



**Action Plan to Implement Fiscal Reforms Regarding
San Mateo Pharmacy and Laboratory Services Program**

**A Report to the Legislature in Response to
AB 203 Chapter 188 2007/2008 Budget Trailer Bill**



**CALIFORNIA DEPARTMENT OF
Mental Health**

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EXECUTIVE SUMMARY

This document is a report to the Legislature as required by Assembly Bill 203, Chapter 188, Budget Trailer Bill which contains the following language:

“The department shall provide the fiscal and policy committees of the Legislature, by no later than September 1, 2007, with their action plan to implement fiscal reforms regarding the San Mateo Pharmacy and Laboratory Services Program. This action plan will respond to issues identified by the Office of State Audits and Evaluations, as well as any other applicable concerns identified by the department, stakeholders, and control agencies.”

The Department of Mental Health (DMH) through enabling legislation, established field tests of the principles and administrative systems to be included in the statewide design for Medi-Cal managed mental health care. San Mateo County Mental Health Plan (SMMHP) was one of the sites selected for a field test. DMH has discontinued the case rate reimbursement system and risk sharing corridor, but did continue the laboratory and pharmacy arrangement. The laboratory and pharmacy aspect of the SMMHP field test appeared to have proven effective for the SMMHP and its beneficiaries and therefore, it was continued.

On November 15, 2006, DMH notified the Legislature of a deficiency and requested the Office of State Audits and Evaluations (OSAE) assistance in revising the DMH's estimate methodology for the SMMHP Pharmacy and Laboratory Services Program. OSAE conducted a thorough review of the SMMHP Pharmacy and Laboratory Services Program and released a final report on June 29, 2007 which made the following four (4) observations and recommendations:

OSAE RECOMMENDATION 1: Lack of DMH Oversight Over Costs

“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.

OSAE RECOMMENDATION 2: Inadequate Assessment of Medicare Part D's Impact

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.

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

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.

OSAE Recommendation 4: The Program Was Not Assessed for Cost Effectiveness

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.”

Fiscal reform is necessary to address the issues identified by the OSAE May 2007 report; to address the SMMHP response to the OSAE report; to ensure future estimates are accurate and include all revenues and costs; and to prevent future SGF deficiencies. The Pharmacy and Laboratory Services Program has been operating in San Mateo for numerous years as a pilot. Given the financial constraints facing the State at the present time, it is timely to evaluate the cost effectiveness of the pilot and the feasibility of this pilot becoming a statewide program.

This report includes the following components which are intended to educate affected and interested parties about the history of this mental health service delivery system, along with options for its future:

- DMH Action Plan to implement fiscal reforms;
- Responses to the Observations & Recommendations cited in the May 2007 OSAE report;
- Response to concerns raised by San Mateo Mental Health Plan;
- Policy options for consideration.

SECTION I

**ACTION PLAN TO IMPLEMENT FISCAL REFORMS REGARDING SAN
MATEO PHARMACY AND LABORATORY SERVICES PROGRAM**

A Report to the California Legislature in Response to

Statutes 2007, AB 203 Chapter 188, Budget Trailer Bill

I. Purpose of Report

This document is a report to the Legislature as required by Statutes 2007, AB 203, Chapter 188, Budget Trailer Bill which contains the following language toward the California Department of Mental Health:

“The department shall provide the fiscal and policy committees of the Legislature, by no later than September 1, 2007, with their action plan to implement fiscal reforms regarding the San Mateo Pharmacy and Laboratory Services Program. This action plan will respond to issues identified by the Office of State Audits and Evaluations, as well as any other applicable concerns identified by the department, stakeholders, and control agencies.”

II. Introduction

What is the San Mateo Pharmacy and Laboratory Services Program?

The California Department of Mental Health (DMH) through enabling legislation, established field tests of the principles and administrative systems to be included in the statewide design for Medi-Cal managed mental health care. San Mateo County Mental Health Plan (SMMHP) was one of the sites selected for a field test. In February of 1995, the Centers for Medicare and Medicaid Services (CMS) (formerly known as HCFA) approved a 1915(b) waiver for the SMMHP to field test various aspects of a fully integrated and consolidated Mental Health Plan for Medi-Cal beneficiaries. The field test included both psychiatric inpatient hospital services and other community based specialty mental health services simultaneously.

Under the initial program design, the SMMHP operated under its own 1915 (b) waiver. Most Medi-Cal specialty mental health services, including psychiatric inpatient hospital services, were fully consolidated under the county mental health department. Federal financial participation (FFP) was obtained through fee-for-service interim billing under the Short-Doyle/Medi-Cal (SD/MC) system and annual cost reconciliation, which is essentially the same process currently used under the Medi-Cal Specialty Mental Health Services Consolidation waiver.

The primary issues field tested during the initial waiver period included:

1. improved access for the consumer through a centrally administered access system;
2. a fully consolidated publicly managed Mental Health Plan (MHP) for all Medi-Cal beneficiaries;
3. the definition of medical necessity;
4. a public/private network service delivery system;
5. innovative contracting arrangements, including shared risk contracting;
6. a program to insure adequate interface with the primary care system;

7. program data and evaluation management information needs; and
8. performance outcomes and client satisfaction.

A first waiver renewal request was submitted to CMS in August 1997 and was approved by CMS in June 1998. Under the first renewal waiver, San Mateo County continued the systems put in place during the initial waiver period and began field testing federal reimbursement based on a six-level case rate, with three levels of payment for children and three levels for adults. The six levels were based on the levels of care required to treat their mental health conditions appropriately. In addition, under the first waiver renewal period the SMMHP also assumed responsibility for the authorization and management of pharmacy and related laboratory services when prescribed by a psychiatrist for a mental health condition. FFP is claimed for these services based on fee-for-service payments to the Pharmacy Benefits Management (PBM) contractor and SMMHP administrative costs for the services. Under the second waiver renewal period SMMHP continued to field test the elements described above.

DMH discontinued the SMMHP waiver program once CMS had approved the modifications proposed in the fourth renewal of the Medi-Cal Specialty Mental Health Services Consolidation waiver program effective July 1, 2005. DMH discontinued the case rate reimbursement system and risk sharing corridor, but did continue the laboratory and pharmacy arrangement. DMH determined that continuation of the case rate reimbursement system for the San Mateo MHP and application of the case rate system statewide would not be administratively feasible. The laboratory and pharmacy aspect of the SMMHP field test appeared to have proven effective for the SMMHP and its beneficiaries and was, therefore, continued.

III. The Problem Being Addressed

On November 15, 2006, DMH notified the Legislature of a deficiency totaling \$252 million in State General Fund (SGF) (Attachment A) of which an estimated \$9 million was needed for the SMMHP Pharmacy and Laboratory Services Program. DMH requested the Office of State Audits and Evaluations' (OSAE) assistance in revising the DMH's estimation methodology for the SMMHP Pharmacy and Laboratory Services Program. OSAE conducted a thorough review of the SMMHP Pharmacy and Laboratory Services Program and released a final report on June 29, 2007 (Attachment B).

IV. Why We Need Fiscal Reform

Fiscal reform is necessary to address the issues identified by the May 2007 OSAE report (herein referred to as the OSAE report); to address the SMMHP response to the OSAE report; to ensure future estimates are accurate and include all revenues and costs; and to prevent future SGF deficiencies.

The Pharmacy and Laboratory Services Program has been operating in San Mateo for nearly a decade as a “pilot”. It is timely to evaluate the cost effectiveness of the pilot and the feasibility of this administrative and service delivery design becoming a statewide program. In addition to this fiscal reform action plan, an in depth analysis is being conducted to:

1. fulfill the Legislature’s directive to DMH to articulate best practices learned from this pilot;
2. offer suggestions for improvement; and,
3. clarify the program’s relationship to other local statewide pharmaceutical usage and purchasing programs.

V. Fiscal Reform Goals

DMH adopted five goals in this fiscal reform action plan. The San Mateo Fiscal Reform action plan must result in:

1. A budget estimate process with the objectives of ensuring fiscal accuracy;
2. Assurances that the current quality of care measures for San Mateo Medi-Cal beneficiaries served by the Pharmacy and Laboratory Services Program continues;
3. Shared fiscal accountability and responsibility by the State and County;
4. Providing the public and policy makers with information regarding best practices identified by the San Mateo Pharmacy and Laboratory Services Program;
5. Fostering partnerships and participation between State agency staff from California Department of Health Care Services (DHCS), DMH and local SMMHP staff responsible for the SMMHP Pharmacy and Laboratory Services Program that implement and monitor the 2007 DMH corrective action plan in response to the OSAE’s findings.

VI. Fiscal Reform Action Plan

This report includes a brief summary of issues identified by DMH, the SMMHP, and the OSAE report, with a focus on the DMH’s Action Plan to address these issues.

The DMH County Operations Contract Manager will conduct monthly conference calls and track in writing both the DMH’s and the SMMHP’s progress in each of this report’s identified areas. DMH will provide additional updates to the Legislature upon request regarding progress in each identified area.

SECTION II

May 2007 OSAE Report

May 2007 OSAE Report Observations - With DMH Action Plan

The DMH June 28, 2007 response to ***“Observations and Recommendations from Office of State Audits and Evaluations May 2007 Report on the California Department of Mental Health Review of the San Mateo Pharmacy and Laboratory Services Estimation Process”*** included a number of steps that form the basis for the continued Action Plan including:

- **DMH August 1, 2007 Response to the May 2007 OSAE Report**

This section of the report will address commitments made by DMH in the response to the May 2007 OSAE report that influence fiscal reforms at the state and local level.

- **DMH Internet Web Site**

In the DMH’s August 1, 2007 response to the OSAE report, the DMH stated: “An important component of our effort is to continue communication with partners and stakeholders on this review and program evaluation. As such, DMH will create a special website feature to provide information and solicit perspectives about the San Mateo model. DMH, DHCS and County leaders will be encouraged to share the website information with interested parties across the state and nation.”

Action Plan:

The DMH External Affairs and Communications Office will work with the SMMHP, DMH County Operations and Information Technology staff to identify and post useful information by November 2007.

OSAE Observation 1: Lack of DMH Oversight of Costs

OSAE’s recommendations to DMH to address Observation 1 include:

DMH should institute an audit function to periodically analyze the accuracy of reported data;

1. Obtain all data necessary to prepare an accurate estimate of San Mateo Program costs;
2. Question the vendor’s (MedImpact) and the County’s inability to provide data;
3. Ensure the County arranges for repayment of the over-billed federal financial participation of laboratory costs;
4. Consider the loss of eligible rebate funds when determining cost efficiency of the Program;
5. Negotiate the terms of all administrative fees charged to the Program;
6. Formalize an agreement for administrative fees and memorialize this agreement within the contract;
7. Ensure that administrative fees are Program related, necessary, and reasonable and;

8. Quantify and evaluate the reasonableness of the share of costs/coordination of benefits revenue reported by the County.

Action Plan:

- Starting June 26, 2007 DMH scheduled weekly phone calls to monitor the SMMHP pharmacy and laboratory program. These calls are ongoing and expected to continue throughout 2007.
- DMH drafted a "funds flow" diagram to clearly document the processes in place for the reimbursement of SMMHP pharmacy and laboratory claims.
- DMH prepared, scheduled and completed an on-site audit of the SMMHP and the PBM (MedImpact) the week of July 23, 2007. The on-site audit is complete. A formal de-briefing was conducted the week of August 20, 2007 and the final report was released in October 2007. Included in the on-site audit was:
 - a review of the SMMHP access to eligible rebate funds;
 - the low reimbursement rate of rebates;
 - a review to ensure that administrative fees are Program related, necessary, and reasonable, and;
 - a quantification and evaluation of the reasonableness of the share of costs/coordination of benefits revenue reported by the County.
- The final audit report was released the week of October 22, 2007. The audit did not identify any areas of non-compliance.
- DMH contacted the Information Technology and data staff at the SMMHP and obtained initial individual claim level data for pharmacy and lab services which were submitted by the county through Information Technology Web Services (ITWS) on July 23, 2007. These files are now being routinely analyzed for Medi-Cal eligibility duplicate claiming, claim trends, cost trends, and costs per quantity, days, and prescriptions. The data is also being used to match for eligibility and Medicare/Medi-Cal clients prior to invoices being processed and paid.
- Individual claims are also being reviewed and summed to ensure reconciliation to aggregated claims/invoices submitted by San Mateo. Medicare eligibility is also being determined to ensure pharmacy costs for Medicare recipients are appropriately claimed under Part D and not Medi-Cal.
- If it is determined that DMH will continue administering the San Mateo Pharmacy and Lab Services Program, DMH will require San Mateo to claim based on individual service claims, not on aggregated invoices for both pharmacy and laboratory costs. These individual claim files will be routinely analyzed for eligibility, duplicates, etc. Furthermore, DMH is in the process of increasing automation with respect to claiming and reimbursement processes generally.

- If the San Mateo Pharmacy and Laboratory Services Program is continued, its claim submission and payment process will be part of that larger endeavor.
- As recommended in the OSAE May 2007 report, and noted below, contract amendments were completed and sent to the SMMHP in August 2007. DMH will monitor implementation of the contract amendments during monthly County Operations' coordination calls and progress will be documented by the County Operations Contract Manager.
- DMH has questioned the vendor's and the County's inability to provide data for previous laboratory estimates. SMMHP terminated the contract with the laboratory vendor (Quest) in January 2006. The SMMHP has subsequently contracted with a new vendor who routinely provides the SMMHP with data in accordance with the contract between the vendor and SMMHP.

DMH has identified 1,107 claims that were billed inappropriately as they were duplicates of other claims. These duplicate claims represent \$36,966.72 in over claiming. The duplicate claiming problem appears to have been resolved after December 2005 when SMMHP discontinued their contract with Quest. DMH's analysis has not identified additional duplicate claims for the January through April 2006 claim period. DMH requested laboratory claims beyond the April 30, 2006 claiming period from the SMMHP and is continuing the analysis to determine if there are additional duplicate claims. The analysis was completed October 31, 2007 and the SMMHP will be formally notified of the findings in written form by the County Operations Contract Manager no later than November 15, 2007.

- Although the OSAE report did not include the recommendation to evaluate the cost report and audit process, DMH has identified areas for improvement with the SMMHPs' cost report and audit process. The SMMHP pharmacy and laboratory activities and expenditures are currently required to be excluded from the cost report settlement process, since they are invoiced separately and settled outside of the SD/MC cost report.
- DMH is recommending that the pharmacy and laboratory expenditures be included on the cost report form MH 1960 (Mental Health Expenditures) line 1, and eliminated on line 4 of the form to ensure proper reporting. Separately reporting and settling pharmacy and laboratory activities outside of the SD/MC cost report, will ensure proper accountability for the program.

Once the pharmacy and lab costs are included in line 1 of the Form MH 1960 and then eliminated as an "Other Adjustment" on line 4, DMH will be able to incorporate a review of these expenditures as a part of the Medi-Cal financial audit. One of DMH audit procedures is to evaluate those items that the provider has included as "Other Adjustments". Another benefit of including those costs in the Medi-Cal cost report would be a move to show all expenditures pertaining to mental health in one place. DMH County Financial Services Unit will notify the SMMHP of this change before the December 31, 2007 deadline for cost report submission and provide technical assistance as necessary to implement this change.

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

OSAE's recommendations to DMH to address Observation 2 included:

- DMH should work with the DHCS to identify the specific dual eligible beneficiary population and then quantify actual utilization associated with these beneficiaries to assure a more accurate estimate.

Action Plan:

- DMH met with DHCS on July 13, 2007 and determined DMH has the identical capability to identify dual eligibles through the Medi-Cal Eligibility Data System (MEDS) as does DHCS. DMH has instituted a process to screen all SMMHP pharmacy and laboratory claims for dual eligibility.
- DMH discussed with San Mateo on July 20, 2007 the availability of historical dual eligible cost and utilization data, and data was obtained from the SMMHP.
- DMH has established a Web-based data submission process and dual eligibility is being determined based on historical claims data.
- DMH has matched data submitted by the SMMHP against the MEDS file to ensure claims represent Medi-Cal eligible clients (during the month of service) and obtain the client's Medicare status. DMH has identified the specific dual eligible beneficiary population, and the actual Medi-Cal utilization associated with these beneficiaries has been quantified. Pulling out Medicare Part D clients in previous data sets (prior to Part D implementation), will yield a more accurate cost and utilization figure upon which to estimate in the future. This analysis was completed by September 15, 2007.
- DMH has compiled historical data from the SMMHP and developed an initial analysis for the November budget estimate. In summary, the initial analysis includes the historical San Mateo Pharmacy data which is separated into dual eligibles (DE) versus non-dual eligibles (MC), and which together equal the total (Total). The data includes number of records (which equate to prescriptions), number of monthly unduplicated clients, amount billed (total funds), and amount paid (total funds). Focusing on the MC data allows DMH to analyze the historical non-Part D prescriptions, clients, and payments.

The initial analysis of Medicare Part D's impact on the SMMHP estimate indicates there may be a budgeted overpayment to the SMMHP of approximately \$1.6 million in SGF for FY 2007-08. This initial analysis does not yet factor in rebates, MedImpact or County Administration, which historically have netted out to almost zero (i.e., the rebates offset the two administrative costs). DMH will be conducting a more detailed analysis and discussing these findings with the DHCS. DMH will complete the more detailed analysis in the course of completing the review of cost effectiveness and will inform the SMMHP of any plan to recoup any identified overpayment.

- DMH is in the process of subjecting the pharmacy and laboratory data to a more rigorous statistical approach for the November budget estimate. DMH also will request DHCS to verify the accuracy of this data based on the individual claims submitted by San Mateo to DMH. This analysis will be completed and included in the November estimate.
- DMH conducted a conference call on August 7, 2007 with the SMMHP to discuss the impact of the reduction in SGF on the SMMHP Pharmacy and Laboratory Services Program.

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

OSAE's recommendations to DMH to address Observation 3 included:

1. DMH should work with the County to break down user and service level categories;
2. utilize this information to quantify treatment or policy changes that may materially affect the Program;
3. review Program Cost components independently and form an estimate based on the aggregate of these costs rather than at the Program level; and,
4. consult with DHCS to gain an understanding on how other County Organized Health System (COHS) estimates are based.

Action Plan:

- DMH consulted with DHCS to gain an understanding of their capitated rate setting methodology for COHS. The COHS managed care model ensures Medi-Cal recipients' access to comprehensive, cost-effective health care. Each COHS plan is sanctioned by the County Board of Supervisors and governed by an independent commission. Federal regulation limits the number of COHS plans to five, with the collective maximum COHS beneficiary enrollment of ten percent of the Medi-Cal population.

The five COHS plans are collectively known as the California Association of Health Insuring Organizations (CAHIO), which was formed in 1994. Together the five member plans (defined in federal law as "Health Insuring Organizations," and in California state law as "County Organized Health Systems") serve as the primary health delivery system for approximately 517,000 of the State's 5.3 million Medi-Cal recipients.

Five COHS plans administer the program for eight counties:

1. CalOptima – Orange County
2. Central Coast Alliance for Health – Santa Cruz and Monterey Counties
3. Health Plan of San Mateo – San Mateo County
4. Partnership Health Plan – Solano, Napa, and Yolo Counties
5. Santa Barbara Health Initiative – Santa Barbara County

- DMH reviewed reports detailing service categories used by DHCS to determine applicability to the SMMHP estimate. For the purpose of estimating the capitated rate for the COHS, DHCS considers pharmacy a “service category” and does not break the category down into further detail. DMH’s initial impression is the COHS rate setting methodology may have limited applicability to the SMMHP estimate. One proposal that may be considered is to estimate by drug category.
- DMH contacted DHCS staff on August 13, 2007 to further discuss the rate setting methodology. DMH attempted to obtain comparable COHS data; however, the rates for all COHS are currently set through a confidential contracting process, with the exception of Santa Barbara. DMH has requested the information pertaining to Santa Barbara from DHCS and will proceed with an analysis to determine if there are useful models applicable to the SMMHP estimate. Once the budget trailer bill language is signed into effect, DMH will work in collaboration with the DHCS to determine if there are other models that have useful aspects the DMH could benefit from incorporating into the estimate process.
- DMH will evaluate alternative approaches for state and local administration and payment of pharmacy and laboratory services including direct billing to DHCS, DMH payment policies and procedures, cost containment and risk sharing approaches.
- DMH will analyze data by Aid-code, user demographic variables, and possibly drug category and incorporate this information into future estimates in Spring 2008 as part of the more general effort to improve caseload program estimates.
- DMH plans to evaluate existing estimates and provide methods for DMH to ensure more accurate estimates.

Observation 4: The Program Was Not Assessed for Cost Effectiveness

OSAE's recommendations to DMH to address Observation 3 included:

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 administrative fees prior to any statewide expansion and institute an audit function to periodically analyze the accuracy of reported data.

Action Plan:

- DMH obtained initial individual claim level data for pharmacy and laboratory services submitted by the county through ITWS on July 23, 2007 to track costs at user and service level. The claims data will be analyzed for cost per prescription, cost per unit dose, cost per days dispensed and cost per client. The clients will be matched to the eligibility file to obtain Medicare status and claims will be analyzed based on Medi-Cal versus Medi-Cal/Medicare status. This analysis is expected to be technical and the outcome will be included in the March 2008 report to the Legislature.
- In order to determine cost effectiveness, DMH will also request a suitable comparison pharmacy file from DHCS in order to compare costs by drug category between the San Mateo Program and the state rebate program. DMH has also determined that the information technology system employed by San Mateo is able to flag duplicative prescriptions, thereby reducing the incidence of poly-pharmacy, and increasing the cost-effectiveness of the program. Such system capabilities may be recommended as a component of any future statewide expansion.

May 2007 OSAE Report Conclusion

In their conclusionary remarks, OSAE indicates that DMH needs to significantly increase its oversight over the SMMHP Pharmacy and Laboratory Services Program and conduct a detailed assessment of the program from a fiscal perspective. Before any decision is made or statewide implementation is considered, not only should a cost benefit study be prepared, but DMH should address the implications in the report. OSAE recommends that if DMH does not have the expertise in-house, the Department should consider entering into an Interagency Agreement with the DHCS or hiring an independent outside consulting firm.

Action Plan:

- DMH acknowledges the OSAE findings and is committed to increasing its oversight and monitoring of the SMMHP Pharmacy and Laboratory Services Program. DMH also agrees that a comprehensive cost benefit study is necessary and is exploring the option of entering into an Interagency Agreement with DHCS and acquiring a contractor.

In addition, DMH is reviewing the accounting systems and developing proposals for management and claims administration improvements.

SECTION III

**Department of Mental Health's
Action Plan in Response to
San Mateo Concerns**

San Mateo Mental Health Director's Response to the May 2007 OSAE Report

The SMMHP addressed a letter to Dr. Stephen Mayberg, DMH Director, on July 23, 2007 (Attachment C) expressing concerns about the May 2007 OSAE report. This section of the report will acknowledge those concerns and describe DMH's Action Plans to address the concerns raised by the SMMHP.

Laboratory Services

SMMHP expressed concern that the OSAE report suggests that the SMMHP inappropriately received more than \$600,000 over a five year period.

Action Plan:

DMH conducted an on-site audit of San Mateo Pharmacy and Laboratory Services Program the week of July 23, 2007. The on-site audit findings were completed in August 2007. The final audit report was released the week of October 22, 2007. In the event the DMH on-site audit identifies any additional over billings, the MHP will be notified and required to reimburse both the SGF and FFP.

The laboratory claim files submitted by the SMMHP to DMH, contained 1,107 claims that were billed inappropriately as duplicates. These duplicate claims represent \$36,966.72 in over-claiming and are 4.45% of the total claims for a total of 142 clients. DMH's analysis has to date not identified additional duplicate claims for the January through April 2006 claim period.

DMH's analysis has not identified additional duplicate claims for the January through April 2006 claim period. DMH requested laboratory claims beyond the April 30, 2006 claiming period from the SMMHP and is continuing the analysis to determine if there are additional duplicate claims. The analysis was completed by October 31, 2007 and the SMMHP will be formally notified of the findings in written form by the County Operations Contract Manager no later than November 30, 2007.

Pharmacy Rebates

The SMMHP expressed concern about two issues identified in the OSAE report:

1. the SMMHP Pharmacy and Laboratory Program has not received drug rebates on par with those received by MHP's using the CDHS and;
2. the OSAE report raises a question about the feasibility of the San Mateo Program as a "carve out".

Action Plan:

In order to address the rebate issue, the SMMHP suggests ending the existing rebate program through the current PBM and "fold" the rebates into the larger state rebate program available through DHCS.

DMH consulted with DHCS on July 24, 2007 and determined that this solution appears to be feasible and worth exploring in greater depth. DMH will meet with DHCS and SMMHP in the coming months to discuss options. DMH in collaboration with DHCS will proceed with an analysis to determine if the formularies are comparable, and if obtaining rebates through the statewide pharmacy rebate program will result in higher rebates.

The cost effectiveness of the pharmacy program referenced by San Mateo does not factor in rebates, local administrative costs, or State administrative costs, so it cannot be immediately assumed that the program maximizes cost effectiveness opportunities. Further analysis will include all aspects of the pharmacy laboratory program. DMH will conduct this analysis and propose recommendations by January 1, 2008.

Administrative Fees

The SMMHP expresses concern about the OSAE report's suggestion that the administrative fees charged by the SMMHP may have been unreasonable and not supported by a formal agreement.

Action Plan:

DMH conducted an on-site audit of the SMMHP Pharmacy and Laboratory Program the week of July 23, 2007. The audit findings were finalized in October 2007.

As recommended by the OSAE May 2007 report, and as noted below, contract amendments were completed and sent to the SMMHP the week of August 14, 2007. DMH will monitor implementation of the contract amendments during monthly County Operations' coordination calls and progress will be documented by the County Operations Contract Manager.

Share of Costs/Coordination of Benefits

The SMMHP expressed concern that the OSAE report suggests that beneficiary share of costs and coordination of benefits have not been accounted for or monitored.

Action Plan:

As previously noted, the DMH conducted an on-site audit of the SMMHP Pharmacy and Laboratory Services Program the week of July 23, 2007. The audit findings are pending and the report was finalized in October 2007. In the event the DMH audit identifies any additional over billings, the MHP will be notified and required to reimburse any over payment of SGF and FFP within 60 days. As recommended by the OSAE May 2007 report, and as noted below, contract amendments were completed and sent to the SMMHP the week of August 14, 2007. DMH will monitor implementation of the contract amendments during monthly County Operations coordination calls and progress will be documented by the County Operations Contract Manager.

Medicare Part D

The SMMHP response reiterated the OSAE report finding that the DMH incorrectly estimated the impact of Medicare Part D on the SMMHP's pharmacy utilization. The SMMHP indicates they will provide whatever information is necessary to establish a fair estimate for future budget years; however, the SMMHP is unwilling to consider revisiting earlier estimates when San Mateo assumed the risk and reportedly did an exemplary job in assuring client transition to the new system. The SMMHP also notes that the SMMHP believes the DMH is currently in arrears in SGF payments to the SMMHP.

Action Plan:

DMH has completed a preliminary analysis of outstanding SGF payments that are owed to the SMMHP and included that in the deficiency request. DMH has requested the SMMHP submit an explanation of the funds the SMMHP believes DMH owes to the SMMHP. DMH Accounting and Budgets staff will conduct analysis the information submitted by the SMMHP and DMH financial records to accurately assess if there are any outstanding additional funds owed by DMH to the SMMHP.

Additionally, DMH Medi-Cal, Epidemiology and Forecasting (MEF's) Bureau has initiated an analysis of pharmacy and laboratory claims (claims starting from January 2006 when Medicare Part D was implemented), to identify the special impact of Medicare Part D. Once these two analyses are complete, DMH Budgets and Accounting will reconcile what is due to the SMMHP and issue a letter to the SMMHP detailing the findings. DMH will complete an analysis of the SMMHP and DMH Medicare Part D fiscal balances and issue the letter no later than November 30, 2007.

Quality initiatives and Best Practices

The SMMHP expressed disappointment that the OSAE report did not include the information provided by the SMMHP regarding cost and clinical effectiveness of the program beyond the issue of the Medicaid rebates. However, OSAE's contracted project scope of work for the May 2007 report was to review the SMMHP Pharmacy and Laboratory Services Program estimation process.

DMH's August 1, 2007 response to the May 2007 OSAE report included a summary of quality indicators that were developed collaboratively by DMH and the SMMHP. AB 203 Chapter 188- Budget Trailer Bill provides an additional opportunity for DMH to work with the SMMHP to articulate best practices learned from the pilot and whether these best practices could be replicated statewide.

Action Plan:

DMH will work with the SMMHP pharmacy manager and produce data regarding best practices for posting on the DMH Website in November 2007. No later than January 1, 2008, DMH in collaboration with the SMMHP will identify at a minimum of no less than three quality indicators, of which one will have the potential for statewide applicability.

DMH initiated work with the SMMHP pharmacy manager the week of July 29, 2007 to start the collection of data and information. The SMMHP pharmacy manager believes the SMMHP can produce data regarding access to pharmacies, medication monitoring, medication utilization patterns, and the maximization of atypical antipsychotic monotherapy and minimization of concomitant atypicals to support this analysis.

SECTION IV

Statutes of 2007, AB 203 Chapter 188 Budget Trailer Bill

Statutes of 2007, AB 203 Chapter 188

“The Department of Mental Health, in direct collaboration with the Department of Health Care Services as the state’s lead Medicaid entity, shall provide the fiscal and policy committees of the legislature, by no later than March 1, 2008, with a policy analysis of the San Mateo Pharmacy and Laboratory Services Program. At a minimum this policy analysis shall: (1) articulate best practices learned from the pilot and whether these best practices could be replicated statewide; (2) offer suggestions to improve the program; (3) clarify the programs relationship to other local statewide efforts related to pharmaceutical usage and purchasing, such as those conducted through the Health Plan of San Mateo and the CalMEND program, as well as others.”

Action Plan:

- DMH in direct collaboration with DHCS and the SMMHP has initiated the process of identifying best practices through weekly conference calls and will be posting these on the DMH’s website starting November 2007.
- DMH and SMMHP have already agreed to one significant change to improve the program. Reimbursement to the SMMHP for pharmacy and laboratory services has historically been combined making it impossible for SMMHP to attribute reimbursement to either activity. DMH has implemented a procedure to separate the dollar amounts between pharmacy and lab reimbursed to the MHP and will notify the MHP of those distinct amounts at the time payment authorization is requested.
- DMH and SMMHP met with CalMEND program coordinators and consultants on August 8, 2007 to clarify this programs relationship to CalMEND. CalMEND staff will provide additional information to DMH, DHCS and the SMMHP. DMH -- in direct collaboration with DHCS and the SMMHP -- will analyze the relationship between CalMEND and the SMMHP pharmacy and laboratory program efforts related to pharmaceutical usage and purchasing and report to legislature no later than March 1, 2008.
- DMH invited the SMCOHS to join the weekly calls with DMH, DHCS and the SMMHP on August 15, 2007. DMH in direct collaboration with DHCS and the SMMHP will analyze the relationship between SMCOHS and the SMMHP pharmacy and laboratory program efforts related to pharmaceutical usage and purchasing and report to legislature no latter then March 1, 2008.

Future Policy Options

To date, DMH has identified three potential policy options regarding the SMMHP Pharmacy and Laboratory Services Program for the Administration and Legislature to consider:

Continue DMH administration of the SMMHP Pharmacy and Laboratory Services Program. If DMH administration continues, formally acknowledge in writing the end to any reference that the SMMHP Pharmacy and Laboratory Services Program is a “pilot” program. At the same time, DMH would implement the following reforms and modifications:

- Both SGF and FFP reimbursement for pharmacy and laboratory services be based on individual claims submitted to the State by the County, rather than estimates;
- Specifically, FFP would not to be based on aggregate claims and invoices; and;
- The SMMHP would submit pharmacy claims through the DHCS in order to benefit from the DHCS pharmacy rebate program.

Discontinue DMH administration of the SMMHP Pharmacy and Laboratory Services Program with the following alternatives:

- The SMMHP would become consistent with most other county processes for pharmacy and laboratory services administration, i.e., claiming through DHCS.
- SMMHP maintains the Pharmacy and Laboratory Services Program, but with administration through the DHCS.
- Incorporate the SMMHP pharmacy and laboratory back into the Health Plan of San Mateo.

Implement the San Mateo model statewide with fiscal and program administration managed by DMH or DHCS.

Conclusion:

As indicated above, the SMMHP believes DMH owes the SMMHP additional SGF. DMH is working with the SMMHP to reconcile an accurate figure that takes into account debts owed to the SMMHP and repayments to DMH owed by the SMMHP for over billings and Medicare Part D overpayment.

DMH has an obligation to provide a fiscal reforms and evaluation report to the Legislature by no later than March 1, 2008. This report will include a description of how the fiscal reform goals described above were met and any additional information determined by DMH, the SMMHP and the DHCS to be relevant to the Legislature’s request.

DMH will continue to review and evaluate these policy options and further develop recommendations for the Administration and Legislature to consider.

Attachment A

2006 Deficiency Notice to the Legislature



November 15, 2006

Honorable Wesley Chesbro, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable John Laird, Chair
Assembly Budget Committee

Honorable Kevin Murray, Chair
Senate Appropriations Committee

Honorable Mark Leno, Chair
Assembly Appropriations Committee

Notification of Prior Years Early and Periodic Screening, Diagnosis and Treatment Claims and Notification of Intent to Fund through Legislation

The Department of Mental Health (DMH) has notified the Department of Finance (Finance) of a deficiency of \$252 million General Fund for prior year claims for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) and the San Mateo Pharmacy and Laboratory Services programs; Finance concurs with this cost estimate. These unpaid costs to counties are from 2003-04, 2004-05, and 2005-06. The EPSDT program's share of the deficiency is estimated at \$243 million and the San Mateo Pharmacy share is estimated at \$9 million (see chart below). Of the total, \$66.2 million is due to misestimating of EPSDT claims. The DMH will be pursuing legislation to fund payment of these prior years' claims. The local funds share of the EPSDT claims already has been paid.

Summary of Unpaid Prior Year Claims

Fiscal Year	EPSDT	San Mateo Laboratory	Total
2003-04	\$13,703,647		\$13,703,647
2004-05	\$25,677,872	\$3,590,500	\$29,268,372
2005-06	\$203,642,641	\$5,084,000	\$208,726,641
General Fund Deficiency	\$243,024,160	\$8,674,500	\$251,698,660

The EPSDT program is a mandated component of Medi-Cal. Physical and mental health services are provided under EPSDT for full-scope Medi-Cal beneficiaries less than 21 years of age. The San Mateo Pharmacy and Laboratory Services program provides pharmacy services and related laboratory services to San Mateo County Medi-Cal beneficiaries for the treatment of mental illness.

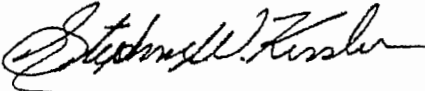
Prior to July 1, 2006, both the General Fund and federal financial participation for these two programs were included in the Department of Health Services' (DHS) budget and shown as a reimbursement to DMH. Since 2004-05, the DHS has been accounting for Medi-Cal claims on a cash basis. Effective July 1, 2006, the General Fund share for both programs was transferred to the DMH budget, which uses an accrual basis of accounting. Due to the difference in the two departments' accounting methods, when the DMH submitted prior year unpaid claims for the EPSDT program to the DHS, the claims were denied because, effective July 1, 2006, the DHS no longer had General Fund available to pay claims for these programs. Any unspent funds from prior year DHS appropriations for this program reverted into the General Fund at the end of those years and has been counted as savings.

In order to reimburse the costs of these services provided, additional funding is necessary and will be pursued through legislation.

The DMH also has requested that the Office of State Audits and Evaluations assist in their review of the EPSDT estimate methodology process as well as perform an internal control review of their systems. The DMH intends to present a revised estimate methodology for the EPSDT program in March to allow for legislative input prior to preparation of the May Revision. The DMH also is looking into revising the San Mateo Pharmacy and Laboratory program estimate methodology. In addition, DMH Administrative Services Division managers are continuing to review and revise the procedures, enhance information systems, and improve current practice to prevent future deficiencies and develop more efficient processes.

If you have any questions or need additional information concerning this matter, please contact Mr. John Doyle, Principal Program Budget Analyst, at (916) 445-6423.

MICHAEL C. GENEST
Director
By:



for VINCENT P. BROWN
Chief Deputy Director

cc: Honorable Dennis Hollingsworth, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Honorable Denise Moreno-Ducheny, Chair, Senate Budget and Fiscal Review Committee No. 3
Honorable Hector De La Torre, Chair, Assembly Budget Subcommittee No. 1
Ms. Elizabeth Hill, Legislative Analyst (3)
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Bob Franzoia, Staff Director, Senate Appropriations Committee
Mr. Seren Taylor, Staff Director, Senate Republican Fiscal Office
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee
Mr. David Harper, Deputy Chief of Staff, Assembly Republican Leader's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Eileen Cubanski, Assistant Secretary, Health and Human Services Agency
Dr. Stephen W. Mayberg, Director, Department of Mental Health
Ms. Terrie Tatosian, Deputy Director, Administration, Department of Mental Health
Ms. Harriet Kiyan, Chief Financial Officer, Department of Mental Health

icc: AGUIAR, COSTIGAN, CAP-OFFICE, WILKENING, CERVINKA, DOYLE, ALVES, C/F
(3), SUSPENSE, FILE

Attachment B

**OSAE San Mateo Pharmacy and Laboratory
Services Program
June 2007**

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:	<u>Net Reported Pharmacy Claims</u>

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)	\$5,076,235	\$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
(FFP and SGT)

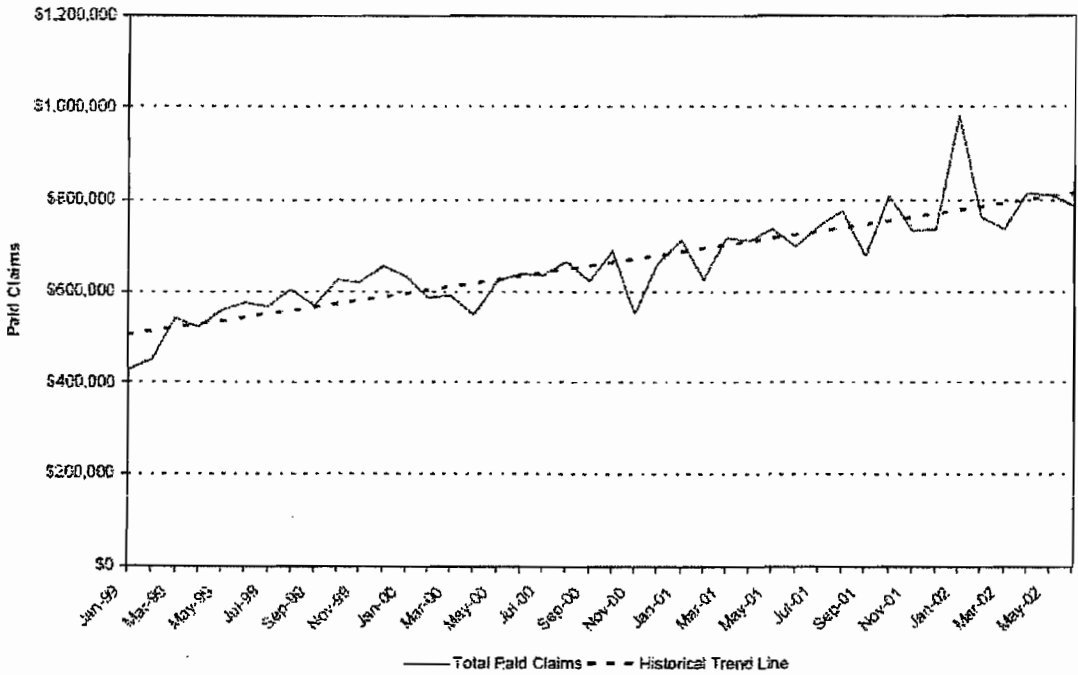
EXHIBIT 1

Claim Month	Date Submitted	Drugs per MHS Pharmacy	Other Adjustment	Medi-Cal Rebates	Share of Cost	Net Claim Before Admin	Med Impact Admin	MHP Admin	Total Admin	Total Paid Claims
Jan-99	09/10/99	416,235.00				415,030.00	4,149.82	5,842.96	12,089.45	426,559.46
Feb-99	09/10/99	437,526.00				437,556.00	4,117.37	5,323.67	12,444.34	450,000.24
Mar-99	09/10/99	507,697.00				507,697.00	4,424.09	9,258.98	13,682.55	541,579.55
Apr-99	09/10/99	509,134.00				509,134.00	4,112.83	5,837.90	13,000.73	522,134.72
May-99	10/06/99	547,659.00				547,659.00	2,591.00	5,622.87	11,113.87	558,772.87
Jun-99	10/06/99	559,149.00				559,149.00	6,211.49	9,672.46	15,183.97	574,332.97
Jul-99	03/15/00	557,918.15				547,918.15	3,055.11	5,561.65	9,666.76	567,579.91
Aug-99	03/15/00	594,362.42				594,362.42	1,455.62	10,026.52	11,481.44	605,843.86
Sep-99	03/15/00	650,324.94				640,324.94	-2,249.81	11,400.96	9,151.15	649,516.09
Oct-99	03/15/00	605,643.82				605,643.82	1,234.77	15,727.45	16,962.22	622,606.04
Nov-99	04/15/00	603,045.79				603,045.79	3,882.32	15,391.74	19,274.07	622,319.86
Dec-99	05/18/00	634,914.01				634,914.01	7,083.28	13,844.50	20,927.78	655,841.79
Jan-00	08/14/00	621,513.72			4,977.29	616,541.43	2,231.67	13,488.66	16,420.66	632,962.09
Feb-00	10/02/00	571,366.11				571,366.11	3,439.07	12,051.55	15,490.62	586,856.73
Mar-00	11/29/00	604,677.55		28,870.21	737.81	574,966.72	2,563.22	14,147.91	16,711.13	591,677.85
Apr-00	11/09/00	626,226.86			17.57	626,209.29	1,555.76	16,100.59	22,766.45	648,975.74
May-00	12/05/00	662,218.56		25,880.79	350.00	636,175.76	3,125.64	13,826.61	16,952.25	653,128.01
Jun-00	12/07/00	625,630.26		1,057.86		623,572.40	3,066.64	12,523.91	15,590.55	639,162.95
Jul-00	12/15/00	629,894.13		1,852.72	57.24	619,253.54	12,119.87	4,572.25	16,692.12	635,945.66
Aug-00	01/03/01	546,934.93		0.00	160.00	546,874.93	12,119.87	4,572.25	16,692.12	563,567.05
Sep-00	02/06/01	622,397.12		23,785.45	-42.00	601,169.72	5,908.70	15,729.35	21,638.05	622,807.77
Oct-00	02/29/01	571,348.86		687.00	306.00	570,355.86	6,093.06	12,648.27	18,741.33	589,097.19
Nov-00	02/25/01	558,226.17		0.00	156.64	558,169.53	5,776.61	12,425.89	18,202.50	576,372.03
Dec-00	05/10/01	595,236.62	5,077.26	1,474.65	434.00	594,253.78	2,191.71	11,008.15	13,199.86	607,453.64
Jan-01	05/04/01	689,363.16		2,553.14	580.50	686,230.02	2,557.17	14,830.60	17,387.77	703,617.79
Feb-01	05/04/01	608,339.80		82.50	1,702.61	607,499.69	5,125.71	13,854.75	18,980.46	626,480.15
Mar-01	05/29/01	723,754.83		29,626.44	305.74	694,819.65	2,407.00	19,670.60	22,077.60	716,897.25
Apr-01	08/02/01	697,021.83		5,487.66		691,534.17	6,136.78	14,701.16	20,837.94	712,372.11
May-01	07/19/01	761,830.40		28,750.66		713,279.74	10,349.34	14,275.75	24,625.09	737,904.83
Jun-01	08/17/01	684,119.00		5,600.80		678,518.20	5,025.61	14,173.34	19,200.95	697,719.15
Jul-01	10/17/01	719,161.85		0.00	0.00	719,161.85	6,031.82	15,804.67	21,836.49	740,998.34
Aug-01	10/21/01	757,859.46		916.78	1,562.77	756,289.91	6,442.23	14,623.42	21,065.65	777,355.56
Sep-01	11/20/01	667,989.46		27,800.80	1,336.62	638,724.64	5,494.96	14,268.07	19,763.03	658,487.67
Oct-01	12/5/01	516,885.37		25,822.48	494.69	490,568.20	3,283.98	14,755.27	18,039.25	508,607.45
Nov-01	01/15/02	722,277.87		4,362.36	2,541.64	715,373.87	4,275.45	12,505.45	16,780.90	732,154.77
Dec-01	02/21/02	719,908.61		2,296.95	2,296.95	717,611.66	3,655.21	15,445.29	19,101.50	736,713.16
Jan-02	03/15/02	683,285.74		5,385.86	240.01	677,649.87	6,006.04	15,207.46	21,213.50	698,863.37
Feb-02	04/16/02	742,569.35		843.85		741,725.50	5,718.48	16,227.01	21,945.49	763,670.99
Mar-02	05/16/02	745,190.60		27,076.70	-4,976.34	717,280.96	5,409.08	20,793.62	26,202.70	743,483.66
Apr-02	06/20/02	705,877.82		3,876.70	1,067.04	702,044.08	5,512.60	16,202.57	21,715.17	723,759.25
May-02	07/16/02	602,227.08		11,034.09	467.68	591,656.67	5,216.77	15,435.53	20,652.30	612,309.00
Jun-02	08/22/02					771,826.22		15,076.93	15,076.93	786,903.15

1: Total Drugs and Meds (MHS) = 107,025.31 and MHP Admin = 119,279.81.

Source: Data provided by San Mateo County Pharmacy (MHS) and MHP Admin (MHP).

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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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	\$3,076,235		
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 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	06/10/99	415,626.30				415,620.00	4,548.82	8,842.96	12,989.46	428,609.46
Feb-99	06/10/99	437,556.30				437,556.00	4,117.37	8,328.87	12,446.24	450,002.24
Mar-99	06/10/99	527,697.00				527,697.00	4,424.66	9,258.56	13,683.22	541,380.22
Apr-99	06/10/99	509,134.50				509,134.00	4,112.83	8,867.90	12,980.73	522,154.73
May-99	10/06/99	547,656.00				547,656.00	2,561.00	8,622.67	11,183.67	558,839.67
Jun-99	10/06/99	559,148.00				559,148.00	8,211.49	9,672.48	17,883.97	577,031.97
Jul-99	03/15/00	557,810.16				557,810.16	3,985.11	5,851.95	9,837.06	567,647.06
Aug-99	03/15/00	564,392.42				564,392.42	1,436.82	10,036.62	11,473.44	575,865.86
Sep-99	03/15/00	569,384.34				569,384.34	-2,286.61	11,400.56	9,113.95	578,511.09
Oct-99	03/15/00	605,843.92				605,843.92	1,224.77	16,727.45	17,952.22	623,796.14
Nov-99	04/13/00	603,045.79				603,045.79	3,582.33	13,391.74	16,974.07	620,019.86
Dec-99	06/18/00	634,314.91				634,314.91	7,983.28	13,844.50	21,827.78	656,142.78
Jan-00	06/14/00	621,316.72			4,977.29	616,341.43	2,921.07	13,468.88	16,389.95	632,731.38
Feb-00	10/02/00	571,395.11				571,395.11	3,439.07	12,051.68	15,490.75	586,886.03
Mar-00	11/04/00	604,677.58		26,979.21	737.61	574,980.73	2,568.22	14,147.61	16,715.83	591,696.56
Apr-00	11/08/00	529,226.58			17.57	529,209.01	1,689.76	19,100.89	20,790.65	548,999.66
May-00	12/05/00	632,316.56		26,682.79	259.00	605,175.76	3,125.84	13,826.61	16,952.45	622,128.21
Jun-00	12/07/00	623,630.26		1,027.66		622,602.60	3,086.84	12,563.91	15,650.75	638,253.35
Jul-00	12/18/00	629,894.13		1,562.72	57.84	618,263.54		16,800.56	16,858.40	635,121.94
Aug-00	01/09/01	649,834.90		0.00	100.00	649,734.90	12,119.67	6,578.26	18,697.93	668,432.83
Sep-00	02/05/01	622,397.12		30,785.49	442.00	601,189.72	6,009.70	15,756.38	21,766.08	622,955.80
Oct-00	02/20/01	671,246.96		667.03	508.00	670,071.93	6,063.06	12,046.27	18,109.33	688,181.26
Nov-00	02/08/01	539,328.17		0.00	159.84	539,168.33	9,779.61	12,428.88	22,208.49	561,376.82
Dec-00	05/01/01	655,230.62	5,077.26	1,474.60	434.00	649,253.76	2,161.71	11,898.16	14,059.87	663,313.63
Jan-01	05/04/01	609,893.18		2,563.11	589.00	606,741.07	2,567.17	14,830.69	17,397.86	714,138.93
Feb-01	05/04/01	609,336.80		82.50	1,762.61	607,491.69	6,126.71	13,854.76	19,981.47	627,473.16
Mar-01	05/22/01	723,754.82		26,829.44	306.74	696,619.64	2,407.00	19,870.99	22,277.99	718,897.63
Apr-01	08/20/01	667,021.92		5,467.86		661,554.06	6,129.78	14,791.16	20,920.94	712,475.00
May-01	07/30/01	751,030.40		58,759.46		712,270.94	10,340.34	14,575.76	24,916.10	737,187.04
Jun-01	08/17/01	684,116.96		6,662.82		677,454.14	6,038.01	14,176.34	20,214.35	697,668.49
Jul-01	10/17/01	718,161.95		0.00	0.00	718,161.95	8,031.02	15,804.67	23,835.69	742,007.64
Aug-01	10/31/01	757,656.46		915.73	1,562.77	756,183.96	6,442.23	14,833.42	21,275.65	777,459.61
Sep-01	11/29/01	667,666.43		27,000.00	1,338.32	639,328.51	6,494.98	14,295.07	20,790.05	660,118.56
Oct-01	12/31/01	618,686.37		26,622.18	404.66	591,669.53	2,583.66	14,755.27	17,338.93	609,008.46
Nov-01	01/16/02	722,277.67		4,362.90	2,941.64	715,073.13	4,679.13	13,806.46	18,485.69	733,558.82
Dec-01	02/21/02	719,696.81			2,269.85	717,426.96	3,655.21	15,445.29	19,100.50	736,527.46

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

DEPARTMENT RESPONSE



C A L I F O R N I A D E P A R T M E N T O F

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

Attachment C

**San Mateo Mental Health Director's Response
to the May 2007 OSAE Report**

July 23, 2007

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

Dear Dr. Mayberg:

I am writing to express concern about the Department of Finance Office of State Audit and Evaluations (OSAE) report dated May 2007: *Report on the California Department of Mental Health Review of the San Mateo Pharmacy and Laboratory Services Estimation Process*. The focus of the report is the State Department of Mental Health's oversight and estimating methodology for the budget of the San Mateo Medi-Cal Pharmacy and Lab program. While we were involved in providing information to the State Department of Finance OSAE for the report, we requested but were unable to obtain a copy of the draft report and thus were unable to share our concerns prior to its publication. We are providing our comments on inaccuracies in the report that may be misunderstood and damaging to San Mateo County in hopes this information will influence your Department's response. We also are sharing this response with San Mateo County officials and our legislative delegation since the OSAE report will be the subject of an upcoming hearing.

- 1) Laboratory Services: The report (pg. 1 and 7) identifies "inflated cost projections and over billing by the laboratory services" amounting to more than \$600,000 over a five-year period. We are concerned that the Report suggests San Mateo County unfairly received more than \$600,000 due primarily to over billing. This is not true. As a result of the State Department of Finance review, San Mateo County identified and immediately notified the State Department of Mental Health in two letters addressed to you and dated April 13 and 20, 2007, about a total of \$45,893 in incorrect Medi-Cal Federal Financial Participation billing to the State Department of Mental Health between FY 00-01 and 05-06. The error in billing was the result of San Mateo's incorrectly translating encounter data provided by the laboratory services vendor to claims (from a list of individual panel results of a single laboratory panel test to multiple laboratory tests). San Mateo implemented a corrective action plan as soon as the problem was identified and will repay the State per arrangement with State DMH. The problem did not recur once San Mateo switched laboratory vendors commencing in January 06. The report suggests (p.7) that San Mateo only recently changed its laboratory vendor but this change occurred a year and a half ago after unsuccessful attempts to obtain necessary claims and encounter data from the previous vendor.

The total amount of Medi-Cal Federal Financial Participation billed for laboratory services during that period was \$284,675. The amount paid to the laboratory services vendor during this period was \$832,723 including full-scope Medi-Cal beneficiaries and also others whose services we do not bill to the State.

- 2) Pharmacy Rebates: The report (pg. 1 and 7) suggests that San Mateo County's pharmacy program has not received drug rebates on par with those received by the statewide program run by the California Department of Health Services. They have asked DMH to assess the "reasonableness" of the rebates to determine if a cost offset may be due on the federal contribution and to ensure the program meets cost effectiveness requirements. The report raises a question about the feasibility of the program as a carve-out to San Mateo County.

San Mateo is concerned that the report does not mention nor ask DMH to explore the most obvious solution for this problem, that the San Mateo pharmacy program be folded into the State Department of Health Services' existing process for rebates. There is no barrier to this solution as far as we are aware (and as portrayed by State Department of Health Services' staff) yet it wasn't mentioned in the report. Further, we know that eliminating San Mateo's mental health carve-out for pharmacy and laboratory services, causing the responsibility to revert to the Health Plan of San Mateo (HPSM--County Organized Health System), also will not solve the rebate problem because HPSM is ineligible for the rebates per the State. We know that folding the San Mateo program into the State's rebate process would involve our reporting quarterly data to the State Department of Health Services and we are prepared to do that. This solution would require us to end the small rebate program in place through our current pharmacy benefits manager, which will not pose a problem. San Mateo's pharmacy program will not be able to compete on its own with the high volume rebates available through the statewide program. We have shown that San Mateo's pharmacy program is cost effective before consideration of rebates. We provided data to OSAE showing: 1) cost per prescription in analyzed categories are lower in San Mateo than in State Medi-Cal in the years studied; 2) percentage cost increase from first to fourth quarter of 2006 in major psychotropic categories are also less in San Mateo than in State Medi-Cal. If the program were integrated with the State rebate process we believe it would be more cost effective than the State program.

- 3) Administrative Fees: The report suggests (p.8) that the administrative fees charged by the County may have been unreasonable and were not supported by formal agreement. While the specific methodology for administrative fees is not established in the current agreement between San Mateo County and the State, it is not correct that there is no formal agreement regarding administrative fees. Several sections of the agreement acknowledge the presence of administrative fees: Section J Federal Financial Participation—"nothing in this contract shall limit the Contractor from being reimbursed for appropriate federal financial participation for any covered services or utilization review and administrative costs or pharmacy and related laboratory services even if the total expenditure for

services exceeds the contract amount.” Also Exhibit B, F, Payment in Full—references State matching funds...for all...administrative costs incurred by Contractor in providing or arranging for such services....”. Also Exhibit B, O, Financial Report—references costs for administration. San Mateo County is able to provide back-up data for these costs for any period of time and was unaware the supporting documentation had not been provided to the OSAE. We believe the costs that were reported are reasonable. The methodology that was used to identify the costs for the pharmacy/lab program was based on the direct staff costs (salaries and benefits) for the program, pro-rated based on the percentage of the total program costs related to Medi-Cal beneficiaries. We have enclosed a copy of the May 2007 claim and the back-up as an example. As the report states, San Mateo administrative fees represented only 2.4 percent of the drug reimbursements reported in FY 04-05.

- 4) Share of costs/coordination of benefits: The report suggests (p.1 and 8) that beneficiary share of costs and coordination of benefits have not been accounted for or monitored. While it may be true that State DMH did not monitor the share of costs and coordination of benefits, San Mateo County did monitor these costs to insure appropriate application of State and Federal requirements. (It should also be noted that State DMH requirements regarding share of cost would reasonable be expected to apply to any Medi-Cal program.) We provided information to the OSAE about how we check share of cost for each beneficiary for the month of service before claiming to the State for services provided that month. The process in place prevents claiming any pharmacy services for a beneficiary with an unmet share of cost. We also thought we provided data regarding the coordination of benefits (third party insurance) collected by the pharmacy benefits manager prior to claiming to us for Medi-Cal reimbursable services. While this information has not been included in the regular claim file submitted to the State it is available and the claim could be modified to include that information. The sample file we provided to the OSAE for the 2 week period ending 4/5/07 contained 36 claims with primary insurance in addition to Medi-Cal. Those services received \$2,672 in insurance reimbursement collected by the pharmacy benefits manager and reported to us. We then correctly billed the balance of those services to the State for \$1001 in Federal Financial Participation.
- 5) Medicare Part D: The report states (p. 1 and p. 9) that the State incorrectly estimated the impact of the Medicare Part D program on San Mateo County’s pharmacy utilization. The suggestion is that the State should have reduced the pharmacy estimate of State General Fund by more than the 23.5 percent it reduced the estimate in FY 06-07, perhaps up to 40-50 percent. This is an easy criticism to make in hindsight. However when the program was initiated in January 2006 (FY 06-07), no one knew what to expect. Implementation of the Medicare Part D program was a debacle in most parts of the United States. California itself continued the “grandfathering” of many medications covered by Part D well past the start-up of that program in order to protect consumers who were slipping between the cracks. San Mateo invested substantially (see attached report) in

assuring continuity of care for consumers through a mental health consumer peer-led educational initiative to follow-up with nearly every client impacted by the change. These costs were not charged to the State. While it may be true that more refined actuarial methods could have predicted a larger savings, actuarial methods could not have predicted the failure of the bureaucracy to efficiently and correctly sign up our most vulnerable clients for Part D. The State and we knew FY 06-07 was a transition year and that we FY 07-08 actuals would provide a better sense of what to expect going forward. At the outset of the program, we felt it was pragmatic to plan for the worst. We will provide whatever data is necessary to establish a fair estimate going forward, but we are unwilling to revisit the earlier estimates when San Mateo assumed risk and did an exemplary job in assuring client transition to a new system.

In addition, it is important to note that to-date the State is currently more than \$12 million dollars in arrears in State General Fund payments for San Mateo's pharmacy and laboratory program through FY 06-07.

Finally, we were disappointed the OSAE did not include any of the information we provided regarding the cost or clinical effectiveness of the program beyond the issue of the Medicaid rebates. There are many outstanding features of the program that have been possible through local administration and integration with mental health services. The following outcomes would not have been achieved through the statewide program:

1) Local management of the pharmacy program results in several positive programmatic outcomes:

- Eligibility data and claims data integration of Medi-Cal and safety net population result in better continuity of care at the pharmacy level and less disruption of medication services.
- Claims data integration of both populations allows the County to track prescribing patterns, and conduct medication monitoring and utilization reviews across the entire system of care.
- High client and provider satisfaction are possible due to faster problem resolution on the local level.
- Physicians are able to have more input into the formulary and the prior authorization process. Physicians also receive feedback of their prescribing patterns from PBM reports and from quarterly MD meetings.

2) Local management allows the County to promote evidence-based practices with interaction and feedback from the physicians; therefore resulting in better compliance and physician satisfaction. Some examples of cost effective use of psychotropics include:

- Maximizing monotherapy of atypical antipsychotics and restricting concurrent use of more than one atypical antipsychotics.
- Proper dosing of atypical antipsychotics to achieve optimum efficacy.
- Limit off-label use of Neurontin, Topamax, Provigil.
- Monitoring for duplicate benzodiazepine use to ensure client safety.

We hope you will consider these points in the response to the OSAE report. We will continue to work with your staff to implement all necessary responses.

Sincerely,

Gale Bataille
Mental Health Director

c.c. Rita McCabe, State DMH
Mark Dermenjian State DOF, OSAE
Janet Rosman, State DOF, OSAE
Louise Rogers, San Mateo County MH

