

OFFICE OF THE INSPECTOR GENERAL

STEVE WHITE, INSPECTOR GENERAL

• PROMOTING INTEGRITY •



**SPECIAL REVIEW OF THE
MEDICAL CONTRACTING PROCESS**

**HEALTH CARE SERVICES DIVISION
CALIFORNIA DEPARTMENT OF CORRECTIONS**

OCTOBER 2002

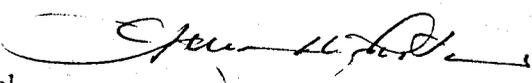
GRAY DAVIS, GOVERNOR



Memorandum

Date: October 9, 2002

To: EDWARD S. ALAMEIDA, JR., Director
Department of Corrections

From: STEVE WHITE 
Inspector General

Subject: REVIEW OF THE MEDICAL CONTRACTING PROCESS

I am pleased to forward the enclosed report of the review conducted by my office of the Department of Corrections medical contracting process. The review was performed under the oversight authority assigned to the Office of the Inspector General in *California Penal Code* Section 6126.

While agreeing with most of our findings and recommendations, the department asserted that a lack of resources precludes it from taking corrective action. We urge you to reconsider this position. The cost of the department's health care contracts escalated by 82 percent between fiscal year 1997-98 and fiscal year 2000-01, from \$92 million to \$168 million. That amount represents almost 25 percent of the department's entire health care budget. Clearly, there is a need for appropriate measures to control costs and to ensure that funds are spent effectively. We estimate that it would require only three to four staff members to correct the deficiencies noted in this report. In fiscal year 2001-02, the Health Care Services Division had 235 positions. It appears there is ample room for the division to redirect enough staff resources to take corrective action. The department also has the ability to redirect staff resources from other administration functions for this effort.

Before the final report was issued, the Office of the Inspector General furnished a draft version to the Deputy Director for the Health Care Services Division, Michael T. Pickett, and held an exit conference with Mr. Pickett and his staff to explain the draft report findings. The written response of the Health Care Services Division is included in the report as Attachment A. Comments of the Office of the Inspector General concerning the issues raised in the response are included as Attachment B.

I would like to express appreciation for the cooperation extended to my staff throughout the course of this review. Please call me if you have any questions concerning this report.

Enclosure

cc: Robert Presley, Secretary, Youth and Adult Correctional Agency
Michael T. Pickett, Deputy Director, Health Care Services Division

OFFICE OF THE INSPECTOR GENERAL

STEVE WHITE, INSPECTOR GENERAL



**SPECIAL REVIEW OF THE
MEDICAL CONTRACTING PROCESS**

**HEALTH CARE SERVICES DIVISION
CALIFORNIA DEPARTMENT OF CORRECTIONS**

REPORT

OCTOBER 2002

● **PROMOTING INTEGRITY** ●

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EXECUTIVE SUMMARY

This report presents the results of a special review conducted by the Office of the Inspector General of the administrative process used by the California Department of Corrections for selecting and paying medical professionals who provide contracted services to inmates. The review was performed under the oversight authority assigned to the Office of the Inspector General in *California Penal Code* Section 6126. The review centered on the processes and controls employed statewide by the California Department of Corrections to procure and pay for contract medical services at the most effective and efficient rates. The review was performed at California Department of Corrections headquarters and state correctional institutions.

The Office of the Inspector General found that the Department of Corrections is not effectively managing its medical services to incarcerated inmates and should adopt statewide policies to ensure cost-effective contracts, quality case management, and continuity of care.

Specifically, the Office of the Inspector General found the following:

FINDING 1. The California Department of Corrections lacks a comprehensive statewide policy for managing its medical services contracts.

The California Department of Corrections has experienced a significant increase over the last decade in the cost of providing medical care to inmates, yet it has not developed a comprehensive statewide policy to manage its medical service contracts. In just the last three years, the cost of medical services contracts has jumped 82 percent, from \$92 million to \$168 million. Despite that increase, the department has failed to adopt comprehensive statewide policies to manage those costs while ensuring the most cost-effective care. Most significantly absent are efforts on the part of the department to recruit interested physicians in communities near state correctional institutions to provide medical services or to attempt to obtain the most cost-effective rates from physicians and other medical service providers. The department also lacks data on current rates being charged for certain medical services in different parts of the state and does not include custody and support services costs when calculating the cost of sending an inmate outside the institution for medical care.

FINDING 2. Lack of sound contract management by the Department of Corrections resulted in payments of \$77,000 for clinical services not performed and of more than \$1 million for services not authorized under a California Medical Facility contract with an outside physician.

When the department decided to amend a medical services contract to expand services to other institutions and later to incorporate the amended contract and new rates into a statewide contract, it did not properly amend or manage the contracts. This led to misunderstandings about contract provisions and ultimately to overbilling and overpayment because there was no system for checking invoices against the contract.

FINDING 3. The contracting process of the Department of Corrections is vulnerable to potentially serious conflicts of interest because the person selecting the contractor is also authorized to approve invoices and payments under the contract.

The chief medical officer or equivalent at an institution or the deputy director of the Health Care Services Division can select a contractor and approve a contract without an independent review of the solicitation and negotiation efforts. The same individual can also approve payments under the contract, thereby creating a potentially serious conflict of interest.

FINDING 4. The current deficiencies in the department's contracting process may lead to problems in the quality and continuity of inmate medical care.

The quality and continuity of medical care to inmates may suffer if the continued lack of sound contract management interferes with the selection and use of medical services. This review found that in some instances continuity of care was interrupted by changes in medical contractors and lack of case management by health services staff in the institutions.

RECOMMENDATIONS

The Office of the Inspector General recommends that the Department of Corrections adopt statewide policies and procedures for contract management, including but not limited to advertising and soliciting proposals and awarding, monitoring, and enforcing contracts to provide cost-effective medical services to inmates. Pending resolution of contract issues, the department should also take whatever interim steps are needed to ensure that inmates receive continuity of medical care without interruption due to contract problems. The statewide contract management policies and procedures should include the following:

- **A requirement that institutions advertise the need for medical service providers and solicit proposals from the local medical community near institutions seeking the services.**
- **A requirement that institutions document their efforts to advertise and solicit proposals before approving any contract. This would lessen the potential for abuse in the state contracting process and enhance the department's ability to secure cost-effective contracts from physicians and other providers in areas adjacent to institutions.**
- **Implementation of a statewide survey every three to four years to determine what constitutes a reasonable hourly fee for various medical specialties in selected regions of the state. The results of this survey can be used to develop reasonable contract amounts for specific services in different geographical regions.**
- **A requirement that the cost of custody and support staff be included in calculations of the cost of providing medical care to inmates outside an**

institution and that the cost be applied in developing a “reasonable” rate for care inside the institution.

- **Stringent controls for monitoring and authorizing payments for contract health care services. The controls should be effectively communicated to staff through special training on contract language and the proper procedures to be followed when authorizing and processing invoices for payment. The department should also improve the procedures for amending existing contracts to avoid confusion and misunderstanding.**
- **Provisions to prevent the same individual from both selecting and approving the contractor and authorizing payment under that contract.**

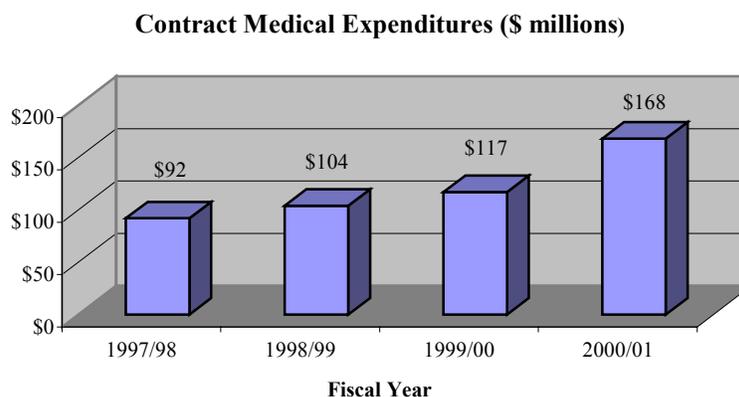
INTRODUCTION

This review of the medical contracting process was conducted in response to a complaint received by the Office of the Inspector General alleging inappropriate contracting practices between the California Department of Corrections and Newport Oncology and Healthcare, Inc., located in Fairfield, California. The purpose of the review was to ensure that the California Department of Corrections is following prescribed state contracting procedures and identify any areas of noncompliance or deficiency.

The review was conducted under the provisions of *California Penal Code* Section 6125, which established the Office of the Inspector General to provide oversight of the Youth and Adult Correctional Agency and its subordinate departments, and of *California Penal Code* Section 6126, which authorizes the Inspector General to initiate audits and investigations to identify areas of noncompliance with state policies and procedures and recommend corrective actions.

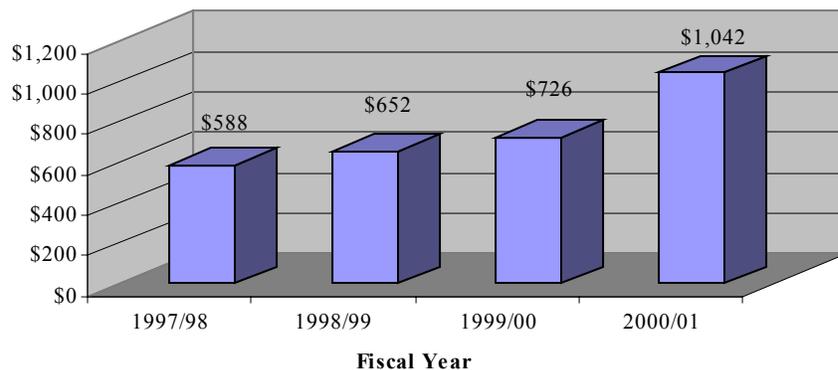
BACKGROUND

The Department of Corrections established the Health Care Services Division in 1992 to manage and oversee the delivery of health care services to state correctional institution inmates. In fiscal year 2000-01, the Department of Corrections spent \$675 million for health care services at its 33 institutions and headquarters. Of this total, \$168 million was expended on contract medical services with outside community hospitals, physicians, nurses, pharmacists, and other medical staff to obtain specialized services its own staff and facilities could not provide. In some cases, the department uses contracted staff to fill temporary staff vacancies in medical classifications where recruitment is difficult. As shown in the chart below, the total cost for contract medical services has increased significantly during the last three years, from \$92 million in fiscal year 1997-98 to more than \$168 million in fiscal year 2000-01—an increase of 82 percent.



