



**U.S. Department of Health and Human Services**

**REPORT TO CONGRESS ON  
IMPLEMENTATION OF THE NATIONAL CORRECT  
CODING INITIATIVE IN THE MEDICAID PROGRAM**

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**2011**

REPORT TO CONGRESS ON IMPLEMENTATION OF THE NATIONAL  
CORRECT CODING INITIATIVE (NCCI) IN THE MEDICAID PROGRAM  
AS REQUIRED BY SECTION 6507 OF THE AFFORDABLE CARE ACT

March 1, 2011

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## EXECUTIVE SUMMARY

The National Correct Coding Initiative (NCCI) is a program of the Centers for Medicare & Medicaid Services (CMS) that consists of coding policies and edits. This program was originally implemented in the Medicare program in January 1996 to ensure accurate coding and reporting of services by physicians. Section 6507 of the Affordable Care Act requires CMS to notify States which NCCI methodologies are compatible with claims filed with Medicaid and requires States to use these methodologies to process claims filed on or after October 1, 2010.

The CMS met the statute's requirements through the issuance of a State Medicaid Director Letter on September 1, 2010, which notified the States that the five Medicare NCCI methodologies are compatible with the Medicaid program and how the States are to incorporate these methodologies for processing Medicaid claims. CMS also provided the States on September 1, 2010, with the Medicaid NCCI files for processing Medicaid claims filed on or after October 1, 2010. CMS provided States with the flexibility to deactivate NCCI edits and Medically Unlikely Edits (MUEs) until March 31, 2011, under certain circumstances. This Report to Congress fulfills the statutory requirement for a report to be submitted to Congress by March 1, 2011, and also highlights progress made on implementation.

Each of these NCCI methodologies has four components: the edits, definitions of the types of claims subject to the edits, claims adjudication rules for applying the edits, and rules for provider appeals of denials of payment for claims due to the edits.<sup>1</sup> The five NCCI edit files consist of (1) NCCI procedure-to-procedure edits for practitioner and ambulatory surgery center (ASC) services, (2) NCCI procedure-to-procedure edits for outpatient hospital services, (3) units-of-service MUEs for practitioner and ASC services, (4) units-of-service MUEs for outpatient hospital services, and (5) units-of-service MUEs for durable medical equipment (DME). CMS used the expertise and analysis of its NCCI technical contractor, Correct Coding Solutions, LLC, to determine that all five of the NCCI methodologies are compatible with the Medicaid program.

For most States, implementing the NCCI methodologies in their Medicaid programs by the statutory deadline has been a significant challenge both technically and financially. Some States lack familiarity with the NCCI methodologies, have outdated systems for processing Medicaid claims that are unable to download the Medicaid NCCI files without changes, rely on commercial off-the-shelf (COTS) products to implement the methodologies, and / or lack the required process for providers to appeal denials of Medicaid claims due to the NCCI methodologies.

Through the Advance Planning Document (APD) process, States are to request CMS approval for enhanced Federal financial participation (FFP) to implement the Medicaid NCCI methodologies and to deactivate NCCI edits and MUEs after March 31, 2011, and to report data on multiple measures of NCCI implementation. Few States have submitted APDs to CMS for these purposes at this time.

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<sup>1</sup> Based on feedback from States, CMS has recently revised its finding on an appeals process. CMS now finds that the requirement for an appeals process is incompatible with Medicaid. Please see section 3.2 of the Report.

The CMS has worked closely with State Medicaid programs, both in groups and individually, to implement the NCCI methodologies. Fully and correctly implementing the NCCI methodologies in State Medicaid programs will be a long-term, resource-intensive undertaking by both CMS and the States. However, it is expected to result in significant savings in program expenditures due to reductions in inappropriate payments for Medicaid claims with improper coding, as has occurred in the Medicare program.

## **1.0 SECTION 6507 OF THE AFFORDABLE CARE ACT**

The Centers for Medicare & Medicaid Services (CMS) submits this Report to Congress in fulfillment of one of the requirements contained in section 6507, “Mandatory State Use of National Correct Coding Initiative (NCCI)”, of the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), which together are referred to as the “Affordable Care Act.”

This section amends section 1903(r) of the Social Security Act (the Act). Section 1903(r)(4) of the Act, as amended, required CMS to take three specific actions by September 1, 2010:

- identify and notify States of NCCI methodologies that are “compatible” with claims filed with Medicaid to promote correct coding and control improper coding leading to inappropriate payment of claims under Medicaid;
- notify States of the NCCI methodologies (or any successor initiative to promote correct coding and to control improper coding leading to inappropriate payment) that should be incorporated for claims filed with Medicaid for which no national correct coding methodology has been established for Medicare; and
- inform States as to how they must incorporate these methodologies for claims filed under Medicaid.

Section 1903(r)(1)(B)(iv) of the Act, as amended, requires that States incorporate compatible methodologies of the NCCI administered by the Secretary and such other methodologies as the Secretary identifies, effective for Medicaid claims filed on or after October 1, 2010.

By March 1, 2011, CMS must submit a report to Congress that includes the September 1, 2010, notice to States and an analysis supporting these methodologies.

## **2.0 IMPLEMENTATION BY CMS**

### **2.1 Process of How Determinations were Made**

The NCCI is a CMS program that consists of coding policies and edits. This program was originally implemented to ensure accurate coding and reporting of services by physicians. The

NCCI methodologies have been successfully used by the Medicare program since the mid-1990s and have been proven to save Medicare millions of dollars in program expenditures.<sup>2</sup>

The CMS technical contractor for the NCCI for both Medicare and Medicaid, Correct Coding Solutions (CCS), LLC, utilizing its technical knowledge of the NCCI methodologies and of the Medicaid program, examined and analyzed the NCCI methodologies to determine if any of the NCCI methodologies are incompatible with the Medicaid program. CCS, LLC's technical analysis included reviewing the broader methodologies and confirming their consistency with Medicaid's program structure.

Based upon Medicare's success with the NCCI methodologies and the technical examination and analysis of the NCCI methodologies conducted by CCS, LLC, CMS determined that all of the NCCI methodologies are compatible with Medicaid.

Given CMS' determination that all of the NCCI methodologies are compatible with Medicaid, CMS determined that all of the NCCI methodologies should be adopted by State Medicaid programs.

While CMS has determined that all of the NCCI methodologies are compatible with the Medicaid program, not all of the edits in Medicare's NCCI methodologies are compatible with the Medicaid program. NCCI edits and Medically Unlikely Edits (MUEs) are one of four components of the NCCI methodologies. CCS, LLC, has begun identifying which edits are not compatible with the Medicaid program and has removed these edits from the Medicaid NCCI files for State Medicaid programs. State Medicaid programs and their fiscal agents, contractors, and providers may identify other NCCI edits which are not compatible with Medicaid. Identifying edits in the NCCI methodologies which are not compatible with the Medicaid program, and removing them from the Medicaid NCCI files for State Medicaid programs, will be a continuous process throughout the life of the NCCI.

As required by section 1903(r)(4) of the Act, CMS identified NCCI methodologies not utilized by the Medicare NCCI that are compatible with the State Medicaid programs. These methodologies follow:

- (1) The Medicare program does not apply NCCI procedure-to-procedure edits to outpatient services in critical access hospitals. CMS decided to require that State Medicaid programs apply them to these types of outpatient services. CMS plans to explore expanding the Medicaid NCCI methodologies to other Medicaid services that are not currently adjudicated against these edits. For example, the NCCI methodology units-of-service MUEs utilized for outpatient hospital services may be expanded to cover other types of facility services, such as nursing homes and renal dialysis facilities.

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<sup>2</sup> Use of the NCCI procedure-to-procedure edits for practitioner and ambulatory surgery center services saved the Medicare program \$485.8 million in FY 2010. The NCCI methodology procedure-to-procedure edits applied to practitioner and ambulatory surgery center services have prevented the inappropriate payment by Medicare of over \$5 billion since 1996 based on savings reports from claims processing contractors. There are no savings reports on the other four Medicare NCCI methodologies, but there is anecdotal evidence that the savings are substantial.

- (2) The Medicare program requires the use of the NCCI methodologies by claims processing contractors adjudicating fee-for-service claims. In addition to mandating use of NCCI methodologies by State systems for processing Medicaid fee-for-service claims, CMS allows Medicaid managed care plans in a State to use the Medicaid NCCI methodologies as well, if the State Medicaid program allows such plans to do so.

Prior to September 1, 2010, very few States had experience with all five of the Medicaid NCCI methodologies. Implementing them requires developing new claims processing logic, integrating the processing logic into claims processing software, testing the logic, educating claims processing contractor staff, and educating the provider community. Since most of the provider community is familiar with Medicare NCCI methodologies, as are the State Medicaid programs which previously used one or more of Medicare's NCCI methodologies, CMS decided to allow States to initially implement those Medicare NCCI methodologies compatible with State Medicaid programs and to implement the NCCI methodologies not utilized by Medicare at a later date.

## **2.2 Description of the Medicaid NCCI Methodologies<sup>3</sup>**

Each of the NCCI methodologies consists of the following four components:

- (1) a set of edits;
- (2) definitions of types of claims subject to the edits;
- (3) a set of claims adjudication rules for applying the edits; and
- (4) a set of rules for addressing provider appeals of denied payments for services based on the edits.<sup>4</sup>

The NCCI edits are defined as edits applied to services performed by the same provider for the same beneficiary on the same date of service. They consist of two types of edits:

- (1) NCCI edits, or procedure-to-procedure edits, that define pairs of Healthcare Common Procedure Coding System (HCPCS) and / or Current Procedural Terminology (CPT) codes that should not be reported together for a variety of reasons and
- (2) Medically Unlikely Edits (MUEs), or units-of-service edits, that define for each HCPCS / CPT code the number of units of service beyond which the reported number of units of service is unlikely to be correct (e.g., claims for excision of more than one gallbladder).

The NCCI consists of five methodologies in both the Medicare and the Medicaid programs:

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<sup>3</sup> The Medicaid NCCI methodologies do not incorporate Medicare units-of-service Medically Unlikely Edits (MUEs) that are confidential. Although most Medicare and all Medicaid MUEs are published on the CMS Web site, the Medicare program does not publish many MUE values that are greater than three in an effort to guard against fraud and abuse.

<sup>4</sup> Based on feedback from States, CMS has recently revised its finding on an appeals process. CMS now finds that the requirement for an appeals process is incompatible with Medicaid. Please see section 3.2 of the Report.

- (1) NCCI procedure-to-procedure edits for practitioner and ambulatory surgical center (ASC) services
- (2) NCCI procedure-to-procedure edits for outpatient hospital services<sup>5</sup>
- (3) MUE units-of-service edits for practitioner and ASC services
- (4) MUE units-of-service edits for outpatient hospital services for hospitals
- (5) MUE units-of-service edits for durable medical equipment.

## **2.3 Documents Issued to States**

### **2.3.1 State Medicaid Director Letter**

On September 1, 2010, CMS issued State Medicaid Director (SMD) Letter 10-017, “Implementation of NCCI in State Medicaid Programs,” to fulfill the requirements in section 1903(r)(4) of the Act. The letter provides guidance to States on the definition of the NCCI methodologies and the implementation of the methodologies.

The CMS required that States implement all five NCCI methodologies for Medicaid claims filed on or after October 1, 2010. However, CMS provided flexibility to States to deactivate NCCI edits and MUEs, under certain circumstances, until March 31, 2011. After March 31, 2011, States will only be able to deactivate NCCI edits and MUEs with prior CMS approval through the Advance Planning Document (APD) process. CMS will approve such deactivation only if the State can document that the edits conflict with State law, regulation, administrative rule, or payment policy.

A copy of this SMD Letter is contained in Appendix A. Section 1903(r)(4) of the Act requires that this September 1, 2010, notice to States be included in this Report to Congress.

### **2.3.2 Advance Planning Document (APD) Template**

The CMS has provided an APD template to States for implementation of the NCCI in their Medicaid programs. Below is an overview of the uses outlined in the APD.

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<sup>5</sup> Due to program payment and policy differences, these edits are applied differently in Medicaid than they are in Medicare. In Medicare, NCCI procedure-to-procedure edits for outpatient hospital services (including emergency department, observation, and hospital laboratory services) are incorporated into the outpatient code editor (OCE) for hospitals reimbursed through the hospital outpatient prospective payment system (OPPS). These same edits in the OCE are applied to certain types of bills, which pick up almost all facility therapy services billed with CPT codes to the Medicare Fiscal Intermediary (Part A Hospital / Part B Practitioner Medicare Administrative Contractors (A/B MACs) processing claims with the Fiscal Intermediary Shared System (FISS)). They do not apply to hospitals not reimbursed through the OPPS (e.g., Critical Access Hospitals (CAHs)). In Medicaid, these edits are applied to claims from CAHs.



- Part I is to be used by States to request CMS approval for enhanced Federal financial participation (FFP) to implement the NCCI in their systems for processing Medicaid claims (i.e., their Medicaid Management Information Systems (MMISs)).<sup>6</sup>
- Part II is to be used by States to request CMS approval to deactivate NCCI edits and MUEs in the Medicaid NCCI files after March 31, 2011, because they conflict with State law, regulation, administrative rule, or payment policy.
- Part III is to be used by States to report certain information to CMS regarding implementation of the NCCI in their MMISs. CMS has requested that the States provide information on the following:
  - State reimbursement of Medicaid claims that is not based on HCPCS) and / or CPT codes (for which the Medicaid NCCI methodologies do not apply);
  - savings in payments for Medicaid claims due to the State's implementation of the NCCI methodologies in its MMIS;
  - NCCI edits and MUEs deactivated by the State during the period October 1, 2010, through January 31, 2011; and
  - correct coding methodologies and edits used by States in addition to the NCCI methodologies.

The above information is explained in more detail in a copy of this APD template that is contained in Appendix B.

## **2.4 Web Sites**

### **2.4.1 CMS Medicaid Integrity Institute**

To support the ongoing administration of a national Medicaid NCCI program as required under section 1903(r)(4) of the Act, CMS has developed a standard process to manage and publish the NCCI methodology files to ensure that timely, accurate, and current edit files are available to all States. This process was communicated to States in SMD Letter 10-017 (Appendix A).

Five different edit files, consisting of Practitioner and ASC NCCI edits, Hospital Outpatient NCCI edits, Practitioner MUEs, Durable Medical Equipment MUEs, and Hospital Outpatient MUEs, were developed and provided to States as Version 1.3.1, effective October 1, 2010, of the Medicaid NCCI methodology files. Updated versions are provided to States approximately 15 days prior to the beginning of each calendar quarter.

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<sup>6</sup> Section 1903(r) of the Act requires State MMISs to include Medicaid NCCI methodologies as part of their functionality. Section 1903(a)(3) of the Act provides CMS with the authority to provide 90-percent FFP to States for design, development, installation, and enhancement activities and 75-percent FFP for maintenance and operations of a certified State's MMIS system and for the cost of licensing proprietary products. Thus, in considering revisions to a State's MMIS, CMS is authorized to provide FFP to States to incorporate Medicaid NCCI methodologies into the State's MMIS system.

On September 1, 2010, CMS made available to States the five different Medicaid NCCI methodology edit files (referred to as MCDNCCI) on the secure Medicaid Integrity Institute (MII) WorkSpace Web site for review and use by States for Medicaid claims filed on or after October 1, 2010. Each State currently has at least one user license to access the site. CMS reviewed and tested the Web site to create folders with access restricted to licensed users to further protect and maintain the integrity of the edit files. On December 15, 2010, updated edit files, entitled Version 2.0, effective January 1, 2011, were posted to the MII WorkSpace Web site. These files are the most current national edit files for States to utilize. CMS plans to continue to provide States with Medicaid NCCI files updated for each calendar quarter using this Web site.

Medicare provides its NCCI files to its administrative contractors in only one file format (ASCII.TXT), but these files are available to others in three file formats: ASCII.TXT, Excel 2007 (.xlsx), and tab-delimited text (.txt) with column headings. Medicaid provides its NCCI files to States in the same three file formats.

## **2.4.2 CMS Web Site**

The CMS created a subwebsite on CMS' main Web site to make information on implementation of the NCCI in Medicaid and the quarterly Medicaid NCCI files publicly available, as Medicare does. The subwebsite is located at <http://www.cms.gov/MedicaidNCCICoding/>. In support of the NCCI program, CMS posts publicly viewable edit files, reference materials, and guidance on this Web site at the beginning of each calendar quarter.<sup>7</sup> CMS posted the publicly viewable first quarterly Medicaid NCCI edit files for October – December 2010 on this subwebsite on October 1, 2010. The second quarterly Medicaid NCCI files for January – March 2011 were posted on the subwebsite in early January 2011.

## **2.5 CMS Working in Partnership with States**

### **2.5.1 CMS Work with Groups of States**

#### ***2.5.1.1 National Association of State Medicaid Directors***

The CMS responded to questions submitted by the National Association of State Medicaid Directors (NASMD) concerning implementation of the NCCI in State Medicaid programs. CMS also separately responded to NASMD's questions concerning the appeals process required for

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<sup>7</sup> The CMS provides the following resources on this Web site:

- (1) Medicaid NCCI Methodology Files for State Medicaid Agencies and Fiscal Agents to Download
- (2) Medicaid NCCI Methodology Files on CMS Website
- (3) Medicaid NCCI and MUE Claims Processing Rules, File Names and Formats, Characteristics of Edits, Use of CLEID, and Appeal Adjudication
- (4) MCDNCCI Appeals Process
- (5) Correspondence Language Example Identification Number (CLEID)
- (6) Correspondence Language Manual (Utilizes CLEID)
- (7) Frequently Asked Questions – NCCI
- (8) Frequently Asked Questions – MUE
- (9) Medicare Modifier 59 Article

State Medicaid programs for denials of payments for Medicaid claims due to Medicaid NCCI edits and MUEs.

#### ***2.5.1.2 National Association of Medicaid Directors***

The CMS also responded to questions from the National Association of Medicaid Directors (NAMMD) on the appeals process required for State Medicaid programs for denials of payments for Medicaid claims due to Medicaid NCCI edits and MUEs.

#### ***2.5.1.3 Medicaid Medical Directors Learning Network***

The CMS and CMS' NCCI technical contractor are working with the Medicaid Medical Directors Learning Network in implementing the NCCI in State Medicaid programs.

#### ***2.5.1.4 National Medicaid Electronic Data Interchange Healthcare (NMEH) NCCI Workgroup***

The CMS held a series of conference calls with small groups of States in the NMEH NCCI Workgroup to receive input and feedback on issues involved in implementing the NCCI in State Medicaid programs. Calls were held on May 21 and 26, July 1, August 4, and September 30, 2010.

The CMS responded to two sets of questions submitted to CMS by a separate NMEH NCCI Subworkgroup on issues involved in implementing the NCCI in State Medicaid programs.

### **2.5.2 CMS Work with Individual States**

The CMS has responded to questions on the Medicaid NCCI files from individual States, including Alabama, Florida, Minnesota, Mississippi, South Carolina, and Tennessee. Below are examples of some specific questions CMS has responded to on the implementation of the NCCI methodologies from the States:

- South Carolina on the use of modifiers in the Medicaid NCCI edits and MUEs and the application of MUEs to Medicaid claims;
- Tennessee on the application of MUEs to Medicaid claims;
- Oklahoma on the application of deactivated Medicaid NCCI edits and MUEs to Medicaid claims based on when the edits were deactivated;
- Alabama and Utah on the Medicaid NCCI APD process;
- Texas on the application of the Medicaid NCCI methodologies to Medicaid managed care organizations;
- West Virginia, Oregon, and Nevada on the effective date for State implementation of section 1903(r)(4) of the Act;

- Nevada on the consequences of noncompliance with the deadlines for implementation, NCCI “standards”, and the sources of the Medicaid NCCI edits and MUEs; and
- Vermont on available funding for State implementation of the Medicaid NCCI methodologies.

In addition, CMS has responded to questions from Maryland, Oklahoma, and Minnesota on the required appeals process in States for denials of payment for Medicaid claims due to Medicaid NCCI edits or MUEs.

The CMS has been contacted by individual States concerning implementation of the NCCI in their Medicaid program. For example, Maryland inquired about the application of the Medicaid NCCI methodologies to Medicaid claims for inpatient hospital services. The State of Washington requested to know the location of the Medicaid MUEs in a commercial off-the-shelf (COTS) software product.

## **2.6 CMS Work with Providers and Vendors**

### **2.6.1 CMS Work with Providers**

The Medicare NCCI methodologies are based on HCPCS / CPT coding principles and CMS Medicare policies. Most of the Medicare policies utilized in NCCI methodologies have been accepted by other third-party payers and national health care organizations.

In August 2010, CCS, LLC, at the direction of CMS, posted to its online file folder a letter to the American Medical Association, the American Hospital Association, and the Federation of American Hospitals. The letter explained the requirements of section 1903(r)(4) of the Act and CMS’ planned implementation process. These organizations circulated the letter to over 100 other health care organizations, including national medical and surgical societies and other health care professional organizations. No complaints were received about CMS’ implementation process from these organizations. Positive verbal comments were received from the American Medical Association and the American Academy of Orthopaedic Surgeons. Positive written comments were also received from the American Academy of Pediatrics.

### **2.6.2 CMS Responses to Questions from Providers and Vendors**

CMS responded to:

- A provider in Idaho on unpublished MUEs;
- Providers in the CMS Open Forum for Physicians, Nurses & Allied Health Professionals;
- Providers in Ohio and Indiana on application of the Medicaid NCCI methodologies to Medicaid managed care plans;

- A consultant to commercial health plans in Atlanta on the Medicaid NCCI methodologies;
- Another consultant in Atlanta on the application of MUEs to Medicaid claims;
- A nonprofit organization requesting a new HCPCS codes for intensive in-home services to youth; and
- A law firm representing a corporation in the health services industry on State Medicaid Director Letter 10-017 on implementation of the NCCI methodologies in the Medicaid program.

