July 29, 2013

The Honorable Kevin De Leon, Chair)
Senate Appropriations Committee
State Capitol, Room 5108
Sacramento, CA 95814
The Honorable Ed Hernandez, Chair)
Senate Health Committee
State Capitol, Room 2080
Sacramento, CA 95814

The Honorable Richard Pan, Chair)
Assembly Health Committee
State Capitol, Room 6005
Sacramento, CA 95814
The Honorable Mark Leno, Chair)
Senate Budget and Fiscal Review Committee
State Capitol, Room 5100
Sacramento, CA 95814

The Honorable Nancy Skinner, Chair)
Assembly Budget Committee
State Capitol, Room 6026
Sacramento, CA 95814
The Honorable Mike Gatto, Chair)
Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, CA 95814

Dear Honorable Senators and Assemblymembers:

California’s Drug Medi-Cal program delivers important, medically necessary treatment services for nearly 60,000 Californians annually who struggle with serious alcohol and drug addictions. Recent reports suggest and our ongoing investigation indicates that some clinic owners and managers have defrauded the program of money, and that is now the subject of an extensive investigation by the Department of Health Care Services (DHCS) and the California Attorney General.

Regrettably, there are many individuals looking to commit fraud for personal gain. As the Director of DHCS, which recently took over this program, I have taken immediate action to overhaul our standard processes and oversight to correct weaknesses in the system while ensuring that important services are available to those who need them.

When the Governor and the Legislature authorized the elimination of the former Department of Alcohol and Drug Programs on July 1, 2012 and moved the Drug Medi-Cal program into our Department, DHCS began a top-to-bottom assessment of its operations and developed an action plan to address needed changes for stronger internal controls to protect the overall integrity of the program. Based on the information gathered and the completion of the departmental reorganization this month, this department is conducting a statewide investigation of local Drug Medi-Cal centers,
targeting first those that appeared to have the most questionable practices. Our nationally-recognized Audits and Investigations Division is devoting its extensive resources to stop people who steal from this program.

Through the field investigations, DHCS has temporarily suspended payments to 29 clinics, prohibiting them from billing Drug Medi-Cal and protecting federal and state funds from potential fraud. Additional suspensions are expected as the investigation continues across the entire state. These cases have also been referred to the California Department of Justice (DOJ) for further fraud investigation, and DHCS is working closely with DOJ to prosecute all violations to the fullest extent possible.

Currently, more than 1,000 drug treatment clinics in California are certified to bill Drug Medi-Cal for providing substance use treatment services. DHCS has discovered that some of these clinics failed to inform the state when they changed management, or moved, as required by law. This hampered the state’s ability to ensure that felons who should be excluded from managing the clinics were kept out. This department is taking immediate steps to rectify this issue, primarily by requiring every certified Drug Medi-Cal clinic in California to re-apply for certification, ensuring that DHCS has up to date information on all aspects of each clinic. Staff will conduct on-site visits to each facility as they re-apply, making sure they meet the standards DHCS sets for the treatment and safety of Medi-Cal members.

This department is requiring additional training for all field staff to better equip them to conduct thorough programmatic reviews, and revised guidelines will confirm that all services provided are medically necessary. A nurse evaluator has been hired to maintain standards for these stringent clinical review criteria.

DHCS is also working more closely with local government and community partners to enhance this program. In most cases, Drug Medi-Cal clinics are monitored and directly paid by counties. Drug Medi-Cal was realigned in 2011, giving counties more flexibility to operate the program at the local level. The state administers the federal funds for this program by reimbursing counties for the money they pay to treatment providers. DHCS will continue to seek improvements in its partnerships with counties to provide better oversight of this important program.

The State of California is committed to protect the integrity of the Drug Medi-Cal program, to ensure that taxpayer money is used effectively and efficiently, and to provide quality services under a strong shield of rules and guidelines that safeguard those who seek substance abuse treatment. DHCS is working to stop individuals who attempt to exploit the program and see that they are disciplined for their actions. We are confident that the changes under way will strengthen the Drug Medi-Cal program and ensure it fulfills its promise to provide valuable services to Californians on the path to recovery from substance abuse.
Honorable Senators and Assemblymembers
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If you have any questions regarding the Drug Medi-Cal program and our efforts, please contact my Chief Deputy, Karen Johnson, at (916) 440-7400. I have appointed her to lead this project for her expertise and knowledge of fiscal and program integrity.

Sincerely,

Toby Douglas, Director
Department of Health Care Services

cc: See next page
cc:  Agnes Lee, Health Policy Consultant, Office of Speaker of the Assembly
     Diane Van Maren, Health Consultant, Office of President Pro Tempore
     Andrea Margolis, Health Consultant, Assembly Budget Committee
     Michelle Baass, Health Consultant, Senate Budget and Fiscal Review
     Gareth Elliott, Legislative Affairs Secretary, Office of the Governor
     Lark Park, Deputy Legislative Secretary, Office of the Governor
     Diana Dooley, Secretary, Health and Human Services
     Michael Wilkening, Undersecretary, Health and Human Services
     Donna Campbell, Deputy Secretary, Health and Human Services
     Kiyomi Burchill, Assistant Secretary, Health and Human Services
     Ana Matosantos, Director, Department of Finance
     Michael Cohen, Chief Deputy Director, Department of Finance
     Diane Cummins, Department of Finance
     Karen Johnson, Chief Deputy Director, DHCS Policy Program and Support
     Mari Cantwell, Chief Deputy Director, DHCS Health Care Programs
     Carol Gallegos, Deputy Director, Department of Health Care Services