Although the inmate population has leveled off and even declined in recent years, the average cost per inmate for contracted medical service has significantly increased, as shown in the following chart:

Contract Medical Cost Per Inmate



The Health Care Services Division is currently projecting contracted medical expenditures in excess of \$200 million for fiscal year 2001-02. According to figures provided by the Office of Budget Management, the Department of Corrections contract medical budget is only \$124 million. Unless funding can be obtained internally, the Department of Corrections will be facing a deficit of between \$70 and \$80 million.¹

Contract process for medical services. The Department of Corrections is not required to solicit competitive bids for many of its medical services. Section 5.80 of the *State Contracting Manual* exempts non-registry physicians, hospitals, medical groups, and 911 emergency ambulance calls from advertising and competitive bidding.² As a result, the majority of the medical contracts with the Department of Corrections are not the result of competitive bids.

According to the Department of Corrections, either the institution health care staff or the Health Care Services Division in Sacramento can negotiate medical service contracts. In fiscal year 1992-93, the newly created Health Care Services Division established a contract exploration and negotiations unit in an effort to reduce the department's medical costs. The unit is responsible for negotiating all hospital contracts and statewide physician contracts. For physician contracts, the Health Care Services Division established an hourly rate of \$100 as the cap for medical services compensation. If an institution receives proposals from a physician or medical group above this rate, a rate exemption request must be submitted to the Health Care Services Division to justify the higher rate of compensation. The rate exemption form includes a section for indicating whether other providers were solicited for the services, as well as for providing justification for the proposed rate. The Health Care Services Division forwards the approved form, along with additional documentation, to the department's Contract Management Branch, which writes the contract. The Contract Management Branch does not participate in the negotiation process but ensures that all of

¹ The charts do not include the cost of custody and support staff required when an inmate is sent outside the institution for treatment.

² Registry services used by the Department of Corrections include full-time nurses and lab services (such as blood and urine testing). All registry contracts require competitive bids. Some general practice physicians may work for a registry but it is not common to find specialists through a registry.

the required contract language, scope of services, and required provisions are included in the contract before forwarding it to the Department of General Services for final approval.

Problems obtaining medical professionals to work in a correctional setting. Staff at the Health Care Services Division and the institutions identified the difficulty in recruiting physicians and other medical professionals to provide services in a correctional setting as a central problem. The rural location of many institutions also makes it difficult to recruit medical staff, particularly for medical specialties not commonly located in small, rural communities. In addition, many physicians, including those in urban areas, refuse to contract with the Department of Corrections because of the location of the facilities and the low compensation rates. Because of these constraints, the Department of Corrections is in a poor bargaining position to negotiate favorable rates with hospitals, medical groups, and other medical professionals.

The California State Prison, Sacramento medical staff said that many hospitals refuse to negotiate with the Department of Corrections. For example, Mercy Hospital in Folsom previously contracted with the department to provide a variety of medical services, but now will only accept emergency patients. The medical staff interviewed by the Office of the Inspector General from both the Health Care Services Division and the institutions said they have attempted to solicit physicians and specialists to provide services, but that the candidate pool is limited and there is little interest in contracting with the Department of Corrections.

The chief medical officer at Mule Creek State Prison told the Office of the Inspector General that he located an orthopedic surgeon in Galt willing to provide onsite services to inmates for \$200 an hour. He said he then contacted a local orthopedic surgeon to compete for the services, but was quoted a rate of \$500 an hour. He contacted several other orthopedic surgeons in the Sacramento area, but none were interested in providing the services.

History of the Newport Oncology and Healthcare Medical Corporation contract. The contract with Newport Oncology and Healthcare Medical Corporation illustrates many of the problems inherent in the department's present medical services contracting methods. In the late 1990s, the California Medical Facility in Vacaville was having trouble finding physicians willing to provide on-site cancer treatment to inmates after a physician who had previously provided the on-site services left the state. The California Medical Facility had begun contracting with a local medical group, but, according to the California Medical Facility staff, was not satisfied with their services because the doctors would not provide on-site services, making it necessary for the institution to send inmates to the hospital for treatment. The medical director of the Newport Oncology and Healthcare Medical Corporation, who was a colleague of the physician who had left the state, was aware of the need for on-site services at the California Medical Facility and contacted the institution in March 1999. He subsequently negotiated a contract to provide on-site oncology services in fiscal year 1998-99. The contract was renewed for \$300,000 in fiscal year 1999-00 to cover the period January 1, 2000 through June 30, 2002. The rate of compensation negotiated for the contract was \$175 per hour. According to the provider, his original contract with the institution also provided for a minimum billing of 10 hours per visit to cover the physicians'

travel time.³ The California Medical Facility concurred with this interpretation and paid invoices submitted under this condition.

In September 1999, the Health Care Services Division contacted the Newport Oncology and Healthcare Medical Corporation medical director and requested his services for a Level IV inmate at California State Prison, Corcoran. The inmate could not be moved to the California Medical Facility for treatment because of his custody level, so the provider agreed to send a physician and nurse to California State Prison, Corcoran to provide treatment. The verbal agreement was for the services to be paid out of the California Medical Facility contract. In October 2000, in response to state senate hearings held by Senator Richard Polanco about several deaths involving cancer patients at the Central California Women's Facility, the Health Care Services Division contacted the provider again, this time to provide services to cancer patients at the Central California Women's Facility. The Newport Oncology and Healthcare Medical Corporation medical director subsequently began providing services to several other institutions under the California Medical Facility contract. The Health Care Services Division gave the provider verbal authorization to begin providing services to these institutions before amending the contract with the California Medical Facility or initiating a new contract.

In January 2001, the Health Care Services Division completed negotiations with the medical director of the Newport Oncology and Healthcare Medical Corporation on compensation and services to these and other institutions. A contract request form was submitted to the department's Contract Management Branch on January 26, 2001 to amend the existing contract with the California Medical Facility to accommodate the expanded scope of service and to increase the rate of compensation as follows:

- \$300 per hour for medical doctor oncology services
- \$60 per hour for nursing services
- \$200 per hour for tele-medicine services
- \$1,200 per week for on-call medical services

The Health Care Services Division approved the higher rates to compensate the contractor for travel, per diem, staff recruitment, and other administrative costs.

The documentation obtained during the review revealed that the Health Care Services Division proposed to amend the contract from the original \$300,000 to \$1,255,000 and to adjust the hourly rates and scope of service. However, after receiving the contract request, the Contract Management Branch recommended that the Health Care Services Division cancel the existing contract between the California Medical Facility and the Newport Oncology and Healthcare Medical Corporation and prepare a new statewide contract to accommodate the expanded scope of service and new rates. Although the contract between the California Medical Facility and the Newport Oncology and Healthcare Medical Corporation was eventually amended to add additional funds through the end of the fiscal year 2000-01, no changes were made to address the rate increase or additional services and

³ Several of the Newport Oncology and Healthcare Medical Corporation physicians traveled from southern California to the California Medical Facility to provide on-site services.

locations. The amended contract also made no mention of a 10-hour minimum visit for billing purposes.

The amended contract with the California Medical Facility was terminated effective June 30, 2001 when a new statewide contract was initiated.

The new statewide contract with the Newport Oncology and Healthcare Medical Corporation became effective July 1, 2001. It provides for up to \$50 million for onsite oncology and other services through June 30, 2004. With a three-year master contract in place, institutions using the Newport Oncology and Healthcare Medical Corporation could now initiate a notice to proceed⁴ rather than waiting for approval of the contract amendments. Institutions are not required to use the \$50 million Newport Oncology and Healthcare Medical Corporation contract, but institutions using the Newport Oncology and Healthcare Medical Corporation can do so under the umbrella contract. Nothing in the contract precludes institutions from finding and contracting for their own oncology services with another provider.

Two of the institutions visited by the Office of the Inspector General issued notices to proceed with the Newport Oncology and Healthcare Medical Corporation but indicated they would likely continue to use their existing contract with other providers for oncology services. The institutions said the notices to proceed provide them with flexibility should the need arise, but they are not obligated to use the Newport Oncology and Healthcare Medical Corporation. The current statewide contract rates with Newport Oncology and Healthcare Medical, Inc. are as follows:

- \$315 per hour for oncology/hematology services
- \$100 per hour for nursing services
- \$300 per hour for legal/medical reviews
- \$200 per hour for tele-medicine services

There is no mention in the statewide contract of a 10-hour minimum visit per physician. In addition, the Health Care Services Division negotiated a separate three-year contract with the Newport Oncology and Healthcare Medical Corporation to provide medical care to inmates requiring chronic care at Pelican Bay State Prison and the Central California Women's Facility. The contract for chronic care services is capped at \$13 million.

After the statewide contract was implemented, the Newport Oncology and Healthcare Medical Corporation medical director continued to bill for the 10 hours per institutional visit and was paid on that basis for the months of July 2001 through September 2001. In October 2001, when the provider received a check from California State Prison, Los Angeles County, for less than the invoice, he immediately contacted the institution. The staff informed him that the billing had been adjusted in accordance with the contract, which authorizes the Department of Corrections to pay only for the actual hours the physician was on grounds providing services to the inmates. The provider contends this was the first time

⁴ A notice to proceed allows the institution to use a contractor's services under a statewide contract without amending the contract.

he learned that the contract no longer provided for the 10-hour minimum per institutional visit.

While the Office of the Inspector General recognizes that the department's billing adjustments are appropriate, its timing and approach underscore the department's lack of fair and effective contract management. The issue also reflects a serious lack of communication between the institutions and the Health Care Services Division. The Newport Oncology and Healthcare Medical Corporation billing dispute led to a significant reduction in services, which could affect the effectiveness of medical care and services to inmates.

OBJECTIVES, SCOPE AND METHODOLOGY

The Office of the Inspector General was informed by the Department of Corrections that an investigation by the Office of Investigative Services of the allegations of inappropriate contracting practices between the California Department of Corrections and Newport Oncology and Healthcare, Inc. was in progress at the time of this review. The Office of the Inspector General therefore limited its review to the medical contracting process to determine whether there are deficiencies that would allow the alleged practices to occur. The Office of the Inspector General also examined contract management functions used by the department to ensure contract compliance.

The scope of the review included the following:

- Procedures for soliciting, selecting, and negotiating with medical service providers;
- The process for determining rates of compensation for Newport Oncology and Healthcare, Inc.;
- Contract monitoring and invoice approval processes for Newport Oncology and Healthcare, Inc.

The review procedures included:

- Interviews with management and staff from the Department of Corrections Health Care Services Division, Contract Management Branch, and regional accounting offices;
- Interviews with chief medical officers, contract liaisons, and health care cost and utilization analysts at several institutions throughout the state;
- Interviews with medical director and administrative personnel from Newport Oncology and Healthcare, Inc.;
- Review of the state contracting manual published by the Department of General Services for medical service contracts;
- Review of departmental policies and procedures for soliciting and processing medical service contracts;
- Review of the invoices and payments for services provided by Newport Oncology and Healthcare, Inc.; and

- Review of the Department of Corrections budget and expenditure data.

The Office of the Inspector General received excellent cooperation from the management and staff of the Department of Corrections. The review was performed at headquarters, institutions, and regional accounting offices from December 2001 to February 2002.

FINDINGS AND RECOMMENDATIONS

FINDING 1

The California Department of Corrections lacks a comprehensive statewide policy for managing its medical services contracts.

The California Department of Corrections has experienced a significant increase over the last decade in the cost of providing medical care to inmates, yet it has not developed a comprehensive statewide policy to manage its medical service contracts. In just the last three years, the cost of medical services contracts has jumped 82 percent, from \$92 million to \$168 million. Despite that increase, the department has failed to adopt comprehensive statewide policies to manage the costs while ensuring the most cost-effective care. Most significantly absent are efforts on the part of the department to recruit interested physicians in communities near state correctional institutions to provide medical services or to attempt to obtain the most cost-effective rates from physicians and other medical service providers.

Although the state exempts non-registry physicians, hospitals, medical groups, and 911 emergency ambulance calls from advertising and competitive bid requirements, there is nothing to prevent a department from using the bid process if it so chooses. Without soliciting proposals and bids from interested physicians and others in the local community, the department cannot control costs or obtain the most cost-effective medical contracts.

In addition, there is no requirement that the Health Care Services Division or institutions document attempts to procure the most efficient and cost-effective contract. The deputy director for the Health Care Services Division or the chief medical officer or equivalent at an institution can select and approve a contract without an independent review of solicitation, selection, and negotiation efforts. There is no review to ensure that all available medical providers had the opportunity to compete on the contract or that the most effective and efficient contractor was selected. The review revealed that although there is no requirement to do so, some institutions do attempt to solicit medical service providers but find it difficult to establish a large candidate pool.

The difficulty in soliciting proposals from physicians is compounded by the requirement that institutions must obtain departmental approval for proposals exceeding \$100/hour. To get that approval, an institution must demonstrate that the rate is justified and indicate whether other alternatives were considered. Neither the institution nor headquarters is required to take into account the added cost of custody and support staff if an inmate must travel outside the institution for medical care. Consequently there is no universal formula for weighing proposals to compare cost effectiveness of inside versus outside medical services. Were those additional costs to be included in the base rate, the \$100/hour rate for on-site services might appear to be even more unrealistic.

The Department of Corrections has not reevaluated the \$100-per-hour rate ceiling since it was established in 1992. Currently the only way the department can approve a higher rate is by getting a waiver from the Health Care Services Division. California's geographic size and wide variables in living costs would suggest that medical service providers in different parts of the state would charge different rates depending on locale.

RECOMMENDATIONS

The Office of the Inspector General recommends that the Department of Corrections adopt statewide policies and procedures for contract management, including but not limited to advertising and soliciting proposals and awarding, monitoring, and enforcing contracts to provide cost-effective medical services to inmates. The policies and procedures should include the following:

- **A requirement that institutions advertise the need for medical service providers and solicit proposals from the local medical community near institutions seeking the services.**
- **A requirement that institutions document their efforts to advertise and solicit proposals before approving any contract. This would lessen the potential for abuse in the state contracting process and enhance the department's ability to secure cost-effective contracts from physicians and other providers in areas adjacent to institutions.**
- **Implementation of a statewide survey every three to four years to determine what constitutes a reasonable hourly fee for various medical specialties in selected regions of the state. The results of this survey can be used to develop reasonable contract amounts for specific services in different geographical regions.**
- **A requirement that the cost of custody and support staff be included in calculations of the cost of providing medical care to inmates outside an institution and that the cost be applied in developing a "reasonable" rate for care inside the institution.**

FINDING 2

Lack of sound contract management by the Department of Corrections resulted in payments of more than \$77,000 for clinical services not performed and of more than \$1 million for services not authorized under a California Medical Facility contract with an outside physician.

A review of the contract and payments to the Newport Oncology and Healthcare, Inc. revealed that the Department of Corrections overpaid the group \$77,000 for services not rendered in addition to more than \$1 million for services not covered by the contract. The discrepancies can be attributed in part to the department's lack of sound contract management.

As explained in the background section of this report, the original contract with Newport Oncology and Healthcare was interpreted as providing that physicians would be compensated for a minimum of 10 hours for each institution visit. The new statewide contract negotiated between the Health Care Services Division and Newport Oncology and Healthcare, however, did not include the 10-hour minimum requirement. The review found

that, because of confusion over the requirement, some institutions reimbursed the contractor for the amounts billed without regard to the actual hours spent providing the services. As a result, the contractor was reimbursed for services not provided. For example, California State Prison, Corcoran authorized all invoices submitted for payment from July 1, 2001 through September 30, 2001 without validating the time physicians and nurses had actually spent providing clinical services to inmates. The staff told investigators that the review process was implemented in October 2001 when they realized the contractor had not been on the grounds for the hours billed. When questioned as to whether they planned to recover the previous over-billings, the staff said they did not have the records available to make such an adjustment. However, the Office of the Inspector General was able to obtain the sign-in log sheets and found significant discrepancies between the log and the hours billed by the contractor. The review revealed that the department overpaid the contractor \$77,000 for services not rendered. It should be noted that the Office of the Inspector General found that the staff at San Quentin State Prison did perform reviews and took corrective action before making payments to the medical providers.

A review of the accounting records showed that payments to Newport Oncology and Healthcare were authorized by the former deputy director for the Health Care Services Division and were paid by the State Controller's Office under the California Medical Facility contract in the amount of \$1,026,233. Although the Health Care Services Division gave verbal authorization to Newport Oncology and Healthcare to provide services to these locations, the contract was never amended to include the rate adjustments or additional services. These payments, therefore, did not meet contract requirements.

The chart below lists the categories and amounts paid to Newport Oncology and Healthcare under the California Medical Facility contract for fiscal year 2000-01.⁵

Type of Service	Staff	Institution	Rates	Amount Paid
Oncology	Physician	CCWF	\$300 per hour	\$ 176,385
Oncology	Physician	Corcoran	\$300 per hour	146,565
Oncology	Physician	CIW	\$300 per hour	2,985
Oncology	Physician	CVSP	\$300 per hour	2,985
Oncology	Physician	NCWF	\$300 per hour	2,985
Oncology	Nursing	CCWF	\$100 per hour	35,905
Oncology	Nursing	Corcoran	\$100 per hour	56,318
Medical/Legal Review	Physician	Various	\$300 per hour	29,300
Internal Medicine	Physician	CCWF	\$200 per hour	259,850
Emergency Room	Physician	CCWF	\$200 per hour	126,912
On Call Coverage	Physician	CMF/COR/CCWF	\$1200/week/Inst	76,458
Telemedicine	Physician	Various	\$200 per hour	1,194
Chemo Drugs	Physician	Corcoran & CCWF	Cost plus 10%	108,391
Totals				\$ 1,026,233

⁵ The chart does not indicate how much of the total amount paid reflected a 10-hour minimum charge per visit.

When investigators questioned a member of the department accounting staff about why the payments were made, the employee said she was not aware the rates had exceeded the contract amount or that the contract did not allow for services at other institutions. Although she had a copy of the approved contract, she said she did not review the invoice for contract compliance. She simply checked to ensure that the invoices had the appropriate approvals from the Health Care Services Division—a procedure that does not comply with *State Administrative Manual*, Section 8422.1.

One factor contributing to the inconsistencies statewide is lack of training for institution staff. Several health care cost and utilization analysts interviewed said the training has been significantly reduced or cancelled entirely because of lack of training funds. While training may be an issue, supervisors and staff responsible for contract compliance should be aware of their responsibilities before signing and authorizing invoices for payment.

RECOMMENDATION

The Office of the Inspector General recommends that the Department of Corrections establish tight controls to ensure compliance with provisions in a given contract, including monitoring and authorizing payments covered by contracts. The controls should be enhanced by providing special training in contract language and management to staff responsible for authorizing payments. The department should also strengthen its procedures for amending existing contracts to avoid confusion and misunderstandings.

FINDING 3

The contracting process of the Department of Corrections is vulnerable to potentially serious conflicts of interest because the person selecting the contractor is also authorized to approve invoices and payments under the contract.

The chief medical officer or equivalent at an institution or the deputy director at the Health Care Services Division can select and approve a contract without an independent review of solicitation and negotiation efforts. The person selecting and approving the contract may also authorize the invoices for payment. Without an independent review of the documentation supporting the contractor's selection before the authorization of service, the department may not be receiving "best value" and may open itself to potential employee misconduct.

For example, the former deputy director for the Health Care Services Division selected the medical director of the Newport Oncology and Healthcare Medical Corporation to provide oncology services at several other institutions in addition to the California Medical Facility, which had an existing contract. No other medical providers were solicited for this extended service. When the invoices were received from the provider, the former deputy director authorized payment. That activity raised suspicions that the former deputy director was benefiting from the contract. The Office of the Inspector General found no evidence to suggest impropriety in this instance, but the current process does not prevent improprieties from occurring in the future.

RECOMMENDATION

The Office of the Inspector General recommends that the Department of Corrections include in its contracting policies provisions for preventing the same individual from selecting and approving a contractor and also authorizing payment by approving invoices under that contract.

FINDING 4

The current deficiencies in the department's contracting process may lead to problems in the quality and continuity of inmate medical care.

The lack of sound contract management at the Department of Corrections has led to concerns about using existing contractors. This in turn may interfere with inmates receiving the medical care they need. The problem is particularly acute for cancer patients, for whom continuity of care is vital.

