DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

SEP - 7 2007

SHO #07-002

Dear State Health Official:

Your State will be participating this year in the review of improper payments in Medicaid and the State Children's Health Insurance Program (SCHIP) under the Payment Error Rate Measurement (PERM) program for the fiscal year (FY) 2008 measurement. This letter provides you with preliminary information regarding your State's participation in the PERM measurement (see attachments). We also invite you to participate in a "kick-off" conference call to be held on September 28, 2007 from 3:00-4:00 P.M., EDT.

The Centers for Medicare & Medicaid Services (CMS) implemented the PERM program to meet the requirements of the Improper Payments Information Act of 2002 (P.L. 107-300) (IPIA). IPIA requires Federal agencies to annually review and estimate the amount of improper payments for programs they oversee that are susceptible to significant erroneous payments. The Office of Management and Budget identified Medicaid and SCHIP as programs that are susceptible to significant erroneous payments.

Under PERM, CMS will measure three areas for both the Medicaid and SCHIP programs: (1) fee-for-service (FFS), (2) managed care, and (3) program eligibility. CMS has developed a national contracting strategy for measuring the first two areas, FFS and managed care. States will be responsible for measuring the third area, program eligibility, for both programs. The results of these reviews will be used to produce national program error rates as well as State specific program error rates. This letter outlines States' responsibilities for assisting CMS in the measurement of FFS and managed care. Specific instructional guidelines, including a timeline to assist States for their measurement of program eligibility are posted on the PERM website at http://www.cms.hhs.gov/PERM.

On August 28, 2006, CMS published an interim final regulation with comment (71 Fed. Reg. 51050). This regulation contained information on CMS' national contracting strategy to estimate improper payments in the FFS and managed care components of Medicaid and SCHIP. The regulation also required States to measure the eligibility component in each program. Pursuant to the regulation, each State will be measured for both Medicaid and SCHIP once and only once every three years. The States that will be measured for fiscal years (FY) 2007-2009 (which will rotate thereafter) are as follows:

States Selected for Medicaid and SCHIP Improper Payment Measurements

FY 2007	North Carolina, Georgia, California, Massachusetts, New Jersey, Tennessee, West Virginia, Kentucky, Maryland, Alabama, South Carolina, Colorado, Utah, Vermont, Nebraska, New Hampshire, Rhode Island
FY 2008	New York, Florida, Texas, Louisiana, Indiana, Mississippi, Iowa, Maine, Oregon, Arizona, Washington, District of Columbia, Alaska, Hawaii, Montana, South Dakota, Nevada
FY 2009	Pennsylvania, Ohio, Illinois, Michigan, Missouri, Minnesota, Arkansas, New Mexico, Connecticut, Virginia, Wisconsin, Oklahoma, North Dakota, Wyoming, Kansas, Idaho, Delaware (these States were originally reviewed in FY 2006)

Fee-For-Service and Managed Care Claims Measurement:

For the FY 2008 FFS and managed care claims measurements, CMS has engaged a statistical contractor, a documentation/database contractor, and a review contractor.

- The statistical contractor will select the sample of FFS and managed care claims to be reviewed for your State. The contractor will calculate your State's error rates in these components as well as an overall State program error rate for Medicaid and SCHIP that includes the eligibility payment error rate based on case reviews.

- The documentation/database contractor will collect the State Medicaid and SCHIP medical policies and, on a quarterly basis, policy updates from the State agency. The contractor will request the medical records directly from providers to support the medical reviews.

- The review contractor will perform data processing reviews on the sampled claims to determine if the claims were correctly paid. Also, medical reviews will be performed on the FFS claims to determine if the claims were medically necessary, coded correctly, and properly paid or denied. The contractor will address your requests for a difference resolution on error findings.

The Federal contractors will be contacting each State to obtain the primary and secondary State contact information for the PERM program as well as those persons responsible for the claims data and medical policy submissions for each program. The contractors will follow up with each State to provide more details and address specific State concerns on the submission of the claims data and medical policies.

CMS also has cycle managers that oversee the PERM measurement process. Elizabeth Lindner will be the cycle manager for the FY 2008 PERM States. The cycle manager oversees the measurement process, acts as a liaison between the States and the contractors, and is responsible for keeping the overall measurement process on track to meet various deadlines. Please contact Elizabeth at Elizabeth.Lindner@cms.hhs.gov or (410) 786-7481 with any questions or concerns you may have.

We view the accuracy of your State's error rate as a cooperative effort. The success of the FY 2008 PERM measurement is highly dependent on State submission of claims data and medical policies in a timely manner. To that end, it is critical that you ensure that claims data are complete and accurate and that both the claims data and medical policies are submitted by the dates requested by the PERM contractors. It is essential to respond in a timely manner in order to allow ample time to resolve disputes and to ensure that the adjusted data are reflected in the final error rate calculations. The Federal contractors will work closely with you throughout the sample and review process to ensure the success of the measurement and the accuracy of your State's error rates.

The Federal contractor will request the medical records directly from providers to support the medical reviews of FFS claims. A concern that some providers may have is maintaining the privacy of patient information, which may result in these providers not submitting the requested medical records. You can assure the participating providers in your State that the collection and review of protected health information contained in medical records for payment review purposes is authorized by HHS regulations at 45 C.F.R. 164.512(d), as a disclosure authorized to carry out health oversight activities, pursuant to the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Section 1902(a)(27) of the Act requires providers participating in Medicaid to retain records necessary to disclose the extent of services provided to individuals receiving assistance, and furnish your State and CMS with information regarding any payments claimed by the provider for furnishing services. As for SCHIP, section 2107(b)(1) of the Act requires an SCHIP State plan to provide assurances to the Secretary that the State will collect and provide to the Secretary any information required to enable the Secretary to monitor program administration and compliance and to evaluate and compare the effectiveness of States' SCHIP plans.

