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

SHO #06-005

October 10, 2006

Dear State Health Official:

Your State will be participating this year in the review of improper payments in Medicaid and State Children's Health Insurance Program (SCHIP) under the Payment Error Rate Measurement (PERM) program for the fiscal year (FY) 2007 measurement. This letter provides you with information regarding your State's participation in the PERM measurement. We also invite you to participate in a "kick-off" conference call to be held on October 11, 2006 from 1 - 2 P.M., EST.

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

Under PERM, CMS will conduct reviews in three areas for both the Medicaid and SCHIP programs: (1) fee-for-service (FFS), (2) managed care, and (3) program eligibility. The results of these reviews will be used to produce national program error rates, as required under the IPIA, as well as State specific program error rates. CMS has developed a national contracting strategy for measuring the first two areas, FFS and managed care, mentioned above. States will be responsible for measuring the third area, program eligibility, for both programs. This letter outlines States' responsibilities for assisting CMS in the measurement of areas 1 and 2 above and provides specific instructional guidelines and a timeline to assist States for their measurement of area 3 above, program eligibility.

By way of background, on August 28, 2006, CMS published an interim final regulation with comment (71 *Fed. Reg. 51010*). This regulation contains information on CMS' national contracting strategy to estimate improper payments in areas 1 and 2 above, the FFS and managed care components of Medicaid and SCHIP. The regulation also requires States to measure area 3 above, the eligibility component in each program, and invites comments on measuring eligibility under the PERM program. Under our national strategy, each State will be measured for both

Medicaid and SCHIP once and only once every three years for each program. The States that will be measured for fiscal years (FY) 2007-2009 (which will rotate thereafter) are as follows:

States Selected for Medicaid and SCHIP Improper Payment Measurements

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

Fee-For-Service and Managed Care Claims Measurement:

For the FY 2007 FFS and managed care claims measurements, CMS awarded contracts to a statistical contractor, a documentation/database contractor, and a review contractor.

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

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

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

The Federal contractors will be contacting each State to obtain the primary and secondary contact information for the program lead, and persons responsible for the claims data and medical policy submissions for each program. The contractors will follow up with each State individually to provide more details and address specific State concerns on the submission of the claims data and medical policies. We have attached a list of the specific information that the contractors will be requesting from your State agency (Attachment A).

We view the accuracy of your State's error rate as a cooperative effort. The success of the FY 2007 PERM measurement is highly dependent on State submission of complete and accurate claims data and medical policies in a timely manner. To that end, it is critical that you take measures to ensure that the claims data and medical policies are submitted by the dates requested

by the PERM contractors. The Federal contractors will work closely with you throughout the sample and review process to ensure the success of the measurement and the accuracy of your State's error rates.

The Federal contractor will request the medical records directly from providers to support the medical reviews of FFS claims. A concern that some providers may have is maintaining the privacy of patient information, which may result in these providers not submitting the requested medical records. You can assure the participating providers in your State that the collection and review of protected health information contained in medical records for payment review purposes is permissible by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and Privacy Rule regulations at 45 CFR Parts 160 and 164. Also, CMS has the legal authority to collect this information under Section 1902(a)(27) of the Act which requires providers to retain records necessary to disclose the extent of services provided to individuals receiving assistance and furnish CMS with information regarding any payments claimed by the provider for furnishing services. You can help reduce the incidence of errors caused by no documentation and insufficient documentation by educating your program's providers on this measurement process and on the importance of submitting documentation timely and accurately. We have posted to the PERM website (www.cms-perm.org) a sample provider education letter that you may want to adapt and issue to your providers.

Program Eligibility Measurement:

The eligibility component will be measured by the States. Once your State has produced the eligibility error rate, you will then provide that eligibility error rate to the statistical contractor. We have attached guidance on the sampling, reviews, error rate calculation, and reporting requirements (Attachment B).

We encourage you to participate in the kick-off conference call to be held on October 11, 2006 at 1 - 2 P.M, EST, to be oriented to the PERM program. The phone number is 410-786-3100. The conference identification number is 690538. To obtain more information on the PERM program, we invite you to visit our website at http://www.cms.hhs.gov/MedicaidPERM and at www.cms-perm.org. CMS is committed to working with your State throughout this year's measurement process under the PERM program. We look forward to working with you this year and in future years to ensure the financial integrity of the Medicaid and SCHIP programs.

Sincerely,

/s/

Timothy B. Hill
Director
Office of Financial Management

/s/

Dennis G. Smith
Director
Center for Medicaid and State Operations

cc:

CMS Regional Administrators

CMS Associate Regional Administrators
for Medicaid and State Operations

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

Joy Wilson
Director, Health Committee
National Conference of State Legislatures

Matt Salo
Director of Health Legislation
National Governors Association

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

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

Lynne Flynn
Director for Health Policy
Council of State Governments

Attachment A

PERM Statistical Contractor:

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

Listed below is the listing and schedule of information the State should submit.

State Information Needed for Medicaid and SCHIP

#	Deliverable	Description	Date
1	State Medicaid and SCHIP primary and back-up points of contact for PERM	To help facilitate the compilation of data, what services are in each stratum and the mechanics of delivery to the statistical contractor.	11/01/06
2	Data documentation necessary to read the claims file	Record layouts, data dictionaries, and other manuals to correctly analyze the claim	11/15/06
3	Claims data for FFY 2007 Quarter 1	Provide an electronic flat file of Medicaid and SCHIP FFS and managed care claims (if applicable) as instructed by contractor.	01/15/07
4	Claims data for FFY 2007 Quarters 2, 3, and 4	Same as #3	04/15/07 07/15/07 10/15/07

PERM Documentation/Database Contractor:

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

State Information Needed for Medicaid and SCHIP

#	Deliverable	Description	Date
1	State primary and back-up points of contact	To help facilitate the compilation of policies, what policies apply to each stratum, and the authority structure of the policy	11/01/06
2	State policies regarding claims payment that were in effect on October 1, 2006.	All Medicaid and SCHIP policies to support the medical reviews including: ▪ State plan, ▪ Regulations, ▪ Policy letters, transmittals, or other documents clarifying program requirements, limitations, or procedures	01/31/07
3	Quarterly policy updates	All changes to the policies in #2 and the effective date	01/31/07 04/28/07 07/31/07 10/31/07

PERM Review Contractor:

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

State Information Needed for Medicaid and SCHIP

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

ATTACHMENT B: