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March 29, 2005

TO: Each Supervisor

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

SUBJECT: PRICEWATERHOUSECOOPERS AUDIT OF THE COUNTY'S 1115 WAIVER

This is in response to Supervisor Antonovich's motion directing me to present a report to the Board of Supervisors on the audit by PricewaterhouseCoopers (PwC) regarding the performance of the County in meeting requirements of the County's 1115 Waiver extension.

From the outset, let me be clear that the PwC audit was a contentious process. The Department of Health Services, as well as both County Counsel and outside counsel were in disagreement with the PwC auditors from the beginning of the audit process. These concerns centered on PwC's overall lack of understanding of the operations and financing of public health care systems and their use of definitions and source documents that varied from the Waiver's governing documents. The Department strongly disagrees with the findings of PwC that it is out of compliance with any of the deliverables under the Waiver and has repeatedly expressed this belief to both PwC and the State. That stated, the following attempts to clearly lay out the major findings of the PwC auditors and the Department's position.

BACKGROUND

A requirement of the 1115 Waiver extension agreed upon in 2000 is monitoring and oversight by the State of the County's progress in implementing the deliverables under the Waiver. While the Waiver agreement does not require an audit, the State made a policy

decision to fulfill their monitoring requirement through a contract with PwC. ThePwC auditors began their work in May 2003. The audit was of administrative policies and procedures and did not look at quality of care issues.

PwC audited 10 areas of performance for the first two years of the Waiver extension (Fiscal Years 2000-01 and 2001-02), which are outlined below. Of these, seven categories are sanctionable under the Waiver and the audit found the County out of compliance with two of these seven deliverables. Those two areas are: Achieving Federally Qualified Health Center (FQHC) Status and Increasing Medi-Cal Certified Eligibles. The County's Department of Public Social Services (DPSS) is the lead agency for the County in the latter area. While PwC also raised particular questions about the monitoring of the Public Private Partners and the Department's overall financial procedures, neither of these categories are sanctionable under the Waiver.

Three Million Outpatient Visits

PwC found that the County met its Waiver requirement to provide three million outpatient visits in both Fiscal Year 2000-01 and Fiscal Year 2001-02. This was a potentially sanctionable item.

Clinical Resource Management (CRM)

PwC found the County to be in compliance with all its CRM requirements under the Waiver and identified no problems associated with the CRM initiatives. This was a potentially sanctionable item.

Implementation of Eligibility Processes for Health Coverage

PwC found that the County met the Waiver requirement that it implement a comprehensive process to offer every child and adult the opportunity to apply for public health insurance programs. This was a potentially sanctionable item.

Outpatient Reduced Cost Simplification Application (ORSA) Process

Under the Waiver, the County was required to implement a simplified enrollment process. Part of this requirement was hiring an additional 22 "new" employees to perform this function. This was a potentially sanctionable item. While PwC found the County to be in compliance with this requirement, the report suggests that it was inappropriate for the County to use employees promoted from other positions to fulfill this requirement. The County allocated new budgeted items for this requirement and backfilled into items vacated by promotions.

Monitoring of PPP Clinics

PwC's report notes that the County met its requirement to conduct such monitoring, however, the report makes recommendations for improving the County's monitoring procedures. Although not acknowledged in the PwC report, the County did tell the auditors that, at the time of the audit, such improvements had already been in place for over two years. Effective in 2003, the Department revamped its programmatic monitoring instrument to better align with the L.A. Care Health Plan audit tool and to better identify deficiencies (e.g., quality of care to diabetic/asthmatic patients, clinic personnel requirements, etc.). The Department also worked with the Auditor-Controller to develop a fiscal monitoring tool. The Department has assigned additional staff to the monitoring process, and has developed and implemented Contract Monitoring Guidelines for monitoring unit staff.

Achieving Federally Qualified Health Center (FQHC) Status

The Waiver agreement requires that the County seek FQHC status for the County's outpatient care system. As required under the Waiver, the County developed a work plan with timelines for seeking FQHC status. In that work plan, the County stated that it would submit all FQHC applications by December 1, 2002, and would seek final determination from the federal government on the applications by June 30, 2003.

In November 2002, the County notified the State that it was modifying its work plan and that the County did not intend to file an application by December 1 because the Health Resources and Services Administration (HRSA) had not released its application guidelines for a 330(i) grant, the section under which the Department would be applying. The County submitted its application in April 2003 and it was rejected by HRSA in July 2003.

PwC concluded that the County failed to meet the Waiver requirements because it did not submit all of its FQHC applications by December 1, 2002 and did not receive a final determination on the applications by June 30, 2003. The County can be sanctioned for non-compliance with this item.

Increasing Medi-Cal Certified Eligibles

Under the Waiver extension, the County is required to increase the number of individuals in the County who are certified as eligible for Medi-Cal benefits. The Waiver requires that the County's compliance with this requirement be determined by the number of individuals certified as eligible in the State Medi-Cal Eligibility Data System (MEDS) report.

The MEDS report for January in each year audited surpassed the number required under the Waiver.

However, PwC took exception with the County including former CalWORKS recipients who no longer qualify for cash aid but qualify for Medi-Cal. PwC's position is inconsistent with the terms of the Waiver agreement. Additionally, PwC found that the County included some Medi-Cal recipients who were no longer eligible for benefits after redetermination. The County believes that the error rate that PwC applied is excessive, particularly since State auditors conducted an audit for the same time period and found a very high accuracy rate. The County can be sanctioned for non-compliance with this item.

Austerity Program and County Financial Commitments

PwC's report concludes that the County committed the funding amounts required under the Waiver, but does not reach a clear conclusion regarding the County's implementation of the required austerity measures.

Department Wide Charge Description Master/Itemized Data Collection

PwC found the County to be in compliance with the Waiver requirement to implement a standardized Department-wide charge description master by July 1, 2001. This relates to compliance with billing requirements under the Health Insurance Portability and Accountability Act. This was a potentially sanctionable item.

Financial Viability

This section is outside of the scope of the Waiver and looks at the overall financial viability of the Department. While PwC recognized the limitations in its data at least 14 times in this portion of the report, it nonetheless used it to analyze the Department's financial status. As an example of the simplicity of PwC's approach, their solution to the Department's fiscal problems is to increase the number of insured patients obtaining care to make the payer mix more profitable. This recommendation fails to takes into account either the Department's mission and statutory requirements or the supplemental Medi-Cal funding it loses when a Medi-Cal or indigent patient is replaced with an insured patient.

NEXT STEPS

Based on discussions with the State Department of Health Services, they have not decided whether they will pursue sanctions against the County.

If the State makes a determination of non-compliance, the Waiver calls for notice to the County and an opportunity to respond, as well as an opportunity to follow the administrative appeals process and, ultimately, to obtain judicial review, if necessary.

Please let me know if you would like any additional information.

TLG:jw

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors