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BILL ANALYSIS

Senate Fiscal Agency

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House Bill 4573 (Substitute S-1 as reported)**Sponsor: Representative Lynn Owen****House Committee: Social Services & Youth****Senate Committee: Human Resources and Senior Citizens****Date Completed: 12-5-88****RATIONALE**

The Department of Social Services often requires providers to have prior authorization before dispensing medical services or supplies. Recently, it has been suggested that the Department has been lax in responding to providers who seek prior authorization. It has further been suggested that these lapses in departmental response were due in part to a lack of staff people available to respond to inquiries. The Department's staffing levels have recently increased; however, some think that the Department could still respond more promptly to authorization requests for medical services, equipment and supplies. It is felt that the Department should routinize its prior authorization system to expedite the process.

CONTENT

The bill would amend the Social Welfare Act to establish in statute the procedures by which providers request prior authorization before dispensing medical services or supplies; specify deadlines for the approval or disapproval of those requests; and require the implementation of an automated record system for prior authorization requests.

Specifically, the bill provides that if the Director of the Department of Social Services required prior authorization for medical services or equipment, a request by a provider for prior authorization would have to be approved or rejected within 15 working days after the request was received by the Director. If additional information were needed to support the prior authorization request, the Director would have to request the information either verbally or in writing not later than 15 working days after receiving the prior authorization request, and upon receiving the necessary information, would have to approve or deny the completed request not later than 10 working days after receiving the additional information. These time limits would not apply, however, to prior authorization requests for transplantation and other extraordinary services. The Director could waive the requirement for prior authorization if processing a request for prior authorization would prolong an inpatient hospital stay, or if the cost of the medical services or equipment were less than the estimated cost of the additional inpatient hospital stay.

The Director would have to prescribe the information that would be required from a provider to support a request for prior authorization, and the services or equipment subject to prior authorization, and list, by category, the medical services or equipment. Claims for routine, ordinary medical services, equipment or supplies would not be

subject to prior authorization. The Director would be requested to establish a reimbursement system for medical services or equipment receiving prior authorization based upon reasonable cost up to a maximum reimbursement screen of acquiring the medical service or equipment. The Director also would be required to develop an automated payment system including at least fee screens and necessary edits. The bill would require the Department to make vendor payments through the automated payment system. The Director would be required to implement and maintain automated records of approved prior authorization requests according to each recipient involved, not later than 180 days after the effective date of the bill.

The bill specifies that it would not authorize the provision of any medical services, supplies, or equipment that were not otherwise designated to be covered services, supplies, or equipment under the Act. The bill would define the term "prior authorization" to mean a requirement imposed by the Director, by which any claim for a particular covered medical service or equipment was payable only if the Director's approval for the provision of that service or equipment were given before the service or equipment was furnished.

MCL 400.111j

FISCAL IMPACT

Dependent upon the interpretation and possible responses to particular provisions of this bill, the State could potentially experience an indeterminate increase in GF/GP expenditures.

Section 111J(2) appears to preclude the use of prior authorization for "routine, ordinary medical services or equipment...and claims for medical supplies". A review of Federal statute, committee reports and other interpretations find the requirement that each state establish a surveillance and utilization control program. A recognized component of such a program is prior authorization. While the primary thrust of prior authorization is to reduce the excessive use of costly services, it is also seen as a means of controlling abusive practices by recipients, e.g., "doctor shopping", and providers, e.g., "routing x-rays", both of which might be classified as routine or ordinary medical services. Aside from the fact that a literal interpretation of this subsection could eliminate a tool for the Department to use against such abuse, with a resultant increase in costs, there is also the possibility that the Department of Health and Human Services could find the State in noncompliance or only partial compliance with the Surveillance and Utilization

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Review mandate. Such a finding could result in a loss or reduction in Federal funds participation.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

Finally, while Sec. 111J(1) specifically states the time lines the Department would have to meet for the prior authorization process, it is not explicit as to what would happen if these limits were not met. While the Department has expressed the belief that it could meet these deadlines in most cases, it should be noted that if an interpretation is made that failure to meet these guidelines would result in a presumed approval of the request, then the State could be exposed to potentially increased costs for not meeting these guidelines regardless of the reasons.

ARGUMENTS

Supporting Argument

Routinization can often make procedures easier to follow and programs run more smoothly. The Department of Social Services is attempting to make as many systems routine as appropriate. It is felt that the Department should routinize the prior authorization system in order to expedite the process. In addition, it is felt that the 15-day standard of promptness is fair and would assure that requests for services through the prior authorization system were still reviewed efficiently. It is obvious that some sort of parameter is necessary given previously experienced delays of up to two or three months for authorization of medical equipment.

Response: Staffing freezes and unexpected employee turnover have a direct impact on the Department's processing efficiency. Since processing prior authorization requests is a specialized function within the Department, it is not possible to transfer existing staff when vacancies occur. Therefore, promptness standards imposed by the bill could be difficult, if not impossible, to follow in some cases.

Opposing Argument

The proposed exemption from prior authorization requirements could increase the costs of the program immensely. Under the bill, an exemption could be allowed if processing a request for prior authorization would prolong an inpatient hospital stay. Although this may be designed to allow recipients of services to be discharged if a simple piece of equipment were delaying their discharge, taken to its extreme the bill would exempt all services and equipment from prior authorization requirements when a recipient was in the hospital, because the time taken to process an authorization could be looked upon as a delay. Prior authorization requirements should be lifted if doing so would enable a person waiting for a simple piece of equipment to be discharged from the hospital without delay, but lifting these requirements for all hospital discharges, which some argue could be the practical effect of the bill, could result in a tremendous increase in costs to the State.

Since many hospitals own their own medical supplies companies, home health services and outpatient therapy programs, the broad exemption from prior authorization that the bill would provide could encourage hospitals to discharge patients earlier than perhaps would be advisable and then prescribe expensive medical equipment and outpatient services that may not be appropriate or necessary but for which the State would have to pay.