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

SHO# 05-002

October 6, 2005

Dear State Health Official:

We wish to inform you that on October 5, 2005, the Centers for Medicare & Medicaid Services (CMS) published the Medicaid Program and State Children's Health Insurance Program (SCHIP) Payment Error Rate Measurement regulation (70 *Fed. Reg.* 58260). This regulation contains information on CMS' plans to engage a national contracting strategy in order to implement a portion of Public Law 107-300, the Improper Payments Information Act of 2002 (IPIA) in Medicaid and in SCHIP. We believe the national contracting approach for medical and data processing reviews addresses some of the concerns expressed during public comment on the August 27, 2004, proposed rule and is the most viable method to produce State-specific and national error rates in compliance with IPIA. CMS will address estimating improper payments for managed care and eligibility at a later date.

The IPIA requires Federal agencies to review programs that are at risk for high levels of improper payments. Since the Office of Management and Budget (OMB) identified Medicaid and SCHIP as at-risk programs, CMS is required to estimate the annual amount of improper payments in these programs and report on its actions to reduce such payments. The national contractor will perform medical and data processing reviews of claims in the States selected for review. Reviews will provide the basis for State-specific Medicaid and SCHIP error rates upon which a national error rate can be estimated for each program. National implementation of this project will begin with reviews to measure the Medicaid fee-for-service error rate in fiscal year (FY) 2006.

We notified States of our national contracting strategy on July 22, 2005, when we published an information collection package in the *Federal Register* (70 *Fed. Reg*. 42324) and provided a 30-day comment period. This package described the types of information selected States would need to submit to the contractor, and included our estimate of the costs and burden this information collection would place on States and Medicaid providers. On August 26, 2005, we published a second information collection package in the *Federal Register* (70 *Fed. Reg*. 50357) that revised the initial information collection package based on public comments, and provided another 30-day comment period. OMB approved the information collection on October 4, 2005.

The CMS has awarded contracts to implement the national contracting strategy for medical and data processing reviews. The process for estimating improper payments in Medicaid FFS will involve reviews of claims in a sample of States that will be selected each year. In FY 2006, up to 18 States will be randomly selected. For subsequent years, CMS' sampling methodology will ensure each State will be selected once, and only once, every 3 years for each program.

States that are not selected for review in a given year will not need to participate in the error rate process for that year.

If a State is selected for review, the State can expect to receive a selection letter from CMS by November 2005. CMS, along with the statistical contractor and the database/documentation contractor, will formally contact each selected State to establish points of contact and discuss the error rate process. States selected for the FY 2006 error rate process will be required to submit initial information, beginning in the first quarter of FY 2006, and any subsequent information on a quarterly basis throughout the year.

As outlined in the information collection package and supporting statement, the initial and quarterly data States need to provide include:

- Previous year's claims data;
- Adjudicated and stratified claims on a quarterly basis;
- All medical policies in effect and quarterly policy updates to support the medical reviews;
- Provider contact information so that the contractor can request medical documentation to support the medical reviews;
- Systems manuals for data processing reviews;
- Access to claims payment systems for data processing reviews;
- Technical assistance necessary for the contractor to complete the reviews;
- Repricing of claims;
- For claims selected for review that are in the appeals process, information on the outcome of the claims process, including approval, denial, or adjustment of claims; and,
- An error rate reduction report that addresses actions to be taken to reduce the causes of the State's error rate.

CMS and the States are committed to ensuring payment accuracy in Medicaid and SCHIP. The error rate measurements and actions taken in other CMS programs, such as Medicare, are important steps toward improving payment accuracy. Similarly, measuring improper payments in Medicaid and SCHIP can help identify ways to reduce these payments. We can use the information gleaned from this and other CMS efforts, like the Medi-Medi program, best practices in accounting and financial tracking, and providing technical assistance as we work in partnership with States to ensure accurate program payments are made. We look forward to working with you to enhance the efficiency of the Medicaid and SCHIP programs.

Sincerely,

/s/

Timothy B. Hill
Director, Office of Financial Management

/s/

Dennis G. Smith
Director, Centers for Medicaid and State Operations

cc:

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