STATE OF CALIFORNIA

Budget Change Proposal - Cover Sheet

DF-46 (REV 08/15)

Fiscal Year	Business Unit	Department	Priority No.
2016-17	4260	Health Care Services	

Budget Request Name	Program	Subprogram
4260-017-BCP-DP-2016-GB	3960010	

Budget Request Description

Third Party Liability Recovery Workload

Budget Request Summary

The DHCS, Third Party Liability and Recovery Division (TPLRD), Casualty Insurance Operations (CIO) Section, requests expenditure authority of $1,136,000 ($284,000 General Fund and $852,000 Federal Fund) and 10.0 permanent, full-time positions. The staff will address an increased workload and recover Medi-Cal expenditure in personal injury cases involving liable third parties, so that Medi-Cal is the payer of last resort, as mandated by the federal and State laws and regulations.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed	
☐ Yes ☒ No		
Does this BCP contain information technology (IT) components? ☐ Yes ☒ No *If yes, departmental Chief Information Officer must sign.*	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
			1/7/16
Department Director	Date	Agency Secretary	Date
	1/7/16		1/7/16

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
	1-8-16

BCP Fiscal Detail Sheet

BCP Title: Third Party Liability Recovery Workload

DP Name: 4260-017-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	10.0	10.0	10.0	10.0	10.0
Total Positions	**0.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**
Salaries and Wages						
Earnings - Permanent	0	577	577	577	577	577
Total Salaries and Wages	**$0**	**$577**	**$577**	**$577**	**$577**	**$577**
Total Staff Benefits	0	279	279	279	279	279
Total Personal Services	**$0**	**$856**	**$856**	**$856**	**$856**	**$856**
Operating Expenses and Equipment						
5301 - General Expense	0	60	40	40	40	40
5302 - Printing	0	20	20	20	20	20
5304 - Communications	0	20	20	20	20	20
5322 - Training	0	10	10	10	10	10
5324 - Facilities Operation	0	90	90	90	90	90
5344 - Consolidated Data Centers	0	10	10	10	10	10
539X - Other	0	70	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$280**	**$190**	**$190**	**$190**	**$190**
Total Budget Request	**$0**	**$1,136**	**$1,046**	**$1,046**	**$1,046**	**$1,046**

Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	284	0	0	0	0
0890 - Federal Trust Fund	0	852	0	0	0	0
0988 - Other - Unallocated Non-Governmental Cost Funds	0	0	1,046	1,046	1,046	1,046
Total State Operations Expenditures	**$0**	**$1,136**	**$1,046**	**$1,046**	**$1,046**	**$1,046**
Total All Funds	**$0**	**$1,136**	**$1,046**	**$1,046**	**$1,046**	**$1,046**

Program Summary

Program Funding						
3960010 - Medical Care Services (Medi-Cal)	0	1,136	1,046	1,046	1,046	1,046
Total All Programs	**$0**	**$1,136**	**$1,046**	**$1,046**	**$1,046**	**$1,046**

Personal Services Details

Positions	Salary Information Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
4800 - Staff Svcs Mgr I (Eff. 07-01-2016)				0.0	2.0	2.0	2.0	2.0	2.0
5157 - Staff Svcs Analyst (Gen) (Eff. 07-01-2016)				0.0	4.0	4.0	4.0	4.0	4.0
5393 - Assoc Govtl Program Analyst (Eff. 07-01-2016)				0.0	4.0	4.0	4.0	4.0	4.0
Total Positions				**0.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**

Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4
4800 - Staff Svcs Mgr I (Eff. 07-01-2016)	0	143	143	143	143	143
5157 - Staff Svcs Analyst (Gen) (Eff. 07-01-2016)	0	186	186	186	186	186
5393 - Assoc Govtl Program Analyst (Eff. 07-01-2016)	0	248	248	248	248	248
Total Salaries and Wages	**$0**	**$577**	**$577**	**$577**	**$577**	**$577**
Staff Benefits						
5150350 - Health Insurance	0	139	139	139	139	139
5150600 - Retirement - General	0	140	140	140	140	140
Total Staff Benefits	**$0**	**$279**	**$279**	**$279**	**$279**	**$279**
Total Personal Services	**$0**	**$856**	**$856**	**$856**	**$856**	**$856**

Analysis of Problem

A. Budget Request Summary

The Department of Health Care Services (Department), Third Party Liability and Recovery Division (TPLRD), Casualty Insurance Operations (CIO) Section, requests $1,136,000 ($284,000 General Fund and $852,000 Federal Fund) and 10.0 permanent, full-time positions (4.0 Associate Governmental Program Analyst (AGPA), 4.0 Staff Services Analyst (SSA), and 2.0 Staff Services Manager I (SSM I)) to address a growing workload and to increase savings. Federal and State laws and regulations mandate that Medi-Cal recover expenditures in personal injury cases involving liable third parties so that Medi-Cal is the payer of last resort.

Current staffing levels are insufficient to complete a thorough and timely analysis and processing of the growing case volume. Within one year of the January 1, 2014 implementation of the Affordable Care Act (ACA), Medi-Cal enrollment increased by 38 percent. This enrollment increase is correlated with the 70 percent increase in CIO cases. The result is a loss of revenue, delayed processing times, and an increasing backlog.

B. Background/History

Title XIX of the Social Security Act requires the State Medicaid agency (Medi-Cal) to seek reimbursement for beneficiaries whose medical bills were caused by a liable third party. Section 433.139 of Title 42 of the Code of Federal Regulations requires Medi-Cal to avoid payment of claims where third party coverage is available and to initiate post-payment recovery processes. California Welfare and Institutions Code (W&IC), Sections 14124.70 through 14124.79, requires the Department to impose liens on a beneficiary's personal injury settlements and make recoveries, thereby that Medi-Cal is the payer of last resort.

Attorneys, county welfare agencies, and insurance companies must notify the Department of tort actions involving a Medi-Cal beneficiary. CIO staff review Medi-Cal expenditures paid for injury-related services, then file liens for recovery against any settlement, judgment, or award. The Department has three years to obtain recovery from the notice of settlement, judgment, or award on CIO cases. All funds recovered through any of the TPLRD recovery programs are recycled back into the Medi-Cal program to assist in the care of other medically needy individuals, effectively abating General Fund (GF) expenses.

Following the implementation of the ACA, Medi-Cal enrollment increased from 8.6 million in December 2013 to 13.3 million in November 2015, a 54 percent increase. From July 2013 through December 2013, prior to ACA implementation, CIO received on average 3,536 new case referrals per month. The growth in incoming case referrals accelerated after the implementation of ACA. The average number of incoming case referrals reached 5,983 during the months of January through July 2015. This represents an increase of nearly 70 percent compared to the volume prior to ACA implementation.

All incoming cases are reviewed for eligibility and other factors. Those where recovery is deemed prudent and necessary are set up for processing by an analyst. From January 2014 through July 2015, CIO experienced 70 percent growth in its active caseload (cases in research status and those awaiting payment), increasing from 18,527 to 31,480 cases. The rapid growth created a "bottleneck" effect, which partly contributed to the increase in the caseload.

Analysis of Problem

Resource History
(Dollars in thousands)
Third Party Liability & Recovery Division

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-15
Authorized Expenditures	12,563	12,521	13,355	13,706	15,038
Actual Expenditures	12,563	12,360	12,942	13,611	15,038
Revenues	N/A	N/A	N/A	N/A	N/A
Authorized Positions	199.3	198.1	184.3	184.3	183.0
Filled Positions	175.5	168.8	174.2	169.1	183.0
Vacancies	23.8	29.3	10.1	15.2	0.0

Workload History

Workload Measure	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Case Inventory [i]	23,212	20,604	16,495	21,180	33,178	35,856
Cases Opened [ii]	29,588	30,338	35,020	42,749	61,217	66,114
Cases Closed [iii]	21,413	36,372	44,075	42,677	54,072	58,398
Phone Calls Made	16,491	22,358	29,977	30,708	43,592	47,079
Phone Calls Received	18,640	22,727	26,261	27,085	44,729	48,307
Letters Sent	79,876	98,154	114,253	104,280	146,141	157,832
Correspondence Received	32,575	39,205	42,301	27,280	55,639	60,090

[i] Total number of active cases as of fiscal year end (June 30).
[ii] Total number of cases opened during the fiscal year. Some cases may remain open for more than one fiscal year.
[iii] Total number of cases closed during the fiscal year. Cases may be closed with no funds recovered due to various circumstances discussed in Section D, Justification.

C. State Level Considerations

This proposal is consistent with the commitments the Department of Health Care Services made in its 2013-2017 Strategic Plan to "Provide efficient and effective customer service" (1.3) and "Through effective oversight, ensure program integrity and compliance" (8.2).

D. Justification

TPLRD requests 10.0 permanent full-time positions to address the increasing workload and to recover Medi-Cal expenditures in personal injury cases involving liable third parties, thereby ensuring that Medi-Cal is the payer of last resort, as mandated by federal and State laws and regulations.