## **2.7 Medicaid NCCI Workgroup**

The CMS created for the Medicaid program an internal Medicaid NCCI Workgroup as a counterpart to its long-standing internal Medicare NCCI and MUE Workgroups. This workgroup consists of Medicaid program staff working on implementation of the NCCI program in Medicaid, the CMS NCCI technical support contractor, Medicaid's medical officer, Medicaid's coding specialist, program and clinical representatives from Medicare's NCCI program, and staff from CMS' Medicaid Program Integrity Group to ensure collaboration and coordination between the two NCCI programs in CMS.

The workgroup reviews changes to CPT codes and Medicaid NCCI edits and MUEs to maintain and update the Medicaid NCCI methodologies and to ensure the timely and accurate delivery to the States of the Medicaid NCCI files.

## **2.8 CMS Work with Technical Contractor**

The principals currently with Correct Coding Solutions (CCS), LLC, have provided technical support to the Medicare program on the NCCI since the mid-1990s. The nationally recognized expert staff of CCS, LLC, developed the Medicare NCCI under the direction of the Medicare program. The Medicaid program was added to Medicare's contract with CCS, LLC, in June 2010. This contract expired in December 2010 and has been rebid.

From June to December 2010, CCS, LLC, provided all technical support to CMS concerning implementation of the NCCI in the Medicaid program. CCS, LLC, generated all of the Medicaid NCCI files for implementation by State Medicaid programs on October 1, 2010, and January 1, 2011. The contractor provided administrative and technical support to the Medicaid NCCI Workgroup and technical expertise to CMS for responding to State questions and issues concerning implementation of the Medicaid NCCI methodologies.

## **3.0 IMPLEMENTATION ISSUES RAISED BY STATES**

### **3.1 Use of Commercial Off-the-Shelf (COTS) Software to Implement the NCCI in State Medicaid Programs**

Many, if not most, States use, at least in part, COTS software to edit the Medicaid claims they receive for reimbursement. A number of States have proposed using such software to implement the Medicaid NCCI methodologies into their MMISs.

In response to inquiries regarding the use COTS Software to implement the NCCI in the State Medicaid Programs, CMS' response has been the following:

- Section 1903(r)(4) of the Act made the NCCI methodologies the primary edits for processing Medicaid claims for payment. Other edits, whether from the State or from vendors, are now secondary in importance. State MMISs can still use these additional edits for processing Medicaid claims for payment, if a State Medicaid program wishes to do so, but these additional edits cannot substitute for the NCCI edits and MUEs contained in the Medicaid NCCI methodologies.
- States must incorporate, and operationally utilize, the official national Medicaid NCCI files, which CMS posts on the MII WorkSpace Web site, without any changes (“natively”). Only State use of the official national standard Medicaid NCCI methodologies and files that CMS provides for each calendar quarter complies with the requirements of section 1903(r)(4) of the Act.
- If a State wishes to use additional edits to process its Medicaid claims, these additional edits must “wrap” around the core of the Medicaid NCCI edits and MUEs. CMS has requested that State Medicaid programs report to CMS through the APD process what these additional edits are.
- If a State wishes to deactivate any of the NCCI edits and MUEs in the official national Medicaid NCCI files, the State can request CMS approval to do so through the APD process, if the State can document to CMS that the edits the State wishes to deactivate conflict with State law, regulation, administrative rule, or payment policy.
- A State Medicaid program cannot substitute the Medicare NCCI files for the Medicaid NCCI files or attempt to derive on its own the Medicaid NCCI files from the Medicare NCCI files. Both the Medicare and Medicaid NCCI files are updated quarterly, the divergence between the two sets of files will grow over time, and States will not know all of the changes made in the Medicaid NCCI files from one quarter to the next quarter. The Medicaid NCCI files in one quarter are a complete replacement of the Medicaid NCCI files from previous quarters.
- Similarly, a State Medicaid program may use vendor COTS software to implement the NCCI methodologies. However, if a State does so, then the State must ensure that such

COTS software fully and correctly incorporates the Medicaid NCCI files each calendar quarter.

- Through the APD process, CMS will provide 90 percent FFP for State expenditures for planning, design, development, installation, and enhancement activities to enable the State's MMIS to incorporate and operationally utilize without changes the official national Medicaid NCCI files that CMS provides to States on the MII WorkSpace Web site each calendar quarter for processing Medicaid claims in the State.<sup>8</sup> Such changes must also conform to the framework and standards of the Medicaid Information Technology Architecture (MITA).
- On November 8, 2010, CMS issued a Notice of Proposed Rule Making (NPRM) (CMS-2346-P) on proposed policies and standards for State Medicaid eligibility systems. National policies and standards for State eligibility systems will be adopted in the future. CMS is committed to ensuring that enhanced FFP is provided to States to continuously and adequately adopt national files, such as the Medicaid NCCI files, and fund the development of State MMISs that are capable of incorporating and operationally utilizing national policies, standards, and files.
- The CMS encourages States to download from the MII WorkSpace Web site, incorporate into their MMISs, and operationally utilize the official national Medicaid NCCI files for each calendar quarter without any changes. CMS does not support or advocate any one solution over another. States can decide which solution works best considering their current infrastructure for processing Medicaid claims. CMS is only requiring that States have a solution or approach that fully and correctly implements the Medicaid NCCI methodologies for each calendar quarter.
- If a State does utilize a COTS product in processing its Medicaid claims, then the State also must:
  - first attribute savings in payments for Medicaid claims to the Medicaid NCCI edits and MUEs;
  - ensure that there is no duplication of edits between the Medicaid NCCI files and the COTS claims-editing product;
  - distinguish between the effects of the Medicaid NCCI edits and MUEs and any other State or COTS software edits in regard to program savings, denials of reimbursement for Medicaid claims, appeals of denials of payment for Medicaid claims, and reports of data on measures requested by CMS through the APD process; and

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<sup>8</sup> The CMS does not provide any FFP for the development or modification of any software which a State does not own. CMS will provide 90 percent FFP to develop or modify State-owned software to interface its MMIS with software that the State does not own. CMS will provide 75 percent FFP for a State Medicaid program to license proprietary software for its MMIS.

- report separately any additional savings achieved by the State's own edits or by the COTS product.
- The CMS is providing additional guidance to State Medicaid programs on this issue.

It is important that CMS ensure that States (1) use correct Medicaid NCCI edit tables; (2) do not deactivate edits after March 31, 2011, unless CMS has given prior approval to deactivate; (3) apply Medicaid NCCI methodologies to the correct types of services; (4) apply Medicaid NCCI methodologies utilizing proper claims adjudication rules; (5) provide providers an appropriate appeal process for claims denied due to Medicaid NCCI methodology edits; and (6) provide patient protections to ensure that providers do not bill patients for services denied due to NCCI or MUE edits.

### **3.2 Requirement for a Formal Appeals Process in States for Denial of Payment for a Service on Medicaid Claims Due to NCCI Edits and MUEs**

Section 2.2 of this Report lists the five NCCI methodologies. The Medicaid NCCI methodologies are derived from the Medicare NCCI methodologies. CMS found all five Medicare NCCI methodologies to be compatible with the Medicaid program. Consequently, State Medicaid Director Letter 10-017 on implementation of the NCCI methodologies in State Medicaid programs required States to implement all five NCCI methodologies in processing Medicaid claims as October 1, 2010, as required by section 1903(r)(4) of the Act.

Section 2.2 of this Report also lists the four components of each of the five NCCI methodologies. One of these four components is a process for a provider to appeal denial of payment for a service on a claim due to an NCCI edit or a MUE. This is one of the four required components of each of the five Medicare NCCI methodologies because Medicare is required to have such a process. Consequently, when State Medicaid Director Letter 10-017 required States to implement all five NCCI methodologies, it also de facto required the States to implement all four components of each of the five NCCI methodologies, including a process for providers to appeal denials of payment due to an NCCI edit or MUE.

In response to this latter requirement, a number of States communicated to CMS that they have no formal process in place for provider appeals of denied claims in their Medicaid programs. These States stated that establishing and operating such a formal process would be a financial and operational hardship for them, particularly at this time.

Upon further investigation, CMS found that many State Medicaid programs lack a formal process for provider appeals of denied claims. However, State Medicaid programs do allow providers to submit additional documentation to validate denied claims, to resubmit claims, and, in some States, to call a hotline that will inform them about submitting claims to the State's Medicaid program. Since many State Medicaid programs lack a formal process for provider appeals of denied claims, CMS has decided to remove this requirement at this time because it is not compatible with the Medicaid program. CMS is issuing a new State Medicaid Director Letter informing State Medicaid Directors of this change.



## 4.0 CONCLUSIONS

Some State Medicaid programs had not implemented the (Medicare) NCCI methodologies prior to the passage of the Affordable Care Act in March 2010. Consequently, some State Medicaid programs were not familiar with the NCCI methodologies and their complexities when the Affordable Care Act was passed.

In addition, many State Medicaid programs have dated legacy MMISs that lack the capability to download the Medicaid NCCI files unchanged for each calendar quarter. Significantly upgrading State MMISs is a major, complex undertaking that takes considerable amounts of time and financial resources, which most States presently lack. However, in accordance with section 1903(r) of the Act, CMS is providing 90 percent FFP to State Medicaid programs to enable them to upgrade their MMISs, so that their new MMISs will be able to download on a regular basis the Medicaid NCCI files and other official, national, standard files without changes.

Consequently, for the above reasons, the statutory deadline in section 1903(r)(4) of the Act for States to use the NCCI methodologies to process their Medicaid claims filed on or after October 1, 2010, presented a major challenge for most State Medicaid programs. CMS will continue to work with State Medicaid programs and provide them with the technical and financial resources they need in order to upgrade their MMISs and implement the Medicaid NCCI methodologies as quickly as possible.

This will be a long-term undertaking for both CMS and the States. The rate at which these two goals can be accomplished depends primarily on the amount of financial resources that will be available at both the Federal and State levels. However, CMS strongly believes that the returns on these investments at the Federal and State levels will far exceed the amounts of these investments, both in terms of strengthening the integrity of the Medicaid program and in terms of financial savings.

## **5.0 APPENDICES**

APPENDIX A: STATE MEDICAID DIRECTOR LETTER 10-017

APPENDIX B: ADVANCE PLANNING DOCUMENT (APD) TEMPLATE FOR  
IMPLEMENTATION OF THE NATIONAL CORRECT CODING  
INITIATIVE (NCCI) IN A STATE'S MEDICAID MANAGEMENT  
INFORMATION SYSTEM (MMIS)

## APPENDIX A

### STATE MEDICAID DIRECTOR LETTER 10-017

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

#### **Center for Medicaid, CHIP, and Survey & Certification**

SMD #: 10-017  
ACA#: 7

September 1, 2010

#### **Re: National Correct Coding Initiative**

Dear State Medicaid Director:

This letter is one of a series intended to provide guidance on the implementation of the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), together referred to as the Affordable Care Act. Specifically, this letter provides initial guidance regarding Title VI – Transparency and Program Integrity, Subtitle F – Additional Medicaid Program Integrity Provisions, Section 6507 – Mandatory State Use of National Correct Coding Initiative (NCCI).

For ease of reference, this letter is organized into the following subject areas:

- Statutory Requirements;
- Definitions of NCCI, NCCI Methodologies, and the Application of NCCI Methodologies in Medicare;
- Implementation of NCCI Methodologies in Medicaid;
- Resources for Implementing NCCI Methodologies in State Medicaid Programs;
- Additional Important Distinctions between Medicaid and Medicare NCCI Methodology Files<sup>1</sup>;
- Funding for State Implementation of NCCI Methodologies in Medicaid and the Use of the Advanced Planning Document (APD);

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<sup>1</sup> Enclosure B contains a section discussing the differences between Medicaid NCCI and MUE files and those of Medicare. This information may be of interest to individuals familiar with the Medicare NCCI/MUE edits.

- Report to Congress;
- Commercial Off-the-Shelf (COTS) Software and Its Application to Medicaid NCCI Methodologies; and
- Contacts for States.

### Statutory Requirements

Section 6507 of the Affordable Care Act amends section 1903(r) of the Social Security Act (the Act). Section 1903(r)(4) of the Act, as amended, requires CMS to take three specific actions by September 1, 2010. First, CMS must notify States of NCCI methodologies that are “compatible” with claims filed with Medicaid to promote correct coding and control improper coding leading to inappropriate payment of claims under Medicaid. Second, CMS must notify States of the NCCI methodologies (or any successor initiative to promote correct coding and to control improper coding leading to inappropriate payment) that should be incorporated for claims filed with Medicaid for which no national correct coding methodology has been established for Medicare. Third, CMS must inform States as to how they must incorporate these methodologies for claims filed under Medicaid. By March 1, 2011, CMS must submit a report to Congress that includes the September 1, 2010, notice to States and an analysis supporting these methodologies. Section 1903(r)(1)(B)(iv), as amended, requires that States incorporate compatible methodologies of the NCCI administered by the Secretary and such other methodologies as the Secretary identifies, effective for Medicaid claims filed on or after October 1, 2010.

### Definitions of NCCI, NCCI Methodologies and Edits, and the Application of NCCI Methodologies in Medicare

- NCCI. The NCCI is a CMS program that consists of coding policies and edits. Providers report procedures/services performed on beneficiaries utilizing Healthcare Common Procedure Coding System (HCPCS) codes. These codes are submitted on claim forms to Fiscal Agents for payment. NCCI policies and edits identify procedures/services performed by the same provider for the same beneficiary on the same date of service. This program was originally implemented in the Medicare program in January 1996 to ensure accurate coding and reporting of services by physicians. The coding policies of NCCI are based on coding conventions defined in the American Medical Association’s Current Procedural Terminology Manual, national and local Medicare policies and edits, coding guidelines developed by National societies, standard medical and surgical practice, and/or current coding practice.
- NCCI Methodologies. NCCI methodologies have four components: 1) a set of edits; 2) definitions of types of claims subject to the edits; 3) a set of claims adjudication rules for applying the edits; and 4) a set of rules for addressing provider/supplier appeals of denied payments for services based on the edits.
- NCCI Edits. The NCCI edits are defined as edits applied to services performed by the same provider for the same beneficiary on the same date of service. They consist of two types of edits: 1) NCCI edits, or procedure-to-procedure edits that define pairs of HCPCS/Current Procedural Terminology (CPT) codes that should not be reported together for a variety of reasons; and 2) Medically Unlikely Edits (MUEs), or units-of-service edits that define for each HCPCS/CPT

code the number of units of service beyond which the reported number of units of service is unlikely to be correct (e.g., claims for excision of more than one gallbladder or more than one pancreas).

### Application of NCCI Methodologies in Medicare

The CMS developed NCCI for Medicare to promote national correct coding methodologies and to control improper coding that leads to inappropriate payment of Part B (practitioner) fee-for-service claims. Enclosure A provides a history of the NCCI in Medicare.

Currently, CMS has five methodologies for Medicare Part B. Specifically, these are:

- (1) NCCI procedure-to-procedure edits for practitioner and ambulatory surgical center (ASC) services.
- (2) NCCI procedure-to-procedure edits for outpatient hospital services (including emergency department, observation, and hospital laboratory services) incorporated into the Medicare outpatient code editor (OCE) for hospitals reimbursed through the hospital outpatient prospective payment system (OPPS). These same edits in OCE are applied to all facility therapy services billed to the Medicare Fiscal Intermediary (Part A Hospital/Part B Practitioner Medicare Administrative Contractors (A/B MACs) processing claims with the Fiscal Intermediary Shared System (FISS)). They do not apply to hospitals not reimbursed through the OPPS (e.g., Critical Access Hospitals (CAHs)).
- (3) MUE units-of-service edits for practitioner and ASC services.
- (4) MUE units-of-service edits for outpatient hospital services for hospitals reimbursed through the OPPS and for CAHs.
- (5) MUE units-of-service edits for supplier claims for durable medical equipment.

### Implementation of NCCI Methodologies in Medicaid

#### **Compatible Methodologies for Medicaid**

After careful consideration, we have determined that the five NCCI methodologies listed above currently in place in Medicare are compatible methodologies for claims filed in Medicaid. Thus, consistent with the statute, by September 1, 2010, CMS will make available to States all five NCCI methodologies compatible with Medicaid. In addition, we have determined that there are currently no other methodologies compatible for Medicaid since there are no other national correct coding methodologies being used by Medicare. States must incorporate all five methodologies into their Medicaid Management Information Systems (MMISs) and begin the process of editing claims against these five NCCI methodologies effective for claims filed on or after October 1, 2010. Since the Medicaid methodology files will contain confidential information about Medicare NCCI/MUE edits that is not public information, State Medicaid agencies should **NOT** share the Medicaid NCCI methodology files with vendors or other parties which are not State-contracted Fiscal Agents (or State-contracted entities that perform claims processing activities on behalf of State Agencies, or “State-contracted entities” for purposes of this letter.)

In considering the current financial status of States and the savings that are possible as a result of proper coding, CMS continues to evaluate the application of NCCI methodologies, where the methodologies are not applied by Medicare, but are found to be compatible with Medicaid. These methodologies may be developed later, and CMS will update States regarding the progress of NCCI methodologies in Medicaid, as appropriate, moving forward.

### **State Flexibility in Incorporating “Edits”**

We realize that States are in different stages in implementing correct coding edits into their Medicaid programs. Some States have fully incorporated procedure-to-procedure and MUE units of service edits into their Medicaid claims. Some States have incorporated edits for particular sets of services, while other States are just beginning to explore these edits for Medicaid. The five Medicare NCCI methodologies currently contain approximately 1.3 million procedure to procedure and MUE units of service edits. We understand the challenges that many States would face in entirely incorporating these edits into their Medicaid claims processing systems.

Consequently, CMS has provided flexibility in implementing NCCI in Medicaid. All five Medicaid NCCI methodologies must be incorporated into Medicaid MMISs effective for claims filed on or after October 1, 2010. However, CMS has withheld a small number of edits from the five Medicare NCCI/MUE methodologies because of concerns about their compatibility with the Medicaid program. We also recognize that there may be additional incompatible edits. If a State Fiscal Agent (or State-contracted entities) identifies such incompatible edits, please report them to our contractor, Correct Coding Solutions, LLC, as soon as they are identified. (See the Contacts for States section of this guidance for more information regarding Correct Coding Solutions, LLC.)

Additionally, CMS continues to review NCCI/MUE edits and as we move forward to update files quarterly, additional compatible or incompatible edits will be added to or deleted from Medicaid NCCI/MUE files, as appropriate.

### **State Flexibility in Deactivating Edits**

States may consider edits on an individual State by State basis. That is, if a State has determined that some portion of the 1.3 million edits conflict with State laws, regulations, administrative rules, payments policies, and/or level of operational readiness, CMS will allow State deactivation of edits. This flexibility is granted until such time as the earlier of:

1. April 1, 2011, or
2. The date at which the State has an Advanced Planning Document (APD) approved by CMS that documents such conflict with State laws, regulations, administrative rules, payment policies, and/or the State’s level of operational readiness.

### **Requesting Deactivation of Edits**

The CMS will use the MMIS-APD to approve State deactivation of edits after review of the submission of State documentation confirming that the use of certain procedure-to-procedure or MUE units of service edits is in direct conflict with State laws, regulations, administrative rules, payment policies, and/or the State’s level of operational readiness. States must submit an APD to CMS by no later than March 1, 2011, for review and approval of deactivation of edits, if they want to

continue after March 31, 2011, to deactivate relevant edits. States will not be afforded the flexibility to deactivate edits after March 31, 2011, because of lack of operational readiness. If States are not deactivating edits after March 31, 2011, States are not required to submit an APD to CMS for this purpose.

While MCDNCCI files will be updated on a quarterly basis, States will not be required to submit to CMS for review and approval an APD each quarter to deactivate edits that remain in conflict with State laws, regulations, administrative rules, and/or payment policies. States will, however, be required to update APDs each quarter and as otherwise necessary if changes to State laws, regulations, etc. occur and/or if States wish for CMS to approve additional/revised edits to be deactivated.

### **State Flexibility to Incorporate NCCI Methodologies/Edits beyond CMS' Requirements**

States can apply additional NCCI methodologies to service types not currently implemented in the Medicare context, in order to promote correct coding and reduce the error rate for claim payments. For example, in reviewing the Medicare model, CMS considered that the Medicare NCCI methodologies are applicable to types of service: procedure-to-procedure and MUE edits for practitioner services, ASC services, outpatient hospital services, and so forth.

Currently, Medicare NCCI methodologies are not in place for facility claims from long term care facilities, Medicare Advantage plans, or other hospitals that are not paid using OPPS (e.g., CAHs). States should contact CMS to discuss/receive approval to incorporate additional NCCI methodologies and/or edits in their claims processing systems.

Enclosure B provides further information on the nature and structure of the NCCI methodologies in Medicaid, including the definition of the NCCI methodology, a description of NCCI procedure-to-procedure edits and MUE units-of-service edits, a description of the five Medicaid NCCI methodologies (herein referred to as the MCDNCCI) for implementation by State Medicaid programs, identification of the edits included in the five MCDNCCI methodologies, and a discussion of the significant differences between MCDNCCI and Medicare NCCI/MUE.

### **Resources for Implementing NCCI Methodologies in State Medicaid Programs**

The MCDNCCI methodology files will be available for download only to States by September 1, 2010, and only on the Medicaid Integrity Institute's (MII) secure Web site known as "Workspace." Quarterly updates of the MCDNCCI files will be posted to Workspace.

Currently, each State has only one user license for Workspace. For information regarding who in your State has access to this Web site, please contact Mr. Robb Miller, Director of the Division of Field Operations, Medicaid Integrity Group, Center for Program Integrity, at 312-353-0923 or via e-mail at [Robb.Miller@cms.hhs.gov](mailto:Robb.Miller@cms.hhs.gov). For the time being, we will not be able to issue any additional user licenses. You may, however, choose to reassign your State's user license to another individual. The MCDNCCI files will be available in three file formats: ASCII.TXT, Excel 2007 (.xlsx), and tab-delimited text (.txt) with column headings.

Further technical guidance entitled the *Medicaid NCCI (MCDNCCI), MCDNCCI File Names and Formats, Algorithms for Processing Claims, and Characteristics of Edits* is provided to States'

information systems staff to facilitate download and correct use of the MCDNCCI ASCII.TXT files. This information is necessary to understand each field in each edit. The claims adjudication algorithm will assist information systems staff to program their systems to correctly adjudicate NCCI and MUE edits against claims. It will also be very helpful to medical review staff, appeals staff, medical directors, fraud and abuse contractors, and others who need to know the details about how NCCI edits and MUEs are applied to claims.

This technical guidance also provides a description of the edit files. This information will be available on both the MII and on a new Medicaid NCCI webpage on the CMS Web site.

The Excel 2007 (.xlsx) file and the tab-delimited text (.txt) file with column headings will also be available on the Medicaid NCCI webpage by October 1, 2010.

It is important for State Medicaid programs and their Fiscal Agents (or State-contracted entities), to avoid three common errors that result in incorrect application of NCCI/MUE edits.

- Common Error 1: The edits apply only to services by the same provider, to the same beneficiary, on the same date of service. If an MCDNCCI edit is applied to any situation other than the same provider, the same beneficiary, and the same date of service, it should NOT be attributed to the MCDNCCI.
- Common Error 2: NCCI procedure-to-procedure edits with a modifier indicator of “1” must allow use of NCCI-associated modifiers to bypass the edit. This requirement is described further in the *Medicaid NCCI (MCDNCCI), MCDNCCI File Names and Formats, Algorithms for Processing Claims, and Characteristics of Edits* technical guidance. This document also includes information regarding NCCI-associated modifiers.
- Common Error 3: MUE units-of-service edits are claim-line edits. They are not edits for an entire claim or entire date of service. Each claim line must be adjudicated separately against the MUE value for the HCPCS/CPT code on the claim line. All units-of-service for the same code on the entire claim or the same date of service should NOT be summed and compared to the MUE value. See also the *Medicaid NCCI (MCDNCCI), MCDNCCI File Names and Formats, Algorithms for Processing Claims, and Characteristics of Edits* technical guidance.

Reimbursement for a claim denied due to an NCCI/MUE edit may be appealed. The *MCDNCCI Claim Appeals Process* guidance provides separately the rules for adjudicating appeals of denied reimbursement due to MCDNCCI edits. This guidance document will be posted to the MII and to the Medicaid NCCI webpage.

The CMS is developing a separate policy manual for Medicaid services derived from the *National Correct Coding Initiative Policy Manual for Medicare Services*. The *National Correct Coding Initiative Policy Manual for Medicaid Services* will be available to Fiscal Agents (or State-contracted entities), on the Medicaid NCCI webpage on the CMS Web site by October 1, 2010. This manual will be helpful in understanding the policies that the NCCI and MUE edits are based on and will assist customer service, medical review, and appeals staffs.

The CMS will also post the *NCCI Correspondence Language Manual* to the new Medicaid NCCI webpage on the CMS Web site. Each NCCI edit and MUE has a “Correspondence Language



Example Identification Number” (CLEID). The *NCCI Correspondence Language Manual* must be used with the CLEID for correspondence related to the policy rationale for each edit. This information will also be posted to the MII and to the Medicaid NCCI webpage. The *NCCI Correspondence Language Manual* is helpful to the claims processing staffs of Medicaid Fiscal Agents (or State-contracted entities), in explaining the basis of an edit when responding to correspondence and to staff handling appeals.

The CMS will also make available Frequently Asked Questions for NCCI and for MUE as well as a Medicare Modifier 59 Article. Enclosure C provides States implementing NCCI methodologies in State Medicaid programs with a list of these resources and the timeframes and methods for securing these resources.

#### Additional Important Distinctions between Medicaid and Medicare NCCI Methodology Files

In order to ensure that States have the NCCI methodology files in a timely manner, for the start of this program, the Medicaid NCCI methodology files will lag the corresponding Medicare NCCI/MUE files by one calendar quarter with two exceptions:

- The Medicaid NCCI methodology file for outpatient hospital services will not lag by one calendar quarter. The Medicaid and Medicare files for these services will be synchronous.
- Medicaid will incorporate into its NCCI methodology files Medicare NCCI and MUE edit deletions or modifications on a synchronous basis with Medicare.

Beginning with the calendar quarter starting January 1, 2011, all Medicaid NCCI methodology files will be synchronous with Medicare NCCI and MUE edit files. This would mean that for version 2.0 (January 1, 2011) and all subsequent versions of the MCDNCCI, the files will be available on the MII approximately 15 days prior to the beginning of the calendar quarter.

#### Funding for State Implementation of NCCI Methodologies in Medicaid and the Use of the APD

Section 1903(r) of the Act requires State MMISs to include Medicaid NCCI methodologies as part of their functionality. Section 1903(a)(3) of the Act provides CMS with the authority to provide 90-percent Federal financial participation (FFP) to States for design, development, and installation, and 75-percent FFP for maintenance and operations of the State’s MMIS system. Thus, in considering revisions to a State’s MMIS, CMS is authorized to provide FFP to States to incorporate Medicaid NCCI methodologies into the State’s MMIS system.

States should utilize the current MMIS-APD process for requesting such funding for a State MMIS. Additionally, if a State can verify to CMS that the State was involved in making changes to its MMIS to incorporate NCCI methodologies prior to the release date of this letter, retroactive FFP may be available for APD-approved activities, but for no earlier than March 23, 2010. States should work with their respective Regional Offices to submit APDs and to request FFP.

#### Report to Congress

The CMS is required by section 1903(r)(4)(B) of the Act (as added by section 6507 of the Affordable Care Act) to submit to Congress, no later than March 1, 2011, a report that includes the September 1,

2010 notice to States and an analysis supporting the identification of the methodologies for Medicaid. States will be required to report through the APD to CMS:

- how many edits were deactivated;
- what types of edits were deactivated;
- the rationale for deactivating certain edits;
- the process and the workload for State staff that deactivating edits created;
- how many claims would have been denied if it were not for the deactivations;
- how many claims would have gone to appeal if it were not for the deactivations;
- the total amount of dollars that were paid as a result of the deactivations;
- the total number of providers that would have had denied claims if it were not for the deactivations; and
- any additional information that is necessary in order to determine the impact that deactivation of edits has had on providers and States alike.

Additionally, States will be required to report the savings accrued as a result of the NCCI initiative in Medicaid.

The CMS will convene a multi-disciplinary team to review APDs submitted by States. Further, CMS plans to develop an MMIS-APD template specific to NCCI for State convenience. Once the APD template is developed, we will provide information for retrieving the document.

#### COTS Software and Its Application to Medicaid NCCI Methodologies

CMS provides information describing the requirements for COTS software and vendors implementing NCCI methodologies on behalf of the State on the MII and on the Medicaid NCCI webpage.

CMS requires that, for those States that use COTS vendors to perform claims processing activities on behalf of the State Agencies that receive NCCI methodologies in advance of the general public, confidentiality agreements must be in place to ensure the confidentiality of all information not available to the general public contained in the NCCI methodology files. Further, any requests for confidential information, including the release of edits received by State fiscal agents or State-contracted entities performing claims processing activities on behalf of the State agencies, must be reported to the State agency.

We wish to remind States that they have a responsibility to ensure that any entities that contract with them comply with all contract requirements, including issues of confidentiality. If it is found that COTS vendors that perform claims processing activities on behalf of State Agencies have used Medicaid NCCI file information for other than Medicaid business, or have shared confidential edits with other third parties, States must consider imposing penalties against such vendors. Vendors and the general public will have access to the Medicaid NCCI methodology edits each quarter when they are posted on the new Medicaid NCCI webpage on the CMS Web site on the first day of each calendar quarter. However, the MCDNCCI edit file information available on the CMS Web site will not contain all information in the MCDNCCI methodology files provided to the States.

## Contacts for States

Below is a list of contacts for States to use in implementing this program. Specifically, for questions related to:

- the MCDNCCI program, please contact Rick Friedman, Director, Division of State Systems, Center for Medicaid, CHIP and Survey & Certification, at 410-786-4451;
- individual claims, please contact your Fiscal Agent (or State-contracted entities); and
- reconsideration of MCDNCCI edits, please contact Correct Coding Solutions, LLC (CCS LLC).

States may also direct questions to the CMS Medicare NCCI contractor, CCS LLC, who can be contacted at:

Medicaid National Correct Coding Initiative  
Correct Coding Solutions, LLC  
P.O. Box 907  
Carmel, IN 46082-0907  
Facsimile: 317-571-1745

Additionally, CMS will post information to the CMS Web site and to the MII, including further instruction regarding such issues as the effective date of edits that have been deactivated by States.

The CMS looks forward to working with you to implement this important legislation.  
Sincerely,

/s/

Cindy Mann  
Director

Enclosure A – History of the NCCI in Medicare  
Enclosure B – Nature and Structure of Medicaid’s NCCI  
Enclosure C – Resources for States in Implementing National Correct Coding Initiative  
Methodologies in Medicaid

cc:

CMS Regional Administrators

CMS Associate Regional Administrators  
Division of Medicaid and Children’s Health

Rick Fenton  
Acting Director  
Health Services Division  
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Christine Evans, M.P.H.  
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Alan R. Weil, J.D., M.P.P.  
Executive Director  
National Academy for State Health Policy

## ENCLOSURE A

### HISTORY OF THE NCCI IN MEDICARE<sup>1</sup>

On December 19, 1989, the Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239) was enacted. Section 6102 of P.L. 101-239 amended Title XVIII of the Social Security Act (the Act) by adding a new section 1848, "Payment for Physicians' Services". This section of the Act provided for replacing the previous reasonable charge mechanism of actual, customary, and prevailing charges with a resource-based relative value scale (RBRVS) fee schedule that began in 1992.

With the implementation of the Medicare Physician Fee Schedule, it was important to ensure that uniform payment policies and procedures were followed by all carriers (A/B MACs processing practitioner service claims), so that the same service would be paid similarly in all carrier (A/B MAC processing practitioner service claims) jurisdictions. Accurate coding and reporting of services by physicians is a critical aspect of assuring proper payment.

The NCCI replaced and is more comprehensive than the "rebundling" program instituted by CMS, formerly HCFA, in 1991. Since the NCCI is a CMS program, its policies and edits represent CMS national policy. However, NCCI policies and edits do not supersede any other CMS national coding, coverage, or payment policies.

The coding policies are based on coding conventions defined in the American Medical Association's *Current Procedural Terminology (CPT) Manual*, national and local Medicare policies and edits, coding guidelines developed by national societies, standard medical and surgical practice, and/or current coding practice. Medicare carriers implemented NCCI edits within their claim processing systems for dates of service on or after January 1, 1996.<sup>2</sup>

Although the NCCI was initially developed for use by Medicare Carriers (A/B MACs processing practitioner service claims) to process Part B practitioner/ASC claims, many of the edits were added to the Outpatient Code Editor (OCE) in August, 2000, for use by Fiscal Intermediaries (A/B MACs processing outpatient hospital service claims) to process claims for Part B outpatient hospital services. Some of the edits applied to outpatient hospital claims through OCE differ from the comparable edits in NCCI. Effective January 2006, all therapy claims paid by Fiscal Intermediaries (A/B MACs processing outpatient hospital service claims) were also subject to NCCI edits in the OCE.

NCCI edits incorporated into OCE appear in OCE one calendar quarter after they appear in NCCI. Hospitals like physicians and other providers must code correctly even in the absence of NCCI or OCE edits. For example, new category I CPT codes are generally effective on January 1 each year, and many new edits for these codes appear in NCCI on January 1. However, the new edits for these codes do not appear in OCE until the following April 1. Hospitals must code correctly during the three-month delay.

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<sup>1</sup> Centers for Medicare & Medicaid Services (CMS), NCCI Policy Manual for Medicare Services, Version 15.3 – Effective October 1, 2009, pp. viii – ix.

<sup>2</sup> <http://www.cms.gov/NationalCorrectCodInitEd/>

On January 1, 2007, CMS incorporated Medically Unlikely Edits (MUEs) into the NCCI program. These edits are applicable to claims submitted to Carriers (A/B MACs processing practitioner service claims), A/B Medicare Administrative Contractors (MACs), Durable Medical Equipment Medicare Administrative Contractors (DME MACs), and Fiscal Intermediaries (FIs) A/B MACs processing outpatient hospital service claims).

## **ENCLOSURE B**

### **NATURE AND STRUCTURE OF MEDICAID'S NCCI**

The Patient Protection and Affordable Care Act (the Affordable Care Act) requires Medicaid to adopt NCCI methodologies. An NCCI methodology consists of four components:

- (1) A set of edits.
- (2) Definition of types of claims subject to the edits.
- (3) A set of claims adjudication rules for applying the edits.
- (4) A set of rules for addressing provider/supplier appeals of denied services based on the edits.

This Enclosure B addresses the edit sets and types of claims subject to the edits. The claim adjudication rules are posted to the new Medicaid NCCI webpage and the rules for adjudicating appeals of denied services are on this webpage as well.

NCCI methodologies only apply to services performed by a single provider to a single beneficiary on the same date of service.

NCCI methodologies consist of two types of edits:

- (1) NCCI procedure-to-procedure edits are pairs of HCPCS/CPT codes consisting of a column one code and a column two code. The edit defines two codes that should not be reported together for a variety of reasons. If both codes are reported, the column one code is eligible for payment and the column two code is denied. However, for many edits, there are circumstances where both the column one code and column two code are eligible for payment. These circumstances are identified by the modifier indicator for each edit which is discussed in the Edit Characteristics Document provided on the Medicaid NCCI webpage.
- (2) MUE units of service edits define for each HCPCS/CPT code the number of units of service that are unlikely to be reported if the claim is reported correctly. MUEs are applied separately to each line of a claim, NOT all units of service for a code on a single date of service. If more units of service are reported for the HCPCS/CPT code on a claim line than the MUE value for the code on that claim line, the entire claim line is denied. The claims processing contractor during the automated processing of the claim should NOT pay any units of service on the claim line if the MUE is triggered for a claim line. The provider/supplier will have to resubmit the claim if the Fiscal Agent (or the State-contracted entity that performs claims processing activities on behalf of the State Agency), permits this process or will have to appeal the claim line denial to receive payment for any units of service denied based on an MUE. For some procedures (e.g., colectomy), the MUE is an absolute limit. However, for other procedures, providers/suppliers may occasionally report units of service in excess of the MUE value by reporting the same code on more than one line of a claim with appropriate coding modifiers.

CMS is developing the Medicaid NCCI (MCDNCCI) edits based on Medicare NCCI and MUE edits and their underlying principles. Pursuant to the requirements of the Affordable Care Act, Medicaid is adopting most Medicare NCCI and MUE edits and the policies on which they are based. Since there is not adequate time to review all Medicare policies forming the basis for Medicare NCCI and MUE edits prior to the September 1, 2010 deadline for providing MCDNCCI to the States, CMS anticipates that it will review many of the underlying policies in the future and has the option to modify some of them and the edits based on them for Medicaid.

The CMS has identified five NCCI methodologies for implementation in State Medicaid programs:

- (1) NCCI procedure to procedure edits for practitioner and ambulatory surgical center (ASC) services derived from Medicare NCCI for practitioners and ASCs.
- (2) NCCI procedure to procedure edits for outpatient hospital services and all facility therapy services derived from Medicare NCCI edits for outpatient hospital services incorporated into Medicare OCE (outpatient code editor) for OPPTS (outpatient prospective payment system) hospitals.
- (3) MUE units of service edits for practitioner and ASC services derived from Medicare MUE for practitioners and ASCs.
- (4) MUE units of service edits for outpatient hospital services derived from Medicare MUE for outpatient hospital services.
- (5) MUE units of service edits for supplier claims for durable medical equipment derived from Medicare MUE for durable medical equipment.

The MCDNCCI available to States on September 1, 2010, will contain most Medicare NCCI/MUE edits for each of the five methodologies. MCDNCCI methodology files will be updated each calendar quarter. The first version is labeled version 1.3. The second version for January 1, 2011, will be version 2.0.

#### **DIFFERENCES BETWEEN MEDICAID NCCI AND MEDICARE NCCI/MUE**

Individuals familiar with Medicare NCCI/MUE will note two significant differences in Medicaid NCCI methodologies.

- (1) Medicaid NCCI procedure-to-procedure edits for each of the two methodologies will have a single CCE (Column one/Column Two Correct Coding Edit) file rather than separate CCE and ME (mutually exclusive) edit files as Medicare utilizes. Medicaid combined the Medicare CCE and ME files into a single CCE file. This change simplifies the use of MCDNCCI files posted on the CMS Web site. It also simplifies the use of MCDNCCI methodology files for Fiscal Agent (or State-contracted entity staff that perform claims processing activities on behalf of the State Agency), customer service, medical review, and appeals staff.
- (2) Medicaid NCCI procedure to procedure edits do not have a re-bundling (previous edit) indicator as Medicare edits have. This indicator is used by Medicare to indicate that an edit was included



in the Medicare Rebundling project from the early 1990s. This concept is not relevant to the Medicaid program.

Although the Medicaid NCCI methodology files initially only include edits also in Medicare NCCI/MUE, CMS anticipates that in the future MCDNCCI will include additional edits for codes not paid by Medicare, but paid by Medicaid.

The initial Medicaid NCCI methodology files do not include all edits in Medicare NCCI/MUE (i.e., MCDNCCI does not include certain groups of edits that require further evaluation by CMS).

**ENCLOSURE C**

**RESOURCES FOR STATES IN IMPLEMENTING NATIONAL  
CORRECT CODING INITIATIVE METHODOLOGIES IN MEDICAID**

<b>Name</b>	<b>When Resource Will Be Available</b>	<b>How States Will Obtain Resource</b>
Medicaid NCCI Methodology Files for State Medicaid Agencies and Fiscal Agents to Download	September 1, 2010	Medicaid Integrity Institute
Medicaid NCCI Methodology Files on CMS Web site (Excel and Tab Delimited TXT files)	October 1, 2010	Medicaid NCCI page on the CMS Web site
Medicaid NCCI and MUE Claims Processing Rules, File Names and Formats, Characteristics of Edits, Use of CLEID, and Appeal Adjudication Rules	September 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
MCDNCCI Claim Appeals Process	September 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
Correspondence Language Example Identification Number (CLEID)	September 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
<i>National Correct Coding Initiative Policy Manual for Medicaid Services</i>	October 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
<i>Correspondence Language Manual</i> (Utilizes CLEID)	October 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
Frequently Asked Questions - NCCI	Published upon availability	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
Frequently Asked Questions - MUE	Published upon availability	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site
Medicare Modifier 59 Article	September 1, 2010	Medicaid Integrity Institute and the Medicaid NCCI page on the CMS Web site

APPENDIX B

ADVANCE PLANNING DOCUMENT (APD) TEMPLATE FOR IMPLEMENTATION  
OF THE NATIONAL CORRECT CODING INITIATIVE (NCCI) IN A STATE'S  
MEDICAID MANAGEMENT INFORMATION SYSTEM (MMIS)

Name of State: \_\_\_\_\_

Name of State Medicaid Agency: \_\_\_\_\_

Name of Contact in State Medicaid Agency: \_\_\_\_\_

E-Mail Address of Contact in State Medicaid Agency: \_\_\_\_\_

Telephone Number of Contact in State Medicaid Agency: \_\_\_\_\_

Date of Submission to CMS Regional Office: \_\_\_\_\_

## DISCLAIMERS

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information by an agency of the Federal government, unless it displays a valid OMB control number. The OMB control number for this information collection has not yet been issued. Consequently, submission of the information requested in this document is not required until such a control number has been issued.

For the definition of an Advance Planning Document (APD) in Federal regulations, see 45 CFR, Part 95, Subpart F.

A State is requested to submit this APD to its CMS Regional Office in accordance with:

- the State Medicaid Director letter, SMD #10-017, ACA #7, dated September 1, 2010, on the NCCI and
- the following Federal law and regulations regarding Medicaid systems operations and conditions for Federal financial participation (FFP):
  - Federal Social Security Act, Title XIX, 42 USC 1396 et seq.
  - 45 CFR Part 92
  - 45 CFR Part 95, Subpart F
  - 42 CFR Part 433, Subpart C
  - Part II, Section 11 of the Medicaid Manual
  - 45 CFR 205.37(a)(1)-(8)
  - 45 CFR 307.15.

The time required to complete this information collection is estimated to average one hour per response, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection.

A State must obtain prior written approval from the appropriate, authorized Federal agency before expending any funds that may be eligible for Federal financial participation (FFP).

45 CFR allows CMS a maximum of 60 days to review APDs before providing a response to a State.

## INTRODUCTION

The purpose of this document is to provide information and a template to States for submitting an Advance Planning Document (APD) to their CMS Regional Offices for implementing the National Correct Coding Initiative (NCCI) in their Medicaid programs. The process and requirements for implementing the NCCI in Medicaid are described in the State Medicaid Director letter on the NCCI, SMD #10-017, ACA #7, dated September 1, 2010.

This APD template incorporates both “planning” and “design, development, installation, and enhancement” activities for incorporating the NCCI into a State’s Medicaid Management Information System (MMIS). It combines a “planning” APD and an “implementation” APD into one template. This template only applies to the NCCI.

To ensure that you have all required content for submission of this APD, please contact your CMS Regional Office.

A State should submit an APD to its CMS Regional Office with a cover letter signed by the appropriate State official who is authorized to commit State financial and other resources.

Part I of this APD template is to be used by a State to request CMS approval of Federal financial participation (FFP) for its expenditures for planning and implementing the Medicaid NCCI methodologies in its MMIS for the period March 23, 2010, to March 31, 2011.

Part II of this APD template is to be used by a State to request CMS approval of State deactivation of NCCI edits and / or Medically Unlikely Edits (MUEs) in the Medicaid NCCI methodologies for processing Medicaid claims with dates of service on or after April 1, 2011. None of these edits can be deactivated by a State after March 31, 2011, without prior CMS approval. This type of request must be submitted by a State to its CMS Regional Office no later than March 1, 2011, if it wishes to deactivate, or continue to deactivate, NCCI edits or MUEs by April 1, 2011.

If a State wishes to update or change its request after submitting Part I and / or Part II to its CMS Regional Office, the State only needs to submit to its CMS Regional Office an APD Update with the appropriate information and documentation for that Part of the APD.

Part III of the APD describes the information that a State is requested to report to its CMS Regional Office on its implementation of the Medicaid NCCI methodologies. A State is requested to report:

- if it does not pay its Medicaid claims on the basis of Healthcare Common Procedure Coding System (HCPCS) and Current Procedural Terminology (CPT) codes;
- the savings that the State has achieved in using the Medicaid NCCI methodologies in processing Medicaid claims each calendar quarter;

- by February 1, 2011, information on the edits that the State has deactivated from October 2010 through January 2011;
- information on the edits that the State has deactivated after March 31, 2011, for the remaining three calendar quarter in 2011; and
- information on other correct coding methodologies and edits that the State has added to its MMIS for each calendar quarter until the end of 2011.

## PART I

### REQUEST FOR CMS APPROVAL OF FEDERAL FINANCIAL PARTICIPATION (FFP)

#### PURPOSE OF PART I OF THIS APD

The purpose of Part I of this APD is for a State to request CMS approval of FFP for the design, development, installation, and enhancement of the State's Medicaid Management Information System (MMIS) for incorporation of the Medicaid National Correct Coding Initiative (NCCI) methodologies into the State's MMIS. A State Medicaid agency must submit an APD containing the information described below to its CMS Regional Office to request this approval.

#### CMS POLICY

Contingent upon the State's submission of the required information and documentation in Part I of this APD, CMS will approve FFP for State expenditures over the time period from March 23, 2010, to March 31, 2011, for the design, development, installation, and enhancement of the State's MMIS for the incorporation of all Medicaid NCCI methodologies into the State's MMIS. March 23, 2010, is the date of the signing of the Affordable Care Act. CMS requires all States to activate all NCCI edits and Medically Unlikely Edits (MUEs) in all five Medicaid NCCI methodologies for processing all Medicaid claims with a date of service on or after April 1, 2011 (with the exception of the deactivation of select edits previously approved by CMS).

The CMS will approve FFP only for past State expenditures since March 23, 2010, for which the State provides documentation of the activities performed for the above purpose that were funded by these expenditures.

#### SCOPE OF PART I OF THIS APD

The scope of Part I of this APD submitted by a State should include the State's planned and actual / past and future expenditures over the time period from March 23, 2010, to March 31, 2011, for both planning and implementation activities for the design, development, installation, and enhancement of the State's MMIS to incorporate the Medicaid NCCI methodologies into the State's MMIS.

States have flexibility to add edits beyond the NCCI edits. If this is the case, please identify the edits being added and describe the rationale, as this is helpful and useful information. However, State expenditures related to the implementation of edits that are **not NCCI edits must not be included in the State expenditures for which FFP is being requested.**

## INFORMATION REQUIRED FOR SUBMISSION OF PART I OF THIS APD

### **Section I: Executive Summary**

The Executive Summary consists of the Purpose of the Advance Planning Document, Background, and Organization.

### **Section II: Statement of Need and Requirements Analysis**

The Statement of Need and Requirements Analysis presents a summary of project needs and objectives, including a summary of the alternatives considered, and a discussion of the anticipated benefits of the proposed approach. This is a statement of the State's needs and requirements for incorporating the Medicaid NCCI methodologies into its MMIS.

The State Medicaid Director Letter for NCCI, and its enclosures, lay out the required objectives and timeframes for States to meet the requirements of the NCCI statute. This section lays out what the State will need to do to meet these requirements and timeframes. This should include what efforts will be necessary and the rationale for those efforts.

### **Section III: Project Management Plan, Proposed Project Schedule, and Personnel Resource Statement**

#### **Project Management Plan**

The Project Management Plan should include:

- a detailed description of the nature and scope of activities to be undertaken;
- the method used to accomplish the project, including products and deliverables;
- the project organization;
- procurement tasks and subtasks required to complete this project, project procurement activities, and procurement schedule, if procurement will be needed for this project; and
- State and contractor resource needs.

A table may be provided to lay out the proposed project organization. The table should include the core project team, State Medicaid agency staff, and augmentation / contractor staff. The project director / manager should be identified.



### Proposed Project Schedule

The Proposed Project Schedule presents tasks and subtasks required to complete the objectives in the form of a proposed overall schedule. This section should present a proposed overall schedule of the tasks and subtasks required to meet the requirements.

The Proposed Project Schedule for NCCI should include the Project Schedule to implement all five Medicaid NCCI methodologies by October 1, 2010. It should also include any project activities and milestones related to any request for deactivation of NCCI edits and MUEs that is being requested in Part II of this APD. Any such activities should be scheduled to allow for CMS approval of any and all deactivations of NCCI edits and implementation of those deactivations, by April 1, 2011.

The Proposed Project Schedule may be displayed in a table (add rows as needed):

TASK	START DATE	FINISH DATE

### Personnel Resource Statement

The Personnel Resource Statement identifies State and contractor staff resources and provides an estimate of total staffing requirements and costs. Staffing requirements for activities for which FFP is being requested in this APD should be specified in this section. If this APD includes a request for CMS approval to deactivate any NCCI edits, staffing requirements for that effort should be included.

TITLE / ROLE	FTE %	FTE #	COST
Core Planning Project Team			
Medicaid Agency Staff			
Augmentation Staff			
TOTALS			

#### **Section IV: Estimated Total Project Cost, Prospective Cost Distribution, and Proposed Project Budget**

The Estimated Total Project Cost and Prospective Cost Distribution present the total project cost and the overall request for Federal financial participation (FFP). This would include the total enhanced (90%) FFP and the total of any regular (50%) FFP. It should then give the requested Federal match amount and the State amount. The sum of these two amounts should equal the total project cost.

In addition, Section IV should specify the period over which the FFP will be claimed. This will correspond to the Proposed Project Schedule from Section III. The period of the FFP should cover March 23, 2010, to March 31, 2011. Documentation should be submitted that identifies which NCCI implementation activities were, are being, and will be performed by time period within these dates and the project costs associated with each of the activities by time period.

As specified in Circular A-87, a cost allocation plan must be included that identifies all participants and their associated cost allocation to depict non-Medicaid activities and non-Medicaid FTEs participating in this project, if any.

A table may be provided to lay out the proposed project budget. The table should include:

1. State Staff Costs (90% FFP)
2. Augmentation Staff Costs (90% FFP)
3. Non-Personnel Services Costs (90% FFP)
4. Training Costs (50% FFP) (State Medicaid Manual, Part 11, 11276.11)
5. Other Indirect Costs (50% FFP) (State Medicaid Manual, Part 11, 11276.9)

Please include any anticipated State-only costs.

COMPONENT / RESOURCE	MEDICAID				NON-MEDICAID COSTS	TOTAL COSTS
	COSTS	PERCENT FEDERAL MATCH <sup>1</sup>	FEDERAL MATCH AMOUNT	STATE AMOUNT		
State Staff Costs		90%				
Augmentation Staff Costs <sup>2</sup>		90%				
Direct Non-Personnel Costs		90%				
Indirect Personnel and Non-Personnel Costs		50%				
Training Costs <sup>3</sup>		50%				
Subtotals						
State-Only Costs (if any)		0%	\$0			
Totals						

The total estimated cost of this effort is \$xxx.

The amount of 90 percent FFP requested is \$xxx.

The amount of 50 percent FFP requested is \$xxx.

### Section V: Assurances

Section V includes procurement activities, monitoring and reporting activities, including access to records, licensing, ownership of software and the safeguarding of information contained within the system.

<sup>1</sup> Refer to Part 11 of the *State Medicaid Manual* for a complete list of reimbursable costs.

<sup>2</sup> Please see “Contractual Services” in section 11265 of the *State Medicaid Manual*.

<sup>3</sup> State expenditures for the “training of personnel directly engaged in the operation of an MMIS” may be eligible for 75 percent FFP. Please discuss this with your CMS Regional Office.

These assurances are based on automated data processing equipment for mechanical claims processing, outlined in the Code of Federal Regulations (CFR) listed, the appropriate sections of the State Medicaid Manual (SMM).

Please indicate by checking “yes” or “no” whether or not the State will comply with the Code of Federal Regulations (CFR) and the State Medicaid Manual (SMM) citations.

Please provide an explanation for any “No” responses.

*Procurement Standards (Competition / Sole Source)*

SMM Section 11267  Yes  No

45 CFR Part 95.615  Yes  No

45 CFR Part 92.36  Yes  No

*Access to Records*

42 CFR Part 433.112(b)(5) – (9)  Yes  No

45 CFR Part 95.615  Yes  No

SMM Section 11267  Yes  No

*Software & Ownership Rights, Federal Licenses, Information Safeguarding, HIPAA Compliance, and Progress Reports*

45 CFR Part 95.617  Yes  No

42 CFR Part 431.300  Yes  No

45 CFR Part 164  Yes  No

## PART II

### REQUEST FOR CMS APPROVAL OF STATE DEACTIVATION OF EDITS CONTAINED IN THE MEDICAID NCCI METHODOLOGIES AFTER MARCH 31, 2011

#### PURPOSE OF PART II OF THIS APD

The State Medicaid Director letter, dated September 1, 2010, on the implementation of the NCCI in Medicaid, as required by Section 6507 of the Affordable Care Act, states that all States must incorporate and activate all NCCI edits and MUEs contained in all five Medicaid NCCI methodologies for all Medicaid claims with a date of service on or after April 1, 2011. A State can deactivate NCCI edits and / or MUEs in the Medicaid NCCI methodologies in its MMIS, but can never deactivate the Medicaid NCCI methodologies themselves in its MMIS.<sup>4</sup> However, after March 31, 2011, a State Medicaid agency can only deactivate, or continue to deactivate, any of the NCCI edits or MUEs in the Medicaid NCCI methodologies in its MMIS after receiving prior approval from CMS.

The purpose of Part II of this APD is for a State Medicaid agency to request approval from CMS to deactivate one or more NCCI edits and / or MUEs in the Medicaid NCCI methodologies in its MMIS. States which do not want to deactivate any edits contained in the Medicaid NCCI methodologies in its MMIS after March 31, 2011, do not have to complete or submit this Part of this APD.

A State must submit this Part of this APD to its CMS Regional Office no later than March 1, 2011, if it wishes to deactivate, or continue to deactivate, NCCI edits and / or MUEs by April 1, 2011. If a State submits this Part of this APD after March 1, 2011, CMS may not approve deactivation of the requested NCCI edits and / or MUEs until after March 31, 2011. If this is the case, then the State must have the requested edits activated as of April 1, 2011, and cannot deactivate the edits unless and until CMS approval is received.

For example, this Part of this APD might be submitted by a State to its CMS Regional Office for the first time after March 1, 2011, in three situations. (1) A State may not have identified any NCCI edits or MUEs that conflict with State law, regulations, administrative rules, or payment policies until after March 1, 2011. (2) A new quarterly release of the Medicaid NCCI methodology files may contain new or revised NCCI edits or MUEs that now conflict with State law, regulations, administrative rules, or payment policies. (3) A new State law, regulation, administrative rule, or payment policy enacted after March 1, 2011, might conflict with one or more NCCI edits and / or MUEs in the Medicaid NCCI methodologies.

If a State which has received prior CMS approval for deactivation of one or more edits contained in the Medicaid NCCI methodologies after March 31, 2011, subsequently wishes to request CMS

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<sup>4</sup> As stated in the State Medicaid Director letter on the NCCI (SMD #10-017, ACA #7), dated September 1, 2010, NCCI edits and MUEs are only one of four components of the NCCI methodologies. The other three components are definitions of the types of claims subject to the edits, a set of claims adjudication rules for applying the edits, and a set of rules for addressing provider / supplier appeals of denied payments for services based on the edits.

approval to deactivate additional edits contained in the Medicaid NCCI methodologies in its MMIS, the State only needs to submit an APD Update to its CMS Regional Office to request this approval. The APD Update should identify the additional edits that the State wants to deactivate, describe the rationale for doing so, and include supporting documentation.

## CMS POLICY

The CMS may grant State flexibility to deactivate an NCCI edit or MUE which conflicts with a State law, regulation, administrative rule, or payment policy. CMS will not approve State deactivation of an NCCI edit or MUE after March 31, 2011, because the State is not operationally ready to implement the edit.

For those edits that CMS approves for deactivation by a State after March 31, 2011, CMS will provide the “deletion date” for those edits. The State must add the deletion date to the deletion date field in the NCCI methodology edit files for each of the edits approved for deactivation for each calendar quarter beginning with the calendar quarter in which the edit is first deactivated and every calendar quarter thereafter. The new Medicaid NCCI methodology files for each quarter are complete replacements of prior Medicaid NCCI methodology files; they are not files containing only updates of previous files.

Although the Medicaid NCCI methodology files will be updated for each calendar quarter, a State will not need to submit to its CMS Regional Office each calendar quarter an APD update to request CMS approval to continue deactivation of NCCI edits and MUEs that remain in conflict with existing State law, regulations, administrative rules, or payment policies.

However, if the relevant State law, regulation, administrative rule, or payment policy changes, so that it no longer conflicts with the edit(s), then the State is required to reactivate the edit(s) and notify CMS of the changes and reactivation through an APD Update. The APD Update should identify the edit(s) that the State is reactivating, describe the reason or rationale for doing so, and include supporting documentation.

If a State reactivates one or more edits, the “effective date” for each of the reactivated edits must be the first day of the calendar quarter in which the edit is active for claims processing. The State must modify the “effective date” in the State’s Medicaid NCCI methodology edit files for each reactivated edit to reflect the new “effective date”. Since the quarterly Medicaid NCCI methodology files are replacement files, rather than update files, the State must modify the effective date for each reactivated edit each quarter subsequent to the reactivation.

A State Medicaid agency cannot change or modify an activated edit contained in the Medicaid NCCI methodologies. The edits in the Medicaid NCCI methodologies are specific to the NCCI. Consequently, CMS is not providing State flexibility to modify NCCI edits or MUEs. However, CMS has authorized State flexibility to incorporate a changed or modified edit into its MMIS outside of the Medicaid NCCI methodologies.

Specifically, if a State wishes to change or modify an edit, the State should submit this Part of this APD to request CMS approval for deactivation of this edit in the Medicaid NCCI methodologies after March 31, 2011. If CMS approves deactivation of the edit, the State should deactivate the edit within its Medicaid NCCI methodologies and incorporate into its MMIS the edit in the changed or modified form that it wishes to use instead. The changed or modified edit will not be part of the Medicaid NCCI methodologies. States can use edits other than those contained in the Medicaid NCCI methodologies, but they cannot deactivate any of the edits contained in the Medicaid NCCI methodologies after March 31, 2011, without prior CMS approval.

## INFORMATION REQUIRED FOR SUBMISSION OF PART II OF THIS APD

For each edit, or group of edits, in the Medicaid NCCI methodologies that a State requests CMS approval to deactivate after March 31, 2011, please provide to the State's CMS Regional Office the information listed below:

- Specify the edit file by provider category that the edit is contained in:
  - practitioner / ambulatory surgery center;
  - outpatient hospital; or
  - durable medical equipment.
- Specify the type of edit it is: NCCI or MUE.
- For NCCI edits:
  - list each edit in terms of its "column one / column two" code;
  - provide the long (not the short) code descriptor for each code;
  - provide the modifier indicator for the edit; and
  - provide the effective date for the edit.
- For MUEs:
  - list each edit by its code number and
  - provide its current MUE value.
- If a State wants to deactivate an edit because it conflicts with a State law, regulation, administrative rule, or payment policy, please:
  - specify and describe the State law, regulation, administrative rule, or payment policy the edit conflicts with;
  - specify and describe what the conflict is; and
  - **provide a copy of the State law, regulation, administrative rule, or payment policy** that the edit conflicts with.

- In the case of a new State law, regulation, administrative rule, or payment policy that an edit conflicts with, please also include the date that the new State law, regulation, administrative rule, or payment policy goes into effect.
- Consistent with the information above, if a State wants to deactivate an edit and subsequently change or modify the edit outside of the Medicaid NCCI methodologies, please describe the change or modification of the edit that the State wants to make and the reason for the change or modification.
- If the State wants to deactivate the edit for another reason, please specify the reason, describe the rationale for deactivation, and provide any supporting documentation. CMS will assess the reason and rationale given for the proposed deactivation, but there is no guarantee that CMS will approve deactivation of the edit for the reason and rationale given.

A State can provide the above information (e.g., in a spreadsheet) as an attachment to Part II of this APD that it submits to its CMS Regional Office.



## PART III

### REPORTING REQUIREMENTS ON STATE IMPLEMENTATION OF THE NCCI IN MEDICAID

#### REIMBURSEMENT OF STATE MEDICAID CLAIMS NOT BASED ON HCPCS AND CPT CODES

The NCCI edits and MUEs contained in the NCCI methodologies are based on the Healthcare Common Procedure Coding System (HCPCS) and Current Procedural Terminology (CPT) codes. However, some States do not reimburse their Medicaid claims on the basis of HCPCS and CPT codes. For example, some States reimburse their Medicaid claims on the basis of “revenue code”. A State that does not reimburse its Medicaid claims on the basis of HCPCS or CPT codes is required to report to its CMS Regional Office the basis that it uses (e.g., “revenue code”) to reimburse its Medicaid claims.

#### SAVINGS DUE TO IMPLEMENTATION OF THE NCCI IN THE STATE’S MEDICAID PROGRAM

Each State is required to report to its CMS Regional Office for each calendar quarter until the end of calendar year 2011, the savings in Medicaid claims payments that the State achieved as a result of using the Medicaid NCCI methodologies in processing its Medicaid claims.

#### STATE DEACTIVATION OF EDITS

A State which has deactivated edits before February 1, 2011, is required to report to its CMS Regional Office by February 1, 2011, the following information for the period October 1, 2010, to January 31, 2011:

- the number edits that were deactivated;
- the types of edits that were deactivated;
- the rationale for deactivating the edits;
- the process and the workload for State staff that deactivating edits created;
- the number and dollar amount of claims that would have been denied, if the edits were not deactivated;
- the number and dollar amount of claims that would have gone to appeal, if the edits were not deactivated;

- the number and dollar amount of claims that were paid as a result of the deactivations;
- the total number of providers that would have had denied claims, if the edits were not deactivated; and
- any additional information that is necessary in order to determine the impact that deactivation of the edits has had on both providers and the State.

This information will be used in CMS' report to Congress on March 1, 2011.

A State which receives CMS approval for deactivating Medicaid NCCI / MUE edits after March 31, 2011, must report the same information to its CMS Regional Office for each calendar quarter until the end of calendar year 2011.

#### ADDITIONAL CORRECT CODING METHODOLOGIES AND EDITS INCORPORATED INTO A STATE'S MMIS

The CMS encourages States to develop and incorporate additional correct coding methodologies and edits that go beyond those contained in the Medicaid NCCI methodologies to promote correct coding and to control improper coding leading to inappropriate payment of Medicaid claims. For example, a State may want to extend Medicaid NCCI methodologies to claims for additional types of services (e.g., managed care) and claims from additional sites of services (e.g., long-term care facilities, Critical Access Hospitals (CAHs), Comprehensive Outpatient Rehabilitation Facilities (CORFs), etc.).

If a State's Medicaid managed care program uses managed care organizations (MCOs), then the Medicaid NCCI methodologies generally would not apply to the extent that the MCOs generate no claims for Medicaid reimbursement. However, if a State's Medicaid managed care program uses Primary Care Case Management (PCCM), in which the provider receives a small capitation fee, but bills the State's Medicaid program for services provided, then the Medicaid NCCI methodologies would be applied to those claims.

A State may incorporate additional correct coding methodologies and / or edits into its MMIS that go beyond the Medicaid NCCI methodologies and edits without prior CMS approval. However, if it does so, these additional correct coding methodologies and edits will not be part of the Medicaid NCCI methodologies. If a State believes that these additional correct coding methodologies or edits should be part of the national Medicaid NCCI methodologies, the State should submit its rationale to CMS' technical contractor for the NCCI, Correct Coding Solutions, LLC, for review by the CMS Medicaid NCCI Workgroup.

The CMS requests that a State which incorporates additional correct coding methodologies and / or edits into its MMIS that go beyond the Medicaid NCCI methodologies and edits report to its CMS Regional Office what these additional correct coding methodologies and edits are and the reason or rationale for adding them to its MMIS.

A State's MMIS may contain edits for processing Medicaid claims from a variety of sources, e.g., the Medicaid NCCI methodologies, additional State-specific correct coding methodologies and edits, edits from commercial off-the-shelf (COTS) software used by the State to process Medicaid claims, and edits from the vendor the State contracts with to process Medicaid claims. Denials for payments of Medicaid claims that are due to edits from these other sources that are not contained in the Medicaid NCCI methodologies should not be attributed to the Medicaid NCCI methodologies.

A State which has incorporated additional correct coding methodologies and edits into its MMIS is required to report to its CMS Regional Office for each calendar quarter until the end of calendar year 2011 the following information:

- a description of the additional correct coding methodologies and edits the State has incorporated into its MMIS and
- the savings in Medicaid claims payments that the State achieved as a result of using the additional correct coding methodologies and edits in processing its Medicaid claims.