF allocations to the MHP in each fiscal year. Estimates initially provided by the MHP in fiscal year 2000-01 indicated that the 10 percent threshold would be exceeded and the State would be liable for a share of the additional pharmacy and laboratory claims. Thus, the State provided additional SGF to the MHP for the estimated risk corridor in fiscal year 2000-01. Since the amount of actual claims did not exceed the estimated costs by more than 10 percent, the MHP should not have received the additional State General Funds for the risk corridor and, as a result, was overpaid \$220,000 in fiscal year 2000-01.

Table 5
MHP Fiscal Year State General Fund Allocations for
Pharmacy and Laboratory Services

	1998-99	1999-2000	2000-01	2001-02	2002-03
Pharmacy	\$1,320,292	\$3,104,247	\$3,874,676	\$4,808,473	\$5,939,054
Laboratory	104,281	241,184	86,586	101,739	122,026
Risk Corridor			220,000		
Total Allocation	\$1,426,472	\$3,345,430	\$4,183,261	\$4,912,211	\$6,063,079

Future Year Estimates

MHP pharmacy and laboratory costs are budgeted at approximately \$12.2 million in fiscal year 2002-03. This represents about a 21 percent increase over fiscal year 2001-02 estimated costs, and 28.5 percent over fiscal year 2001-02 actual pharmacy and estimate laboratory claims.

Exhibit 2, following Exhibit 1, graphically depicts actual historical monthly MHP pharmacy claims and the trend line associated with the claims. The large claim in January 2002 reflects a retroactive claim that included services provided in prior months. Even with the large one-month deviation, the correlation between paid claims and monthly period is over 87 percent. The relationship shown in Exhibit 2 was assumed to continue, which yields the fiscal year estimates shown in Table 6, below.

Table 6
MHP Fiscal Year Actual and Estimated
Pharmacy Claims
(FFP and SGF)

	Actual				Estimated	
	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
Claim Amounts	\$3,076,235	\$7,267,491	\$8,029,665	\$9,367,310	\$10,374,176	\$11,462,293
Percent Change			10.49%	16.66%	10.75%	10.49%

The number of prescriptions (scripts) issued by the MHP also showed a strong linear relationship over time and the average amount paid per script has remained fairly constant over the last three years. This trend is slightly lower than statewide data where the costs per script of

two of the more commonly used atypical antipsychotic drugs (resperidone and olanzapine) have increased three to five percent per year over the last three years. Applying an additional four percent increase in estimated pharmacy claims to allow for higher costs per drug gives slightly higher estimates of MHP pharmacy costs than the trend line. Under this assumption, pharmacy costs are estimated to be \$10,790,000 in fiscal year 2002-03 and \$12,398,000 in fiscal year 2003-04. Thus, the range of estimated MHP pharmacy costs is between \$10.4 million and \$10.8 million in fiscal year 2002-03, and between \$11.5 million and \$12.4 million in fiscal year 2003-04.

Laboratory claims are more difficult to estimate because of minimal data provided by the MHP to State DMH on historical costs of services. However, laboratory costs are relatively minor compared to MHP pharmacy costs. Using the contract value of approximately \$225,000 for laboratory services in fiscal year 2002-03 and a ten percent increase in fiscal year 2003-04 results in the range of estimates shown in Table 7, below.

Table 7
MHP Fiscal Year Estimated Costs for
Pharmacy and Laboratory Services
(FFP and SGF)

	2002-03	2003-04
Pharmacy	\$10,374,176 to \$10,790,000	\$11,462,293 to \$12,398,000
Laboratory	225,000	250,000
Total Estimated Costs	\$10,600,000 to \$11,015,000	\$11,712,000 to \$12,648,000

Existing fiscal year 2002-03 allocations are based on costs of \$12.2 million, which significantly exceed the estimated amounts in Table 7. Specifically, almost \$6.1 million in State funds were allocated to the MHP in fiscal year 2002-03 when estimates show that, at most, \$5.5 million should be allocated to the MHP for pharmacy and laboratory services in fiscal year 2002-03.

San Mateo MHP Pharmacy Monthly Paid Claims
(IFFP and SGF)

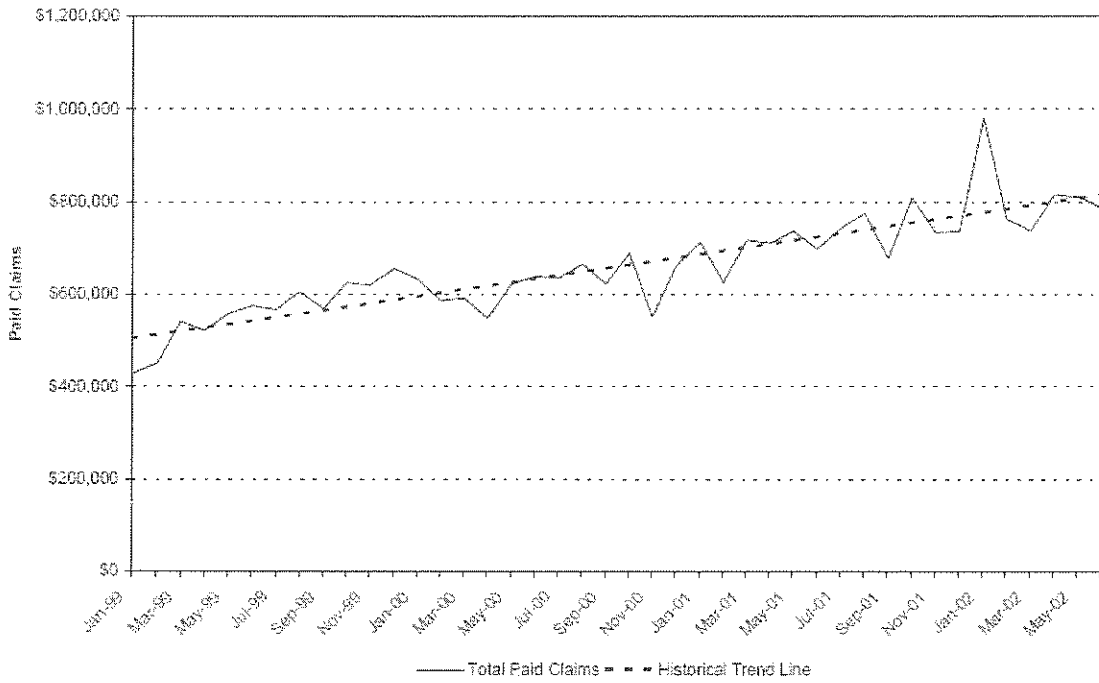
EXHIBIT 1

Claim Month	Date Submitted	Drugs per MHS Pharmacy	Other Adjustment	Medi-Cal Rebates	Share of Cost Paid	Net Claim Before Admin	Med Impact Admin	MHP Admin	Total Admin	Total Paid Claims
Jan-99	01/10/99	416,435.00				415,920.00	4,149.80	9,842.96	12,989.48	428,899.48
Feb-99	02/10/99	437,559.00				437,559.00	4,117.97	9,328.87	12,446.34	450,005.34
Mar-99	03/10/99	507,997.00				507,997.00	4,424.09	9,258.56	13,682.55	541,579.55
Apr-99	04/10/99	509,134.00				509,134.00	4,112.88	8,897.90	13,000.73	522,134.73
May-99	05/10/99	547,659.00				547,659.00	2,891.00	8,522.87	11,113.87	558,772.87
Jun-99	06/10/99	559,149.00				559,149.00	6,211.49	9,672.48	15,183.97	574,332.97
Jul-99	07/15/99	597,919.19				597,919.19	3,995.11	5,691.69	9,686.79	607,576.91
Aug-99	08/15/99	594,362.42				594,362.42	1,499.82	10,006.92	11,496.44	605,858.89
Sept-99	09/15/99	660,384.94				660,384.94	-2,299.81	15,490.66	9,191.73	669,516.89
Oct-99	10/15/99	655,643.82				655,643.82	1,224.77	16,727.45	18,052.22	673,696.04
Nov-99	11/15/99	603,048.79				603,048.79	3,682.93	15,391.74	19,074.67	622,019.99
Dec-99	12/15/99	834,214.01				834,214.01	7,993.26	19,844.59	21,827.75	856,041.76
Jan-00	01/14/00	821,513.72			4,977.29	816,541.43	2,931.67	16,488.86	19,420.65	835,962.05
Feb-00	02/03/00	571,369.11				571,369.11	3,439.07	12,091.98	15,530.85	586,899.96
Mar-00	03/06/00	604,477.55		29,979.21	797.91	674,967.73	2,599.22	14,147.91	16,716.83	691,684.56
Apr-00	04/10/00	626,236.88			17.87	626,254.75	1,838.76	16,160.59	18,000.15	644,254.90
May-00	05/05/00	662,218.55			25,692.79	636,525.76	3,125.64	13,826.91	16,952.55	653,478.21
Jun-00	06/07/00	625,696.28			1,057.86	624,638.42	3,086.84	12,293.91	15,380.75	639,999.15
Jul-00	07/15/00	633,894.13			1,682.72	632,211.41	619,263.54	16,900.86	16,900.86	649,164.27
Aug-00	08/10/00	646,684.99			0.00	646,684.99	12,119.67	1,678.26	13,797.93	660,482.20
Sept-00	09/05/00	632,397.12			25,769.40	606,627.72	5,909.70	16,759.38	21,669.08	628,288.80
Oct-00	10/20/00	671,348.86			667.00	670,685.86	6,993.06	12,946.27	19,939.33	690,625.19
Nov-00	11/20/00	598,226.17			0.00	598,226.17	5,779.61	12,426.89	18,206.50	616,432.67
Dec-00	12/01/00	656,336.62	1,077.26		1,474.60	654,835.02	2,191.71	11,098.16	13,290.87	668,125.89
Jan-01	01/04/01	698,993.18			2,553.11	696,440.07	2,597.17	14,090.69	16,687.86	713,127.93
Feb-01	02/04/01	609,336.90			82.50	609,254.40	5,135.71	13,624.75	18,760.46	628,014.86
Mar-01	03/23/01	723,754.63			25,829.44	697,925.19	2,407.00	19,070.69	21,477.69	719,402.88
Apr-01	04/20/01	697,021.83			5,487.68	691,534.15	8,136.76	14,701.16	16,837.92	708,372.07
May-01	05/02/01	751,830.40			38,760.46	713,069.94	10,349.94	14,378.75	24,728.69	737,798.63
Jun-01	06/17/01	694,119.69			5,692.91	688,426.78	5,033.61	14,179.34	19,212.95	707,639.73
Jul-01	07/17/01	719,161.85			2.00	719,159.85	8,031.02	15,004.57	23,035.59	742,195.44
Aug-01	08/01/01	787,659.46			916.79	786,742.67	6,442.23	14,623.42	21,065.65	807,808.32
Sept-01	09/12/01	667,996.40			27,600.50	640,395.90	5,464.96	14,268.07	19,733.03	660,128.93
Oct-01	10/21/01	816,988.37			25,022.19	791,966.18	2,783.98	14,755.27	17,539.25	809,505.43
Nov-01	11/16/01	722,277.67			4,362.35	717,915.32	4,879.13	13,829.46	18,708.59	736,623.91
Dec-01	12/11/01	719,936.61			2,296.69	717,639.92	3,655.21	15,446.29	19,101.50	736,741.42
Jan-02	01/18/02	863,299.74			5,326.66	857,973.08	6,206.04	15,207.46	21,413.50	879,386.58
Feb-02	02/16/02	742,599.33			940.66	741,658.67	5,719.46	16,227.01	21,946.47	763,605.14
Mar-02	03/16/02	743,190.60			27,076.70	716,113.90	5,409.06	20,793.62	26,202.68	742,316.58
Apr-02	04/20/02	796,671.82			3,978.70	792,693.12	5,510.60	16,202.67	21,713.27	814,406.39
May-02	05/16/02	802,227.08			11,994.99	790,232.09	6,319.77	16,436.93	22,756.70	812,988.79
Jun-02	06/22/02					771,026.82		15,079.63	15,079.63	786,106.45

2: Total Drugs and Med Impact Admin were 5771,026.52 and 109F Admin was 119,079.93.

Source: Data reflects process by San Mateo County Pharmacy Analysis Lab, Pharm000s, Pharm01s, and Pharm02s.

Total San Mateo MHP Pharmacy Monthly Paid Claims



San Mateo Mental Health Plan Pharmacy Claims Analysis

Background

The San Mateo County Mental Health Plan (MHP) began providing all mental health pharmacy services in San Mateo County beginning January 1, 1999, as part of the Medi-Cal Mental Health Field Test (San Mateo County) Waiver renewal. In fiscal year 2005-06, the San Mateo MHP became part of the Medi-Cal Specialty Mental Health Services Waiver and continued to have responsibility for pharmacy services to Medi-Cal beneficiaries. The MHP contracted with MedImpact Healthcare Systems, Inc. (MedImpact) to provide pharmacy management services since assuming responsibility for pharmacy services. Also, the Medicare Part D prescription drug benefit became effective on January 1, 2006, whereby Medicare provides a pharmacy benefit to all Medicare beneficiaries, including those dually eligible for Medi-Cal and Medicare (dual eligibles). Thus, Medi-Cal beneficiaries with Medicare coverage no longer receive a pharmacy benefit through Medi-Cal and the San Mateo MHP is no longer reimbursed from Medi-Cal for the cost of pharmacy services to these dual eligibles.

The MHP is reimbursed for the Medi-Cal federal share (Federal Financial Participation-FFP) of pharmacy services based on actual costs incurred for these services. The MHP submits a monthly claim to State DMH to obtain federal reimbursement. The MHP obtains the Medi-Cal State match through a combination of an annual allocation of State General Funds (SGF) and realignment funds.

Initially, the costs of pharmacy services were estimated based on historical trends in such costs as provided by the Health Plan of San Mateo. These same costs also were used to develop the annual SGF allocations to the MHP for Medi-Cal pharmacy services. An analysis performed in 2002 indicated actual pharmacy claims were not increasing at the same rate of historical growth and, as a result, future growth rates were decreased.

This analysis provides an update to the 2002 analysis by analyzing more recent trends in the San Mateo MHP pharmacy paid claims. This analysis also provides an adjustment to account for the recently implemented Medicare Part D benefit.

Historical Data

Exhibit 1, at the end of this document, shows the actual Medi-Cal mental health monthly paid claims for pharmacy services in San Mateo County since the MHP assumed responsibility for pharmacy services in January 1999. The total Medi-Cal mental health pharmacy claims consist of the cost of drugs, the pharmacy management company's administrative costs, and the MHP's administrative costs, less Medi-Cal rebates or Medi-Cal beneficiary share of costs paid by the MHP.

Table 1, on the next page, compares the estimated fiscal year costs of MHP pharmacy services with the actual paid claims of MHP pharmacy services. The annual estimated MHP pharmacy costs are what were used to calculate the annual SGF allocations for pharmacy services. The actual claims are derived from the total monthly paid claims in Exhibit 1.

Table 1
Comparison of Estimated Costs and Actual Pharmacy Claims
(FFP and SGF)

Fiscal Year	Estimated Costs ^{a/}	Actual Claims	Difference	Percent Difference
1998-99 ^{b/}	\$2,720,569	\$3,076,235	(\$355,666)	-13.1%
1999-2000	\$6,419,039	\$7,267,491	(\$848,452)	-13.2%
2000-01	\$7,966,027	\$8,029,665	(\$63,638)	-0.8%
2001-02	\$9,885,840	\$9,367,310	\$518,530	5.2%
2002-03	\$10,374,000	\$9,906,690	\$467,310	4.5%
2003-04	\$11,462,000	\$10,675,071	\$786,929	6.9%
2004-05	\$12,520,000	\$10,549,484	\$1,970,516	15.7%

a/ Used as the basis for determining annual State General Fund allocations.

b/ Fiscal year 1998-99 represents six months of services in this table and all subsequent tables.

Table 1 shows that actual claims were significantly higher than estimated costs during the first year and a half. However, since then, actual claims have not increased as quickly as expected to where actual claims are now significantly less than what is used to determine SGF payments to the MHP. Exhibit 2, following Exhibit 1, graphically depicts this relationship.

Future Year Estimates

Exhibit 3, following Exhibit 2, graphically shows actual historical monthly MHP pharmacy claims from Exhibit 1 and the trend line associated with the claims. The trend line was developed by applying the method of least squares to the annual claims. Annual paid claims were used rather than monthly paid claims in order to reduce the variability resulting from the monthly volatility in paid claims. Also, the first six months of services in 1998-99 were not used to develop the trend line. The correlation between annual paid claims and fiscal year is approximately 96 percent based on the six years of actual data. The logarithmic relationship shown in Exhibit 3 is assumed to continue, which results in the fiscal year estimates shown in Table 2, on the next page.

As shown in Tables 1 and 2, the growth in actual annual claims slowed in fiscal years 2002-03 and 2003-04 and then actual claims decreased for the first time in fiscal year 2004-05. Thus, the rate of growth in future year's pharmacy claims is estimated to decline based on the logarithmic relationship shown in Exhibit 3 rather than increase at a constant rate of growth.

Table 1
Comparison of Estimated Costs and Actual Pharmacy Claims
(FFP and SGF)

Fiscal Year	Estimated Costs ^{a/}	Actual Claims	Difference	Percent Difference
1998-99 ^{b/}	\$2,720,569	\$3,076,235	(\$355,666)	-13.1%
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2002-03	\$10,374,000	\$9,906,690	\$467,310	4.5%
2003-04	\$11,462,000	\$10,675,071	\$786,929	6.9%
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a/Used as the basis for determining annual State General Fund allocations.

b/Fiscal year 1998-99 represents six months of services in this table and all subsequent tables.

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As shown in Tables 1 and 2, the growth in actual annual claims slowed in fiscal years 2002-03 and 2003-04 and then actual claims decreased for the first time in fiscal year 2004-05. Thus, the rate of growth in future year's pharmacy claims is estimated to decline based on the logarithmic relationship shown in Exhibit 3 rather than increase at a constant rate of growth.

Table 2
MHP Fiscal Year Actual and Estimated Pharmacy Claims
(FFP and SGF)

Fiscal Year	Actual Claims	Estimated Claims	Annual Percent Change
1998-99	\$5,076,235		
1999-2000	\$7,267,491		
2000-01	\$8,029,665		10.5%
2001-02	\$9,367,310		16.7%
2002-03	\$9,906,690		5.8%
2003-04	\$10,675,071		7.8%
2004-05	\$10,549,484		-1.2%
2005-06		\$11,164,965	5.8%
2006-07		\$11,422,684	2.3%

Medicare Part D Estimated Impact

The net effect of Medicare Part D is that Medi-Cal no longer covers the cost of pharmacy services to dual eligibles. The impact on the San Mateo MHP is that the MHP no longer claims these services to Medi-Cal and the State no longer provides SGF for these services.

Data from the Department of Health Services indicates that approximately 23.5 percent of the Medi-Cal beneficiaries in San Mateo had Medicare Part A and/or Part B coverage as of July 2005. Thus, 23.5 percent of the estimated pharmacy claims are estimated to be covered under Medicare rather than Medi-Cal beginning January 1, 2006. This approach assumes that the claimed amount per beneficiary is the same for all Medi-Cal beneficiaries regardless of whether or not they are covered under Medicare. Without additional data on the historical claimed amount for dual eligibles in San Mateo County, this assumption has to be made.

Table 3, below, shows the estimated claims with and without the Medicare Part D prescription drug benefit. Fiscal year 2005-06 is only partially impacted as the Part D benefit did not become effective until January 1, 2006. These estimates should be used to determine the SGF for San Mateo MHP pharmacy services.

Table 3
MHP Fiscal Year Estimated Pharmacy Claims with and without Medicare Part D
(FFP and SGF)

Fiscal Year	Without Medicare Part D	With Medicare Part D
2005-06	\$11,164,965	\$9,845,022
2006-07	\$11,422,684	\$8,738,351

San Mateo MHP Pharmacy Monthly Paid Claims
(FFP and SGF)

Claim Month	Date Submitted	Drugs per MIS Pharmacy	Other Adjustment	Medi-Cal Rebates	Share of Cost Paid	Net Claim Before Admin	Med Impact Admin	MHP Admin	Total Admin	Total Paid Claims
Jan-99	09/10/99	415,620.00				415,620.00	4,143.82	8,942.96	12,689.45	428,500.49
Feb-99	09/10/99	437,659.00				437,659.00	4,117.37	8,326.87	12,446.04	450,005.24
Mar-99	09/10/99	527,697.00				527,697.00	4,424.09	9,256.58	13,680.85	541,377.66
Apr-99	09/10/99	509,134.00				509,134.00	4,112.83	8,987.90	13,000.73	522,134.73
May-99	10/09/99	547,659.00				547,659.00	2,591.00	8,622.67	11,113.87	556,772.67
Jun-99	10/09/99	569,149.00				569,149.00	6,211.49	9,972.48	16,183.97	576,332.97
Jul-99	03/15/00	567,910.16				567,910.16	2,985.11	5,951.66	9,936.76	567,879.01
Aug-99	03/15/00	594,382.42				594,382.42	1,455.62	10,036.62	11,493.44	605,866.86
Sep-99	03/15/00	560,394.34				560,394.34	-2,268.81	11,400.56	9,131.75	569,516.09
Oct-99	03/15/00	605,943.92				605,943.92	1,224.77	16,727.42	18,952.22	624,896.14
Nov-99	04/13/00	603,046.79				603,046.79	3,592.33	13,391.74	16,974.07	620,018.66
Dec-99	06/18/00	634,314.01				634,314.01	7,923.29	13,844.50	21,807.79	656,141.79
Jan-00	06/14/00	621,616.72			4,977.29	616,641.43	2,921.97	13,468.68	16,420.65	632,962.08
Feb-00	10/02/00	571,385.11				571,385.11	3,469.07	12,051.66	15,490.95	586,866.06
Mar-00	11/09/00	604,677.58		28,979.21	737.61	574,960.73	2,669.22	14,147.61	16,715.83	591,676.56
Apr-00	11/09/00	528,326.58			17.87	528,208.71	1,689.78	19,100.69	20,790.46	546,999.16
May-00	12/05/00	632,316.58		26,862.79	250.00	608,176.76	3,125.84	13,826.61	16,952.65	623,128.41
Jun-00	12/07/00	623,930.26		1,037.88		622,892.40	3,069.84	12,593.91	15,670.75	638,563.15
Jul-00	12/18/00	620,894.13		1,562.72	57.64	619,263.54		16,900.59	16,900.66	636,084.10
Aug-00	01/09/01	648,934.90		0.00	100.00	648,834.90	12,119.67	6,578.26	18,697.92	667,532.82
Sep-00	02/05/01	622,997.12		30,785.49	442.00	601,189.72	5,309.70	15,759.38	21,068.08	622,257.80
Oct-00	02/29/01	671,346.96		667.00	308.00	670,369.96	5,969.05	12,946.27	18,909.32	689,269.18
Nov-00	02/29/01	530,329.17		0.00	169.64	530,159.53	9,779.61	12,426.89	21,205.60	551,375.03
Dec-00	05/01/01	665,239.82	5,077.36	1,474.60	434.00	649,253.76	2,161.71	11,898.16	13,879.96	663,133.62
Jan-01	05/04/01	698,993.18		2,563.11	593.00	695,870.07	2,587.17	14,930.69	17,107.96	713,007.93
Feb-01	05/04/01	609,336.60		82.60	1,792.61	607,461.39	5,135.71	13,854.78	18,790.46	626,251.16
Mar-01	05/29/01	703,764.82		28,829.44	308.74	604,619.46	2,407.00	19,870.99	22,677.99	716,997.44
Apr-01	06/20/01	697,021.93		5,467.65		691,554.28	6,139.75	14,701.16	19,840.94	711,375.19
May-01	07/30/01	761,030.40		38,760.46		712,270.94	10,349.34	14,575.76	24,925.12	737,205.06
Jun-01	09/17/01	684,119.96		5,642.62		678,477.14	5,039.61	14,176.94	19,213.96	697,691.09
Jul-01	10/17/01	719,161.96		0.00	0.00	719,161.96	9,831.02	15,804.87	23,635.89	742,797.84
Aug-01	10/31/01	757,659.46		915.78	1,562.77	755,180.91	5,442.23	14,833.42	20,678.66	776,266.66
Sep-01	11/29/01	687,666.43		27,900.60	1,338.32	658,726.51	5,494.99	14,296.07	19,790.98	678,516.66
Oct-01	12/31/01	618,666.37		26,622.18	404.69	591,639.50	3,583.98	14,735.27	17,319.35	608,297.75
Nov-01	01/16/02	722,277.67		4,362.30	2,941.94	715,073.43	4,679.19	13,606.46	19,284.66	733,458.01
Dec-01	02/21/02	719,606.81			2,299.85	717,306.96	3,655.21	15,446.29	19,100.60	736,709.46

Source: Spreadsheets provided by San Mateo County (PharmInventory66.xls, Pharm00.xls, Pharm01.xls, Pharm02.xls, Pharm03.xls, Pharm04.xls, and Pharm05.xls)

DEPARTMENT RESPONSE



CALIFORNIA DEPARTMENT OF
Mental Health

1600 9th Street, Sacramento, CA 95814
(916) 654-2309

June 28, 2007

Ms. Diana L. Ducay
Chief, Office of State Audits and Evaluations
California Department of Finance
300 Capitol Mall Suite, 801
Sacramento, CA 95814

Dear Ms. Ducay:

We are in receipt of your June 2007 report, "Review of the San Mateo Pharmacy and Laboratory Services Estimation Process."

We appreciated that your staff was willing to work with us to complete the final version of the San Mateo Pharmacy and Laboratory review, per our inter-agency agreement. I would like to compliment your team for a professional approach to this project, and effective communication and collaboration with our department's management team throughout your review.

The report focuses on the estimate methodology for San Mateo Pharmacy and Laboratory, prevalent trends within the pharmacy benefit and County Organized Health Systems (COHS) industries, and makes recommendations for improving the program estimation process. Your Office identified four observations in which DMH has an opportunity to improve both the oversight of costs and the estimation process, about which we agree. The four identified issues in your report include:

- improvement of cost oversight;
- Medi-care Part D cost assessment improvements;
- the benefits of collecting and evaluating user and service level detail; and
- an overall program cost assessment so that other mental health plans could consider the San Mateo model.

DMH has initiated the steps necessary to gather data and information that will facilitate a more comprehensive evaluation of the options discussed in the report. These steps include working with San Mateo to determine what service level detail is available to inform the estimation process and a preliminary new estimation proposal that would be based on actual costs versus projected costs.

OSAE San Mateo Pharmacy Lab Report Response
June 28, 2007

It is our intent to utilize the information included in your report and the data gathered from the implementation of the report's recommendations to augment DMH's action plan to implement fiscal, policy, and administrative reforms that is due to the Administration and Legislature in August 2007.

DMH has taken steps to address findings in your draft report and to complete the policy analysis of the San Mateo Pharmacy and Laboratory Services Project that is required in the Governor's 2007- 2008 Budget Trailer Bill Language. For example, on May 25, 2007, our multi-disciplinary management and subject matter experts from DMH and DHS traveled to San Mateo to meet and get briefings from their executives and program managers. Upon this final release of your report, we will work with San Mateo and DHS to address the findings, and deliver productive and realistic policy, fiscal, and administrative reforms in our August 2007 action plan.

We will also draw in other partners and stakeholders to strengthen our action plan – such as the California Mental Health Directors Association and, possibly, expert consultants to support a review of pharmacy rebates and benefits – in order to provide a workable plan that will include steps necessary to meet each objective, timeframe and will identify assignments to the responsible parties. If possible, we would appreciate OSAE's participation as a review component for our proposed action plan prior to its final release.

Again, thank you for the services provided by your Office for this important review of the San Mateo Pharmacy and Laboratory.

Sincerely,

Original signed by:

STEPHEN W. MAYBERG, Ph.D
Director