Because of the convoluted contracting process and subsequent billing dispute with the Newport Oncology and Healthcare Medical Corporation, many institutions are refusing to use Newport Oncology and Healthcare Medical Corporation's services. Both California State Prison, Solano and California State Prison, Corcoran have notified the medical director of the Newport Oncology and Healthcare Medical Corporation that they intend to terminate their notice to proceed with the Newport Oncology and Healthcare Medical Corporation. In one instance, the provider found it necessary to document the termination to avoid any appearance of patient abandonment. Although an inmate may receive scheduled treatments from someone else, the continuity of care has been disrupted.

Interviews with the Health Care Services Division and institution medical staff indicate that the care provided by Newport Oncology and Healthcare Medical Corporation physicians and nurses has been of high quality and that any disagreements with the Newport Oncology and Healthcare Medical Corporation center on compensation rates and billing practices, not quality of care. As a result of the contract issues, institutions are now soliciting others to provide the specialty medical services previously provided by the Newport Oncology and Healthcare Medical Corporation.

RECOMMENDATION

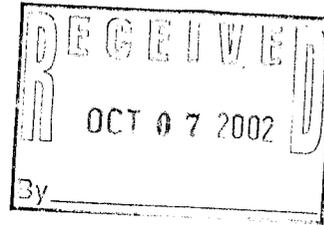
The Office of the Inspector General recommends that the Department of Corrections take whatever interim steps are needed, pending resolution of contract issues, to ensure that inmates receive good quality, needed medical care without interruption due to contract problems.

ATTACHMENT A
RESPONSE OF THE DEPARTMENT OF CORRECTIONS

Memorandum

Date : October 2, 2002

To : John Chen
Chief Deputy Inspector General
Office of the Inspector General
801 K Street, Suite 1900
Sacramento, CA 95814



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INSPECTOR GENERAL
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Subject: **CALIFORNIA DEPARTMENT OF CORRECTIONS (CDC) RESPONSE TO THE SPECIAL REVIEW OF THE MEDICAL CONTRACTING PROCESS**

Attached is the response to *The Special Review of the Medical Contracting Process* which was prepared by the Health Care Services Division, California Department of Corrections (CDC). Thank you for the opportunity to submit the Department's input for incorporation into the Office of the Inspector General (OIG) report.

If you have any questions, please contact Frank A. Nissen, Assistant Deputy Director (ADD), Program Support and Evaluation, (PS&E) at (916) 324-8858.


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Attachment

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**RESPONSE TO THE INSPECTOR GENERAL
SPECIAL REVIEW OF THE MEDICAL CONTRACTING PROCESS**

**HEALTH CARE SERVICES DIVISION
CALIFORNIA DEPARTMENT OF CORRECTIONS**

Finding 1: The California Department of Corrections lacks a comprehensive statewide policy for managing its medical services contracts.

The California Department of Corrections (CDC) agrees with this finding. However, at this time, the Department has insufficient resources to implement a statewide policy.

The CDC disagrees with the Office of the Inspector General (OIG) report which states, *“Most significantly absent are efforts on the part of the department to recruit interested physicians in communities near state correctional institutions to provide medical services or to attempt to obtain the most cost-effective rates from physicians and other medical service providers.”* Institutions routinely seek contracts with local providers. In addition, all contracts are required to include a Standard 15 Contract Transmittal which includes, under Section 13, a summary of bids or, under Section 15 “ ... the basis for concluding reasonableness of contract rate or price.” Furthermore, as noted in the OIG report, the Health Care Services Division (HCSD) has established a Request for Medical Rate Exemption process which requires the HCSD to review and approve any contract request for a physician above \$100 per hour. Last, the HCSD has always attempted to secure the most cost-effective master hospital contracts through the solicitation process and rates negotiations.

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Recommendations: The Office of the Inspector General recommends that the Department of Corrections adopt statewide policies and procedures for contract management, including but not limited to advertising and soliciting proposals and awarding, monitoring, and enforcing contracts to provide cost-effective medical services to inmates.

The Department agrees that there is a need for statewide policies and procedures to include the above and more. However, without additional resources, implementation of such plans is not possible.

The policies and procedures should include the following:

- **A requirement that institutions advertise the need for medical service providers and solicit proposals from the local medical community near institutions seeking the services.**

As noted above, this is already done to the extent that a Standard 15 is required for all contracts, and, therefore, institutions must engage in researching potential vendors. Three years ago, the Department initiated “centralized contracting.” As a result, institutions are currently required to submit all contract requests for services over \$5,000 to the Institution Contracts Section (ICS). They are to provide, along with that request,

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information regarding local providers. It is the responsibility of ICS to advertise for the service and to ensure that local community providers are afforded the opportunity to submit bids. In addition, the CDC is currently in the process of changing the bid design to allow local community providers to bid for single institutions only. This will encourage continued participation by local providers. A standard requirement that institutions advertise for all medical specialties may not be appropriate and/or cost efficient in all cases. For example, advertising in small rural settings for specialties such as cardiology or neurology may result in no response.

- **A requirement that institutions document their efforts to advertise and solicit proposals before approving any contract. This would lessen the potential for abuse in the state contracting process and enhance the department's ability to secure cost-effective contracts from physicians and other providers in areas adjacent to institutions.**

Institutions already document their solicitation efforts as proof of the three bids required by the Department of General Services (DGS). However, as indicated, there are no policies and procedures in place that standardize solicitation and documentation efforts. The CDC agrees that standardizing these efforts would result in improvements in its contracting practices and, potentially, cost efficiencies as well. However, to do so will require additional resources.

