

CALIFORNIA TREATMENT AUTHORIZATION REQUEST COST BENEFIT (TAR) REPORT

EXECUTIVE SUMMARY

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Presented by Ingenix and Health Management Associates
for the Department of Health Care Services (DHCS):

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HEALTH MANAGEMENT ASSOCIATES



1. Executive Summary of TAR Report

The 2010 Bureau of State Audits (BSA) report on the Treatment Authorization Request (TAR) process recommended that the California Department of Health Care Services (DHCS) conduct a cost-benefit analysis of the TAR process to identify opportunities to remove authorization requirements, or to auto-adjudicate those medical services and drugs with low denial rates, low paid claims, or high TAR administrative costs.

The BSA report identified three categories of processes to analyze and streamline TARs:

1. TARs that are low service cost and low denial rate;
2. TARs that are high service cost, but seldom denied; and
3. TARs that are high administrative cost and denied at a less than a four percent threshold rate (the threshold may vary and will be determined during the project in consultation with the DHCS).

A team of Ingenix and Health Management Associates (HMA) was engaged to examine these processes, and perform analyses aimed at understanding the administrative efficiency of the TARs process, in which the administrative cost and benefit of a TAR approval was calculated within categories.

The published report addresses Bureau of the State Auditor (BSA) recommendations and provides additional analysis and recommendations to supplement those issued by BSA.

1.1 Approach

The study approach to the cost benefit analysis was designed to replicate the results, but not necessarily the process, of the Bureau of the State Auditor (BSA) analysis. The study was designed to examine TARs at the summary and detailed levels through a three-step process:

1. Build a cost allocation model supported by staffing cost data to identify and allocate average administrative costs in a way that accounts for most costs associated with processing different TARs;
2. Build an analytic engine in the Management Information System/Decision Support System (MIS/DSS) that links TAR disposition data (approved, denied, modified, deferred) from the Service Utilization and Review Guidance Evaluation (SURGE) database to payment data in the MIS/DSS; and
3. Use the two data sets to perform the BSA recommended analysis, as well as additional analysis and recommendation outlined above.

The study took a budgetary approach to calculate the administrative costs of the TAR process and provide an overall average administrative cost and a cost per TAR category.

This approach used:

- A staffing list of civil service classifications assigned to specific categories of TAR processing;
- A cost spreadsheet for Utilization Management Division (UMD) management support and analytic staff proportionately allocated by TAR volume and classification;
- Budgetary mark-up factors used by the DHCS to develop budget change proposals to compute total costs and stepped down administrative costs of TARs;
- Additional workload factors required for medical consultant second level review of all TARs recommended for denial and the additional workload associated with denials; and
- The actual total contractual costs associated with TAR processing.

A merged data set was created that linked TAR disposition information from the SURGE database, to the claims and other information contained in the MIS/DSS. This is the first time that these data sets have been linked. TAR and claims data for the vast majority of TARs were linked through this process. While the underlying database resides in the MIS/DSS, the project team also created analytic spreadsheets that did not contain protected health information to be used in the analysis.

With TAR disposition and claim unit cost data linked together, arrays that examined disposition, payment cost, and administrative cost at the category, sub-category, and detail levels were created. In keeping with the BSA recommendations, the report presents executed disposition selections that identified both low denial and high approval rates. The data allowed calculation of key variables including the administrative cost to process TARs within a TAR category at both the detail and procedure levels, and the cost savings, cost avoidance, (or deferred cost) of both TAR denials and the modification.

1.2 Overview of Results

The analysis described was designed to answer the classic cost benefit question: “Did the value of savings exceed the cost of TARs processing?”

The study examined pharmacy and medical TARs separately.

MEDICAL TARs

- **For Medical TARs, findings were that the DHCS has achieved near-complete compliance with cost benefit principles.** Virtually all TAR categories that emerged for consideration because of denial or approval rates also had high savings from the TAR process. For example, a long-term care TAR, while having a high approval rate, controls an expensive service. The savings from a relatively small percentage of denials and modifications more than justified the process cost.
- **For medical TARs at the category level, the report recommends that DHCS auto-adjudicate Peri-Natal services.** This category stood out as not meeting cost benefit criteria.
- **At the procedure level, there were a small number of services that did not meet the specified cost benefit test.** Some of these had a pattern around a diagnosis or

provider that might lend itself to automation. The report recommends that DHCS examine these for auto-adjudication.

FOR PHARMACY TARs

- The report and analytic data sets identify TARs at the therapeutic class and drug level that are low cost and high approval. These are the best candidates for auto-adjudication. Because pharmacy is a very complicated environment where there are interdependencies between different related and interacting drugs, the report **recommends DHCS use the matrix as the basis of study for further auto-adjudication.**

1.3 Alternative Approaches

- Using the merged data sets, analysis of provider compliance within and across TARs was possible and offered new opportunities for analyzing administrative efficiency. This approach showed that there are providers across a wide range of TAR categories with extremely high compliance rates -- 99 percent and higher. This pool could offer an additional factor for streamlining when the SURGE replacement system comes on-line.
- This analysis also recognizes the continued value of UMD's ongoing process for adjusting the frequency of TAR renewals and extensions, as well as establishing threshold amounts beyond which a TAR is required. Through this process, the UMD is able to balance the type and cost of service as well as the expected need for services based on the beneficiary's health status (medical necessity criteria), provide appropriate incentives for least restrictive setting, and assess the risk for over-utilization or fraud.