

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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May 12, 1980

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Honorable Edmund G. Brown Jr.
Governor
State Capitol
Sacramento, CA 95814

Dear Governor:

As you well know, this Commission has for the past five years reported to you and the Legislature on the gravity of the problems in the health care system in the State of California. We have conducted study after study, held numerous public hearings, and issued report after report urging that administrative and legislative action be taken immediately to remedy the many problems in the health care system which are all reflected in the Medi-Cal program. These problems include:

- lack of control over fraud and abuse
- excessive provision of services without appropriate justification
- uneven quality of care
- unrestrained inflation driven by excessive capital investment
- irrational variation in range of payments to hospitals for the same service
- waste and mismanagement in the provision of service.

Governor, you are well aware of these problems and our efforts to find reasonable solutions. We have pointed out consistent failures of the Legislature, and until recently the Administration, which include:

- failure to enact legislation which would bring State health planning activities into compliance with Federal health planning laws
- failure to provide legislative authorization and administrative support to implement an effective program against consistent fraud and abuse
- rejection of authority for the Department of Health Services to provide services to Medi-Cal beneficiaries on a prudent buyer basis

- failure to reform Certificate-of-Need laws which would effectively contain excessive capital investments in hospital and out-patient services
- rejection of procedures to limit hospital cost inflation.

We are cognizant of the many problems attendant to the revised Medi-Cal claims processing system. Abandonment of this system, however, would cost many millions of dollars of taxpayer funds for an interim processing contract, cause possible litigation, and delay receiving the substantial fiscal benefits of more stringent cost controls. This Commission has long been on record as a strong advocate of a fiscal intermediary system which would effectively control overpayments and fraudulent claims and otherwise provide fiscal integrity and management control. It is essential that this system be maintained.

The fiscal intermediary contract awarded in September 1978 represented administrative cost savings of \$50-70 million and, at the same time, a potential savings of many hundreds of millions of dollars of Medi-Cal payments to providers. In our opinion, although all problems have not been resolved, the operation of the system has improved considerably in recent weeks, and it is reasonable to expect that it will meet the system's objectives in the near future. The computer programs for the payment of physicians have undergone several tests which preliminarily indicate that the fiscal intermediary is capable of handling the substantially increased workload of bringing the State's Medi-Cal physicians on line by June 1. Although more time would be helpful for further testing, we believe it necessary that the plan become operational on June 1 as called for by legislation and administrative determination.

Every effort should be maintained by the contractor, the Department of Health Services, the State Controller and the providers to resolve remaining problems. The proposed interim payments to providers, together with the Director of Health Services decision to allow physicians to utilize either the existing or revised payment forms, should contribute much to the orderly implementation of the more stringent controls which are inherent in the revised payment process.

The March 1980 audit report of the Department of Health Services confirmed the findings of similar audits in 1978 which indicated in those hospitals audited that 37 percent of the Medi-Cal payments for hospital services were inappropriate and in some cases appeared to be outright fraudulent. These payments total many millions of dollars.

The taxpayers and citizens of this State are confronted with a crisis of major proportion. At the present rate of growth in the cost of the health care delivery system (Medi-Cal alone is currently consuming more than \$4 billion), the State will neither be able to provide essential services to the medically disadvantaged nor will those not covered by such programs be able to afford needed health services. This crisis would be aggravated further with the passage of Proposition 9 on June 3.

Honorable Edmund G. Brown Jr.

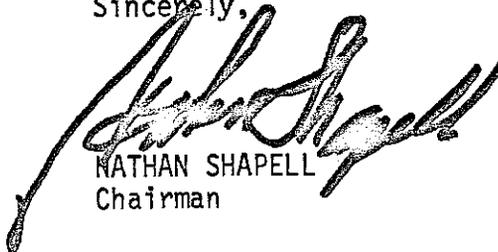
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Since the influence of health lobbies has been so effective in blocking needed reform through the traditional legislative and administrative processes, we call upon you, Governor Brown, to find other means immediately of insuring that all citizens of the State will have access to needed health care at a reasonable cost. Special interest groups have used the initiative process to great success. Others have attained their goals through well organized and well financed political action committees. You must use the resources of your Office to take the lead, by whatever means, to bring about the necessary reform in the California health care delivery system.

The members of this Commission are available and willing to assist you and your Administration in this most important effort.

Sincerely,

A handwritten signature in cursive script, appearing to read "Nathan Shapell", written in dark ink. The signature is fluid and somewhat stylized, with a long, sweeping underline that extends to the left.

NATHAN SHAPELL
Chairman