North Carolina Department of Correction

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Michael F. Easley
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MEMORANDUM

TO: Representative R. Phillip Haire
Senator Eleanor G. Kinnaird
Representative Joe L. Kiser
Senator John J. Snow, Jr.

FROM: Tracy A. Little, Deputy Secretary

RE: Health Care Cost Containment Report
(S.L. 2005-275, Section 17.15)

DATE: January 31, 2007

Pursuant to Section 17.15 of Session Law 2005-275, please find attached the Department of Correction's report on health care cost containment efforts.

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Attachment

cc: Jim Mills
Sheryl Stephens

DIVISION OF PRISONS
NORTH CAROLINA DEPARTMENT OF CORRECTION

HEALTH CARE COST CONTAINMENT

[SECTION 17.15 OF S.L. 2005-276]

January 2007

Theodis Beck
Secretary

Boyd Bennett
Director of Prisons

Session Law 2005-276
Section 17.15

STUDY COST CONTAINMENT OF INMATE HEALTH CARE

SECTION 17.15.(a) The Department of Correction shall study and develop new approaches to reducing the cost of inmate medical services while continuing to provide services necessary to maintain basic health and provide adequate care. In its study, the Department shall consider and report on all of the following:

(1) Methods to decrease the cost of services charged by external medical providers for medical, dental, psychiatric, and other health care services provided to inmates under the custody of the Department of Correction.

(2) The feasibility of a negotiated reimbursement rate for medical services provided by hospitals and other health care providers that does not exceed the rate paid for the same or similar service or diagnostic-related grouping under the (i) Teachers' and State Employees' Comprehensive Major Medical Plan (State Health Plan), (ii) the Medicaid rate, or (iii) other negotiated reimbursement rates.

(3) The potential cost savings to be derived from contracting with a third-party administrator to handle claims and utilization management for external health care delivery expenditures to inmates.

(4) The progress of attempts by the Department of Correction to renegotiate provider reimbursement rates.

(5) The progress made by the Department of Correction in reducing inmate medical costs by further regionalization and consolidation of hospital and physician services and by cost cutting efforts carried out by new inmate medical personnel funded for the 2005-2007 fiscal biennium.

(6) The potential cost/benefit of reducing the number of contract medical personnel and replacing contract staff with permanent Department of Correction medical positions.

(7) The feasibility of partnering with The University of North Carolina Health Care System to provide a managed health care system for inmates.

SECTION 17.15.(b) The Department of Correction shall consult with the Executive Administrator of the State Health Plan, The University of North Carolina Health Care System, and organizations representing medical providers in its efforts to control the cost of medical services for prisoners and to address any issues of concern regarding the provision and administration of inmate medical care.

SECTION 17.15.(c) Notwithstanding G.S. 143-23, if the Department of Correction is unable to achieve the total reduction amount of four million six hundred thousand dollars ($4,600,000) specified in this act for reducing hospital and physician services line items, the Department of Correction may use salary and nonsalary funds from other programs to attain these reductions. The Department of Correction shall report by April 1, 2006, to the Chairs of the House and Senate Appropriations Subcommittees on Justice and Public Safety and to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee on its efforts to achieve the reduction amount and identify the amount and source of funds for any portion of the reduction that is taken from noninmate medical line items.

SECTION 17.15.(d) The Department of Correction shall issue a report detailing its initial study findings to the Chairs of the House and Senate Appropriations Subcommittees on Justice and Public Safety and to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee by April 1, 2006, and present a final report by December 2006 to the General Assembly.

INTRODUCTION

The Division of Prisons is responsible for the housing and supervision of more than 37,000 inmates in the Department of Correction. The Division has complete responsibility for the medical, dental and mental health needs of this population. In an effort to meet the health care needs of this population, DOP offers medical treatment for routine services inside its facilities and provides access to hospitals and specialists for other services.

Within two weeks of admission, each inmate receives a physical and mental health assessment that identifies medical history, current health problems, prescription medications and other health information. Following the assessment, DOP assigns each offender an acuity level. The acuity level is used to assure appropriate assignment to a facility that will be able to meet health care needs identified during the assessment.

The Division of Prisons employs a full complement of health care providers in its Health Services section. Providers include doctors (including psychiatrists), dentists, nurse practitioners, physician assistants, psychologists, pharmacists/pharmacy technicians, and social workers who spend anywhere from one to five days per week at each of the state's prisons--dependent on the acuity level of the inmates housed there, size of the facility and the mission of the facility. Nursing services are provided a minimum of eight hours per day at all prisons and some units may have 24-hour nursing coverage. Inmates who are too sick to be cared for at a particular prison facility may receive care at Central Prison or from external hospitals and specialty providers.

Over the past four years, DOC health care expenditures have increased by more than 18 percent. The main cost drivers continue to be the rising number of inmates, increased external health care costs, a larger number of older inmates and a higher incidence of mental illness and chronic diseases among the inmate population.

Actual costs for inmate health care for FY 2005-06 exceeded $196 million, while the certified budget for the fiscal year was only $156 million. As a result, the Department spent $40 million in salary and nonsalary-related funds to bridge the gap. In addition, the General Assembly approved a $15 million special appropriation to help cover additional unanticipated deficits in utility and health care costs.

The Department of Correction continues to review, refine and add innovative ways to contain these costs, while still providing appropriate quality health care to the inmate population. Despite the Department's best efforts, however, the Department expects the certified medical budget for FY 2006-07 will be insufficient to pay for actual medical costs.

NEW APPROACHES TO REDUCE COSTS

(1)Methods to decrease the cost of services charged by external medical providers for medical, dental, psychiatric, and other health care services provided to inmates under the custody of the Department of Correction.

The Health Services section is comprised of five major areas: medical, dental, mental health, prescription drugs and nursing. Pursuant to the legislative mandate, each of these section leaders identified their specific services, external costs associated with the provision of these services and possible initiatives to contain costs. The Department implemented several of those initiatives, including:

- Enhancements to a statewide utilization review (UR) process whereby most consultations, procedures and nonformulary medications require pre-authorization before they can be done or used;
- Closer monitoring by the UR section of all outside hospitalizations to include some onsite case management;
- Use of a strict, monitored and regularly-updated formulary;
- Continuous attempts to negotiate favorable contractual terms with external specialists and hospitals;
- Implementation and expansion of a nurse triage and regional physician on-call system to avoid unnecessary ER visits and assure the provision of appropriate care in units after hours;
- Establishment of hubs of prison units in close proximity for better and more efficient utilization of our resources and personnel;
- Stricter monitoring and review of prescription drug usage;
- Development of disease-specific treatment guidelines which give recommended first-line therapy and appropriate disease management options;
- Requirement that all nonformulary medication requests have prior approval before dispensing;
- Development and use of standardized equipment and supply lists for each prison facility based on acuity level of facility;
- Development of staffing standards based on population, acuity and mission of the facility;
- Review of all DOC facilities that provide specialty care and house chronically ill inmates to determine if these locations are best locations;
- Review of all DOC facilities to assure Health Services' policies and procedures are followed;
- Identification of potential service providers statewide with whom DOP might be able to establish a favorable contractual relationship; and
- Establishment of secure wards in local hospitals (currently at Catawba Valley Hospital.

In addition, DOP looked at ways to improve data collection and input into its health services databases. Due to a lack of integrated data, it often is difficult to capture accurate data regarding external health costs and to compare rates for similar procedures and services. Suggested improvements under consideration include automation of claims management, revising contract language to help standardize data collection, requiring certain standard information on future claims, and identifying appropriate coding changes/additions to make it easier to compare rates.

(2) The feasibility of a negotiated reimbursement rate for medical services provided by hospitals and other health care providers that does not exceed the rate paid for the same or similar service

or diagnostic-related grouping under the (i) Teachers' and State Employees' Comprehensive Major Medical Plan (State Health Plan), (ii) the Medicaid rate, or (iii) other negotiated reimbursement rates.

DOC has worked diligently to analyze the feasibility of a negotiated reimbursement rate tied to the State Health Plan or the Medicaid rate. Because SHP rates are proprietary, however, DOC has no way to compare SHP rates with current DOP contractual rates. As a courtesy, SHP agreed to analyze a small sample of DOC inpatient and outpatient inmate claims using SHP rates. Based on this sampling, SHP estimated an additional savings of 27 cents could be recognized for every dollar spent by DOC. Although the sample size was not large enough to forecast savings based on SHP rates, it was sufficient to determine that savings could be realized. SHP representatives estimate that a meaningful comparison of DOC rates and SHP rates would have to be done by a third-party actuary at a cost of approximately $15,000; DOC is pursuing the more extensive actuarial comparison.

As for a negotiated rate tied to the Medicaid rate, challenges exist. DOC continues to have no leverage to require a provider to accept the Medicaid rate, absent legislation that requires providers to accept the rate. Statutory changes may be needed to achieve a negotiated rate tied to the State Medicaid rate.

(3) The potential cost savings to be derived from contracting with a third-party administrator to handle claims and utilization management for external health care delivery expenditures to inmates.

DOC has determined that an evaluation must be done to determine whether cost savings could be realized by contracting with a third-party administrator to handle claims and utilization management for external health care services for inmates. The Department has issued a Request for Information (RFI) for claims and utilization management; the deadline for responses to the RFI is March 16, 2007.

In addition, the RFI requests information regarding the development and maintenance of a statewide integrated health care delivery system that augments the Department's resources.

(4) The progress of attempts by the Department of Correction to renegotiate provider reimbursement rates.

DOC continues its efforts to negotiate more favorable contract rates each time a contract comes up for renewal. Unfortunately, DOC lacks leverage during the negotiation process and has been unable to make significant progress in achieving cost savings. Significant issues include:

- The inmate patients are viewed as undesirable or security risks that may deter other paying or public clientele from a particular specialist or hospital;
- The geographic locations of the prisons affect the availability of hospitals and other medical providers; and
- Increasing health care costs nationally have led many providers to have no incentive to negotiate more favorable contract rates.

In addition, DOC often is outmanned in the negotiation process as health care providers use lawyers and other seasoned professionals to represent their interests. To counter this challenge, the Department has issued a Request for Quotes for an experienced professional to assist in the negotiation and procurement of agreements for inmate health services; the deadline for responses is February 15, 2007. The RFQ requests five or more years of experience with hospital administration, large health care providers, large health care carriers or government contracting.

(5) The progress made by the Department of Correction in reducing inmate medical costs by further regionalization and consolidation of hospital and physician services and by cost cutting efforts carried out by new inmate medical personnel funded for the 2005-2007 fiscal biennium.

Health Services is trying to develop a network of hospitals and specialists in each custody region. A network will allow DOC to divert care from more expensive non-contracted providers and decrease inmate movement. DOP Health Services, Purchasing and Accounting work closely to try and get the best rates for specialty services and hospital contracts; negotiations are ongoing.

The 2005 budget established eight positions related to health services: six medical records clerk positions in Health Services and two audit positions in the DOC Controller's Office. The six medical records clerks provide services at various prison facilities, thereby allowing nursing personnel to perform nursing duties and not clerical work. The two audit positions included a utilization review nurse supervisor and an accountant. The utilization review nurse will recommend changes in policy; conduct research and assessment of codes and procedures; develop criteria for claims adjudication; and perform clinical reviews. Meanwhile, the accountant will be responsible for cost analysis on all health care contracts. The utilization review nurse supervisor position has been advertised, but did not attract applicants with the requisite skill set due to the classification and salary offered; that position has been reposted. The accounting position currently is vacant, but the Department is in the process of interviewing for the position.

The 2006 budget established one additional medical claims management position. The Department is in the process of establishing the position as an Administrative Officer II that will be responsible for developing and improving policy, services and procedures to enhance the efficiency of the claims management process.

(6) The potential cost/benefit of reducing the number of contract medical personnel and replacing contract staff with permanent Department of Correction medical positions.

During FY 2005-06, the Division of Prisons completed the conversion of six contracts into four permanent state positions for a total savings of $53,064. The Office of State Budget and Management also approved the conversion of an additional 15 full-time and 2 part-time contractual positions into 12 permanent state positions; that conversion now is complete and is expected to generate a total savings of $37,682. The Health Services Section continues to consider the conversion of other contract positions and expects to recommend more conversions in pharmacy and mental health by the end of the current fiscal year.

(7) The feasibility of partnering with The University of North Carolina Health Care System to provide a managed health care system for inmates.

DOC met with representatives from the UNC Health Care System to discuss the possibility of a partnership to provide a managed health care system for inmates. During those discussions, UNC Health Care executives indicated that it is not feasible to pursue a partnership with DOC due to current bed capacity and physician appointment schedule limitations. However, UNC Health Care executives suggested they may be able to provide specialty services at some local hospitals affiliated with UNC Health Care if DOC is able to contract with the respective local hospitals. DOC anticipates further discussion with UNC Health Care in 2007.

II. CONSULTATION

DOC has consulted with representatives from the State Health Plan, the University of North Carolina Health Care System and the North Carolina Hospital Association regarding the provision of inmate medical care. DOC also has consulted with other states in an effort to find innovative ways to decrease health care costs.

The staff of the State Health Plan has been very cooperative with DOC's cost containment efforts. In addition to analyzing a small sample of DOC claims, SHP identified several potential cost-saving opportunities that could benefit DOP's cost containment efforts. DOC is in the process of evaluating the feasibility and potential cost savings to be generated from SHP's suggestions.

DOC will continue to consult with external organizations and entities that may be able to assist the Department with cost-containment efforts. These consultations have been insightful and may lead to some additional initiatives that will help contain costs and improve health care delivery.

CONCLUSION

The Department of Correction will continue to seek ways to contain rising health care costs. However, many significant cost drivers--such as the growing inmate population, the rising cost of health care nationwide and the greater incidence of chronic diseases and mental illness within the inmate population—are outside the Department's control. Despite these facts, the Department continues to provide quality health care for the inmate population while seeking innovative ways to reduce those costs that are within its control.