You can help reduce the incidence of errors attributable to insufficient documentation by educating your program providers on this measurement process and on the importance of submitting documentation timely and accurately. We have posted to the PERM website (http://www.cms.hhs.gov/PERM) a sample provider education letter that you may want to adapt and issue to your providers.

We are also asking States to provide us with up-to-date provider contact information, to enable us to collect the required medical records from the appropriate providers in a timely fashion. This will help reduce the incidence of errors due to lack of documentation.

Program Eligibility Measurement:

The eligibility component of the PERM error calculation will be measured by the States. We have provided instructions for you on how to conduct the eligibility reviews on the PERM website (http://www.cms.hhs.gov/PERM). We are asking your State to conduct reviews on a sample of Medicaid and SCHIP cases and calculate and report eligibility payment and case error rates to the statistical contractor for inclusion in the State's program error rates.

We encourage you to participate in the kick-off conference call to be held on September 28, 2007 at 3:00-4:00 P.M., EDT, to be oriented to the PERM program. The phone number is (410) 786-3100. The conference identification number is 282487. To obtain more information on the PERM program, we invite you to visit our website at http://www.cms.hhs.gov/PERM. This website will be the main source for information about the PERM program.

CMS is committed to working with your State throughout this year's measurement process under the PERM program. We look forward to working with you this year and in future years to ensure the financial integrity of the Medicaid and SCHIP programs.

Sincerely,

Timothy B. Hill
Director
Office of Financial Management

Dennis G. Smith
Director
Center for Medicaid and State Operations

Attachments
cc:

CMS Regional Administrators

CMS Associate Regional Administrators
for Medicaid and State Operations

Martha Roherty
Director, Health Policy Unit
American Public Human Services Association

Joy Wilson
Director, Health Committee
National Conference of State Legislatures

Matt Salo
Director of Health Legislation
National Governors Association

Jacalyn Bryan Carden
Director of Policy and Programs
Association of State and Territorial Health Officials

Christie Raniszewski Herrera
Director, Health and Human Services Task Force
American Legislative Exchange Council

Lynne Flynn
Director for Health Policy
Council of State Governments

Attachment A

PERM Statistical Contractor

The statistical contractor will select the samples of FFS and managed care claims for Medicaid and SCHIP to be reviewed for improper payments, and will calculate the State's error rates in these components as well as an overall State program error rate for each program that includes the eligibility payment error rate calculated by the State. The statistical contractor will contact your designated representative and will obtain the State information necessary to sample the claims for the medical and data processing reviews and calculate the State's Medicaid and SCHIP program error rates.

States should have submitted the eligibility sampling plans to the statistical contractor for approval by August 1, 2007. Listed below is the listing and schedule of information the State should submit to the statistical contractor for the claims reviews.

State Information Needed for Medicaid and SCHIP Claims Reviews

#	Information	Description	Date
1	State Medicaid and SCHIP primary and back-up points of contact for PERM	To help facilitate the compilation of data and the mechanics of delivery to the statistical contractor.	11/01/07
2	Data documentation necessary to read the claims file	Record layouts, data dictionaries, and other manuals to correctly analyze the claim	11/15/07
3	Claims data for FFY 2008 Quarter 1	Provide an electronic flat file of Medicaid and SCHIP FFS and managed care claims (if applicable) as instructed by contractor.	01/15/08
4	Claims data for FFY 2008 Quarters 2, 3, and 4	Same as #3	04/15/08 07/15/08 10/15/08

Note: States have faced challenges in submitting correct and accurate claims data for PERM purposes. To help alleviate problems with this year's measurement, we recommend States conduct a quality control data check that includes: (1) ensuring that codes that should be excluded from the universe are excluded; (2) coordinating data and policy staff across the agency to ensure that all components of the Medicaid and SCHIP programs are included; and (3) reconciling the universe data prior to submission.

PERM Documentation/Database Contractor

The documentation/database contractor (DDC) will collect State medical policies and provider medical records to support medical reviews for FFS claims.

State Information Needed for Medicaid and SCHIP

#	Deliverable	Description	Date
1	State primary and back-up points of contact	To help facilitate the compilation of policies	11/01/07
2	State policies regarding claims payment that were in effect on October 1, 2007. NOTE: The DDC will obtain as many policies as possible from the State's internet websites.	All Medicaid and SCHIP policies to support the medical reviews including: ▪ State plan, ▪ Regulations, ▪ Policy letters, transmittals, or other documents clarifying program requirements, limitations, or procedures	01/31/08
3	Quarterly policy updates	All changes to the policies in #2 and the effective date	01/31/08 04/28/08 07/31/08 10/31/08

PERM Review Contractor:

The review contractor will perform the medical reviews and data processing reviews on the sampled claims to determine if the claims were correctly paid. The contractor will address State requests for a difference resolution on claim findings.

State Information Needed for Medicaid and SCHIP

#	Deliverable	Description	Date
1	State primary and back-up points of contact	To help facilitate the data processing reviews.	11/1/07
2	Claims processing information	Data processing manual/policies that are in effort during the fiscal year under review.	Scheduled entrance visit
3	Access to claims processing system: either on-site or by remote	The State will provide the contractor technical assistance and access to claims processing systems, at least twice or as scheduled, for the claims processing review	Scheduled review visits
4	Difference-resolution process	The State has the option to file for difference resolution if the State disagrees with the findings of the review contractor. This process is ongoing throughout the measurement.	Dates based on when State is notified of errors.