Analysis of Problem

CIO opens a case when it receives a notification of a potential third party settlement involving a Medi-Cal beneficiary and after Medi-Cal eligibility is confirmed. Not all cases result in recovery. Those cases where Medi-Cal did not pay for any services related to the injury or where the beneficiary decides not to pursue the settlement are closed without payment. In addition, the time it takes to bring a case to a resolution (payment) varies from several months to several years; therefore, a case may be opened and closed within the same fiscal year, or it may be opened during one fiscal year and remain part of the caseload inventory for additional fiscal years. The variance in the amount of time it takes to resolve a case often depends on outside factors, such as the level of cooperation of parties involved, the litigation process, etc.

CIO experienced an unprecedented increase in notifications, which resulted in a greater number of cases being opened. Some of these cases, which otherwise could be resolved quickly, remained in the caseload inventory because staff were unable to properly analyze, process, and resolve the growing workload. To address this increase, TPLRD modified procedures, reevaluated cost effectiveness of the various cases, and redirected several positions from its other recovery programs. These efforts helped to temporarily slow the growing inventory but resulted in increased caseload for the other recovery programs as well.

Additionally, in response to the surging workload and case congestion, TPLRD began utilizing voluntary overtime on February 25, 2015. The estimated cost of overtime through April 2015 is $98,703, with an average of 1,096 hours. The annual estimated overtime costs, assuming the same average overtime hours and staffing participation, comes to $481,000. Those hours also translates to the capacity of fewer than seven full-time analysts. However, voluntary overtime is not a reliable long-term option, as participation declines with the passage of time, and the average productivity of employees working more than eight hours each day degrades. For instance, overtime participation decreased by more than half within three months, dropping from 1,509 hours in March to 736 hours in May.

During FY 2012-13, 31.0 CIO collection staff managed at a point in time 16,878 cases, or an average of 544 open cases per staff. During this period, CIO streamlined several work processes that improved efficiency and enabled a collector to work 20 percent more cases. Hence, a collector should now be able to process 653 cases at an optimal quality and rate. If the number of cases per collector is higher, the quality diminishes, and the revenue per case decreases. With the additional redirected positions, the program now has 37.0 collectors with a reasonable potential for handling 24,161 cases, assuming average processing is 653 cases per collector. CIO projects that, by June 30, 2016, caseload will increase to 35,856, or 48 percent beyond its current staffing capacity. TPLRD cannot redirect additional staff without adverse impacts to other programs with higher-yielding collections. If the request for the additional 4.0 AGPA, 4.0 SSA, and 2.0 SSMI positions is approved, CIO will have the adequate staffing capacity to efficiently process about 30,000 cases, and will seek additional operational or system efficiencies to manage the difference. The current staff will work on the current cases, while the monthly caseload is increasing. The requested positions will primarily work on the backlog of prior cases until they are cleared. This will enable CIO to work cases within statute of limitations (SOL), decreasing risk of litigation costs and loss of revenue.

In FY 2012-13, 31.0 CIO collection staff, 5.0 management staff, and 7.0 support staff collected $33.4 million ($16.7 million General Fund (GF)). Assuming the average collections

Analysis of Problem

hold, adding 10.0 additional positions (of 8.0 collectors and 2.0 collections managers) to CIO should result in an additional $7.8 million ($3.9 million GF) in annual CIO recoveries. The recovery for FY 2014-15 was $35.8 million. If the requested positions are approved, the additional revenue would be acquired gradually, as the collection efforts are increased and cases reach settlements and come to a resolution in the form of payment. CIO estimates that the entire projected additional revenue of $7.8 million will be acquired by FY 2017-18.

Because the federal government provides 75 percent Federal Financial Participation (FFP), the State GF would need to match only 25 percent of the cost for these positions. Recognizing that the growth in new case submissions is likely to continue, CIO is taking the following steps to streamline processes, increase efficiency, and use available resources to mitigate the incoming volume:

- Design and development of a new case workflow system to automate numerous processes is expected to begin in late 2015;
- Analysis into early identification and closure of cases that are not cost-effective to process is ongoing;
- Redesign of current processes to expedite receipt of payment data from business associates and to reduce the time required to bring a case to completion is underway; and
- Establish a Telephone Support Unit in order to centralize and manage the increasing volume of incoming telephone calls, to allow staff to focus on quality and collections, and to provide excellent customer service.

If the request for additional staffing is granted, these efficiencies will allow CIO to successfully manage the growth in the workload.

E. Outcomes and Accountability

The request of 10.0 permanent positions is expected to achieve the following results:

- Increase collections by approximately $7.8 million (TF) annually;
- Diminish the increase in outstanding caseload and backlog;
- Cease overtime salary expenditures;
- Improve customer satisfaction.

Projected Outcomes

Workload Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Case inventory	35,856	35,067	34,296	33,541	32,803	32,082
Recoveries (in thousands)	$36,950	$40,850	$43,600	$43,600	$43,600	$43,600

F. Analysis of All Feasible Alternatives

Alternative 1: Approve 10.0 permanent full-time positions (4.0 AGPAs, 4.0 SSAs, and 2.0 SSMIs) and expenditure authority of $1,136,000 ($284,000 General Fund and $852,000 Federal Fund). With the additional staffing, CIO will be able to manage the augmented workload, which will increase revenues from additional recoveries and meet stakeholders' expectations of quality and timeliness. These additional positions would

Analysis of Problem

continue to increase GF revenues, decrease or eliminate the backlog of cases resulting from the growth in the Medi-Cal population, and allow staff to produce quality liens while actively pursuing collections.

Pros:

- Increased recoveries by an estimated $7.8 million ($3.9 million GF) annually for the GF commitment that offers an excellent return on investment.
- Minimizes CIO caseload backlog.
- Ability to analyze liens thoroughly and timely.
- Increased stakeholder satisfaction.
- Ability to work cases within statute of limitations (SOL), decreasing risk of litigation costs and loss of revenue.
- Ability to proactively pursue collections, thereby increasing revenues.
- Complies with federal and state laws, which require recovery in matters involving liable third parties.

Con:

- Increased State staffing.

Alternative 2: Continue with current staffing levels.
At current staffing levels, the backlog would continue to grow and, as participation in overtime decreases and the number of Medi-Cal recipients increases, the dollars lost will also increase significantly due to various reasons, such as the statute of limitations (SOL) and distribution of funds prior to finalization of the lien. This will result in longer wait times for stakeholders, higher number of complaints, and loss of revenue due to higher litigation costs.

Pro:

- No growth in State staffing.

Cons:

- The department will be unable to collect approximately $7.8 million in additional annual revenue.
- The Department will continue to incur the inflated cost of overtime but will not have reliable staffing levels to manage the additional workload.
- Backlog of cases will continue to grow, and an ever-increasing number of cases and associated revenues will be lost due to statute of limitations.
- Increased litigation costs.
- Increased complaints by the stakeholders.
- The Department may be out of compliance with the federal and state laws requiring recovery in matters involving liable third parties.

Alternative 3: Procure a contingency fee reimbursed contract with a private organization to manage the workload in excess of current staffing capacity.

Pros:

- No growth in State staffing.
- Complies with federal and state laws, which require recovery in matters involving liable third parties.
- Fees are contingent on successful recovery.

Analysis of Problem

Cons:

- This alternative may constitute contracting work that State employees can do.
- Extends CIO backlog for another 18 to 24 months while the procurement of a contract takes place. During this time, the Department will continue to incur the costs of overtime working the additional caseload.
- Requires redirection of staff from working current program cases to the procurement and management of the contract, compounding the negative effects of the growing caseload.
- Similar revenue contracting arrangements have resulted in stagnant revenues and inconsistent debt collection practices.
- Requires a significant release of Protected Health Information (PHI) to a contractor under a business associate agreement and greatly increases the risk of potentially costly PHI incidents.
- During any potential gaps in contractual coverage, the State may be out of compliance with the federal and state laws requiring recovery in matters involving liable third parties.

G. Implementation Plan

- July/August 2016 – recruit and hire additional staff for CIO.
- September 2016 through November 2016 – train new CIO staff in the Casualty Insurance procedures.
- Beginning December 2016 – newly trained CIO staff will begin working Casualty Insurance cases.

H. Supplemental Information

Request for cubicle build-outs including cabling at a cost of $70,000, one-time.

I. Recommendation: Alternative 1

Approve 10.0 full time permanent positions (4.0 AGPAs, 4.0 SSAs, and 2.0 SSMIs) and expenditure authority of $1,136,000 ($284,000 General Fund and $852,000 Federal Fund). These positions will help mitigate the rapidly increasing workload and increase collections by approximately $7.8 million ($3.9 million GF) each year.

WORKLOAD STANDARDS
Third Party Liability and Recovery Division
Casualty Insurance Operations
4.0 SSA 805-120-5157-XXX
Permanent

Activities	Number of Items Annually	Hours per Item	Total Hours
Analyze case information to determine the type of injury and the logical next steps. Research complex eligibility and health care data from the appropriate resources.	23,520	0.03	705.6
Order managed care encounter data reports.	14,832	0.07	1,038.2
Analyze claim and encounter data to select injury related paid claims to create an itemization of Medi-Cal payments subject to recovery.	31,752	0.08	2,540.2
Communicate injury, treatment, and other case facts with attorneys, insurance company representatives, and Med-Cal beneficiaries over the phone and in writing to obtain required informational data or rectify erroneous data.	2,352	0.32	752.6
Inquire on the status of payment of the lien with attorneys, insurance companies, and Medi-Cal beneficiaries.	2,352	0.32	752.6
Process and review incoming correspondence.	6,260	0.14	876.4
Negotiate liens.	2,352	0.13	305.8
Prepare case documentation for referral to the Office of the Attorney General in order to pursue collection of unpaid claims.	8	7.20	57.6
Process payments and refunds.	288	0.65	187.2
Total hours worked			7,216.2
1,800 hours = 1 Position			
Actual number of Positions requested			4.0

Total hours = number of items x hours per item

WORKLOAD STANDARDS
Third Party Liability and Recovery Division
Casualty Insurance Operations
4.0 AGPA 805-120-5393-xxx
Permanent

Activities	Number of Items Annually	Hours per Item	Total Hours
Assist junior staff in handling escalated inquiries and analyzing most complex payment data reports. Answer questions from junior staff related to next actions on cases, payment data reports, and negotiation strategies.	5,200	0.25	1,300
Review cases handled by junior staff for quality and to identify training needs.	6,118	0.17	1,040
Review documents prepared by junior staff for referral to the Office of the Attorney General.	32	1	32
Analyze case information to determine the type of injury and the logical next steps. Research complex eligibility and health care data from the appropriate resources.	14,112	0.03	423.4
Order managed care encounter data reports.	8,899	0.07	622.9
Analyze claim and encounter data to select injury related paid claims to create an itemization of Medi-Cal payments subject to recovery.	19,051	0.08	1,524.1
Communicate injury, treatment, and other case facts with attorneys, insurance company representatives, and Med-Cal beneficiaries over the phone and in writing to obtain required informational data or rectify erroneous data.	1,411	0.32	451.5
Inquire on the status of payment of the lien with attorneys, insurance companies, and Medi-Cal beneficiaries.	1,411	0.32	451.5
Process and review incoming correspondence.	7,512	0.14	1,051.7
Negotiate liens.	1,411	0.13	183.4
Prepare case documentation for referral to the Office of the Attorney General in order to pursue collection of unpaid claims.	10	7.20	70.2
Process payments and refunds.	173	0.65	112.6
Total hours worked			7,263.3
1,800 hours = 1 Position			
Actual number of Positions requested			4.0

Total hours = number of items x hours per item

WORKLOAD STANDARDS
Third Party Liability and Recovery Division
Casualty Insurance Operations
2.0 SSM I 805-120-4800-xxx
Permanent

Activities	Number of Items Annually	Hours per Item	Total Hours
Plan and direct work for operational efficiency, cost effectiveness, and compliance with federal and State laws, rules, and regulations. Conduct succession planning, including staff recruitment, hiring, training, and development; review and revise procedures and policies as necessary. Prepare and present reports for management and staff. Evaluate program authorities, policies, procedures, production data, and reports from information systems relating to ongoing collection activity to track productivity and identify opportunities for improvement.	600	1.4	840.0
Review cases for quality control so that liens do not contain errors, and that collection activities, balance discharges, and case closures are appropriate.	24,041	0.06	1,442.5
Evaluate, document, and address staff productivity and accuracy performance. Control workflow and inventory of uncompleted work to assure that State and federal timing requirements are met.	355	1.1	390.5
Attend and conduct meetings so working level staff understands expectations and work together to achieve goals. Recommend changes, manage the change process, and assess success of changes after implementation. Interact with beneficiaries, attorneys, managed care plans, and other stakeholders on issues related to CIO.	312	0.9	311.1
Write and present probationary reports and Individual Development Plans to staff. Write disciplinary documents, such as counseling memos and adverse actions, and present to staff as necessary. Update and maintain supervisor's drop files, including training and attendance records; approve or deny time off requests; and, as required, provide and process other personnel-related documentation, including alternate work schedule requests, FMLA, workers compensation, and reasonable accommodation requests.	528	0.9	752
Total hours worked			3,736.1
1,800 hours = 1 Position			
Actual number of Positions requested			2.0

Total hours = number of items x hours per item