



TOBY DOUGLAS  
DIRECTOR

State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

January 10, 2014

The Honorable Dr. Richard Pan, Chair  
Assembly Health Committee  
State Capitol, Room 6005  
Sacramento, CA 95814

The Honorable Jim Frazier, Chair  
Assembly Accountability and  
Administrative Review Committee  
State Capitol, Room 3091  
Sacramento, CA 95814

The Honorable Nancy Skinner, Chair  
Assembly Budget  
State Capitol, Room 6026  
Sacramento, CA 95814

The Honorable Ed Hernandez, Chair  
Senate Health Committee  
State Capitol, Room 2080  
Sacramento, CA 95814

The Honorable Mark Leno, Chair  
Senate Budget and Fiscal Review Committee  
State Capitol, Room 5100  
Sacramento, CA 95814

Dear Members of the Legislature:

**Subject: Update on the Drug Medi-Cal Program**

As you know, significant issues with program integrity were uncovered in the Drug Medi-Cal (DMC) program last year. We have taken action to address the problems, including an ongoing enforcement sweep that has, to date, suspended payments to 68 providers operating 177 drug treatment facilities. All 68 of these cases have been referred to the California Department of Justice for criminal prosecution based on the credible allegations of fraud we uncovered.

We have also completed an extensive assessment of the Drug Medi-Cal program. Attached here is the program audit conducted by our Audits and Investigations Division and our plan for implementing the recommended changes to ensure integrity in the Drug Medi-Cal program.

At my direction, Drug Medi-Cal managers will be implementing this comprehensive set of improvements, including new regulations for the Drug Medi-Cal program. The changes include:

- requiring all 816 Drug Medi-Cal providers that are actively billing to submit to a recertification process. Providers that have not billed DMC in the last 12 months will be decertified, starting this month;
- amending the state-county contract for fiscal year 2014-15 to increase county monitoring of DMC providers, in order to ensure that appropriate services are provided by qualified providers to individuals who genuinely need them;
- continue to direct investigative staff, including trained auditors, nurse evaluators and peace officers to continue to root out and eliminate complex scams aimed at profiting from Medi-Cal, rather than providing vital services that low-income individuals need;
- extensive mining and analyzing of data to identify suspicious Drug Medi-Cal providers, designating them as “high risk” providers who will be subject to additional onsite visits, fingerprinting and background checks; and,
- developing emergency regulations that strengthen DMC program integrity by clarifying the requirements and responsibilities of DMC providers, DMC Medical Directors, and other provider personnel.

The Governor’s proposed Budget for 2014-15 includes 21 positions and \$2.2 million (\$1.1 million GF) to continue the state’s intensive focus on DMC program integrity. These funds will also support the expansion of drug treatment services consistent with the 2013 Budget Act and the goals of the Affordable Care Act.

In addition, provisions of federal and state laws that took effect January 1, 2014, require all physicians prescribing or ordering any Medi-Cal services, including DMC, to enroll with DHCS and obtain a National Provider Identifier number. This will give us a new tool to help ensure that physicians with a record of fraud are excluded from prescribing DMC treatment.

In order to further improve the quality, integration, and coordination of services in the DMC program, DHCS will request a waiver from the Centers for Medicare and Medicaid Services to operate the Drug Medi-Cal Program as an organized delivery system. The waiver will give state and county officials more authority to select quality providers to meet drug treatment needs. I believe this will enable us to strike an appropriate balance between ensuring access to these important services while also ensuring that drug treatment services are being provided consistent with program goals.

Treatment provided through Drug Medi-Cal to low-income individuals in California is vital to helping those who are fighting substance use disorders turn their lives around. I am confident we have made major strides toward improving the program’s effectiveness and integrity. We will continue to work with our county partners on these efforts to make

sure these important services remain effective, safe and available for low-income Californians in need.

Sincerely,

Original Signed By

Toby Douglas  
Director

cc: The Honorable John Pérez  
Speaker of the Assembly  
State Capitol, Room 219  
Sacramento, CA 95814

The Honorable Darrell Steinberg  
Senate President pro Tempore  
State Capitol, Room 205  
Sacramento, CA 95814

Attachments:

Implementation Plan for Drug Medi-Cal Program Limited Scope Review  
Drug Medi-Cal Program Limited Scope Review