- **Implementation of a statewide survey every three to four years to determine what constitutes a reasonable hourly fee for various medical specialties in selected regions of the state. The results of the survey can be used to develop reasonable contract amounts for specific services in geographical regions.**

The HCSD has already identified a need to revise the \$100 rate exemption threshold and is presently working on the project plan to develop reasonable rates based on geographic regions and specialty. Although the HCSD has been aware of the need to review this threshold for some time, it has not had sufficient resources for this purpose. Final development of an updated threshold will be contingent on resource availability.

- **A requirement that the cost of custody and support staff be included in calculations of the cost of providing medical care to inmates outside an institution and that the cost be applied in developing a "reasonable" rate for care inside the institution.**

The Department is in the process of identifying standard costs for medical guarding and transportation based on distance, custody level, number of inmates, etc. The Department plans to use these standards as part of a comprehensive cost analysis of health care contract bids/proposals and the basis for establishing reasonable rates and awarding contracts.

Finding 2: Lack of sound contract management by the Department of Corrections resulted in payment of more than \$77,000 for clinical services not performed and of more than

\$1 million for services not authorized under a California Medical Facility (CMF) contract with an outside physician.

The Department agrees with this finding. There was confusion regarding the terms of the Newport Oncology that resulted in the overpayments.

Recommendation: The Office of the Inspector General recommends that the Department of Corrections establish tight controls to ensure compliance with provisions in a given contract, including monitoring and authorizing payments covered by contracts. The controls should be enhanced by providing special training in contract language and management to staff responsible for authorizing payments. The department should also strengthen its procedures for amending existing contracts to avoid confusion and misunderstandings.

The HCSD will need to examine existing practices and determine what policies and procedures should be established. It is agreed that training of contract monitors in contract language and management needs to occur but will require additional resources. The HCSD is already working towards instituting and amending contracts that appropriately reflect actual services. Establishing controls to ensure compliance, including payment monitoring and authorization cannot be achieved without additional resources.

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Finding 3: The contracting process of the Department of Corrections is vulnerable to potentially serious conflicts of interest because the person selecting the contractor is also authorized to approve invoices and payments.

The Department agrees that there is a potential conflict of interest due to the fact that the Chief Medical Officer in the institution is responsible for authorizing contracts as well as final approval of invoices. Furthermore, as noted in the OIG report, the HCSD Deputy Director is responsible for approving health care headquarters' contracts, and may act as the authority for approving invoice payment

Recommendation: The Office of the Inspector General recommends that the Department of Corrections include in its contracting policies provisions for preventing the same individual from selecting and approving a contractor and also authorizing payment by approving invoices under their contract.

The Department will need to examine its current practice to determine what policies and procedures to implement. In some instances, contract selection and approval, and payment authorization is delegated to other staff.

Finding 4: The current deficiencies in the department's contracting process may lead to problems in the quality and continuity of inmate medical care.

The OIG cites as an example CSP-Solano and CSP-Corcoran terminating oncology services from Dr. Atiba, which resulted in a disruption in the continuity of care. It is not clear that the

termination of the Newport contract resulted in a disruption that was particularly detrimental. Additionally, the OIG indicates that there was general high satisfaction with Dr. Atiba's services. Based upon its own survey CDC does not necessarily agree with this observation.

Recommendation: The Office of the Inspector General recommends that the Department of Corrections take whatever interim steps are needed, pending resolution of contract issues, to ensure that inmates receive good quality, needed medical care without interruption due to contract problems.

The CDC agrees with this recommendation and currently makes every attempt to ensure continuity and quality of medical care. To that end, there are often multiple contracts in place for the same service to ensure that options exist. However, it is not possible to eliminate all potential contract interruptions. For example, the extended lack of a budget during the current fiscal year resulted in a number of vendors threatening to cease services. It would have been extremely difficult for the Department to immediately find alternatives if any or all of the medical vendors had terminated their services.

ATTACHMENT B
COMMENTS OF THE OFFICE OF THE INSPECTOR GENERAL

**COMMENTS OF THE OFFICE OF THE INSPECTOR GENERAL ON THE
RESPONSE OF THE DEPARTMENT OF CORRECTIONS TO THE DRAFT REPORT**

The following comments by the Office of the Inspector General correspond to circled numbers in the response of the Department of Corrections.

1. The Office of the Inspector General visited six institutions and requested documentation of their solicitation efforts. In all cases the documentation was not available. Although the lack of documentation does not mean that the solicitation did not occur, it does raise questions about what efforts were made and whether they were sufficient. In addition, the department does not require three bids for the majority of medical contracts. For example, the \$50 million statewide contract with Newport Oncology and Healthcare, Inc. was not competitively bid. For that contract, the Department of Corrections negotiated solely with one medical provider. The same provider was also the only contractor involved in the negotiation of the \$13 million statewide contract for chronic care services at the Central California Women's Facility and Pelican Bay State Prison.

2. The Office of the Inspector General found that some institutions are already doing an effective job of monitoring their contracts with existing resources. At San Quentin, for example, the health care cost and utilization analyst developed an effective process for monitoring contractors. The Health Care Services Division should explore the feasibility of adopting similar processes at the other institutions, including those that presently have no means of monitoring contracts.