



DEPARTMENT OF HEALTH & HUMAN SERVICES  
Health Care Financing Administration

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Center for Medicaid and State Operations  
7500 Security Boulevard  
Baltimore, MD 21244-1850

**SMDL #01-019**

July 3, 2001

Dear State Medicaid Director:

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration is pleased to announce a demonstration project to build on the experiences of various states in the development of a Payment Accuracy Measurement System (PAM) for Medicaid. Under this initiative, states have the opportunity to work collaboratively in a study of methodologies for measurement of accuracy of payments made for Medicaid services, and in the creation of effective models for use at the state and national levels.

Studies of Medicaid payment systems performed by states have demonstrated that errors occur for a variety of reasons. Causes for improper payments have been discovered in documentation, claims processing, medical necessity, policy application, and in other aspects of the system. To date, state and Medicaid program efforts to measure payment accuracy have focused on fee-for-service payments. However, we are also interested in developing methodologies for measuring improper payments made in a managed care environment. The purpose of our demonstration project is to develop payment accuracy measurement methodologies that can be used on a state-specific and potentially nationwide basis. We are not addressing eligibility-related payment errors, which are governed exclusively by section 1903(u) of the Social Security Act.

It is essential to stress that measurement of payment accuracy is a developing science and we will be learning as we proceed. Payment accuracy measurement is important because measurement of performance is integral to sound program management. Everyone in government is accountable for protecting taxpayer dollars and meeting concrete goals and objectives for improvements. The payment accuracy measurement will help determine the extent of improper payment and where to invest resources to improve the payment system.

This Medicaid PAM Demonstration Project will provide funding to identify and develop methodologies. Under this program, states will submit their costs as Medicaid administrative costs, and be awarded grants to cover the remaining costs of participation. One hundred percent of the costs will be covered. Your State will not incur expenses to participate in this agreement.

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The duration of the project is expected to be for a minimum of two years. This agreement is for the first year. Subsequent solicitations will cover additional years. States participating in the first year will work to share, develop, and test various approaches to payment measurement. Six to eight states will be selected to participate in the initial year. Participants in the second year will evaluate the most promising experiences from the initial year. The emphasis in year two will be to share, discuss, and refine the methodologies that represent the best practices.

Applications for the year July 1, 2001 through June 30, 2002 are due 45 days from the date of this letter. Selections will be announced in July. The State Medicaid Agency or other state agencies in partnership with the State Medicaid Agency may submit applications.

An invitation to apply for this grant is enclosed. I urge your State to consider participating in this important initiative. If you have any questions or need additional assistance, please contact Tom Stegbauer (410) 786-0292, e-mail: [tstegbauer@hcfa.gov](mailto:tstegbauer@hcfa.gov).

I look forward to joining with you to enhance the effectiveness of the Medicaid program. Our success will be our cooperation in meeting the needs of beneficiaries while insuring the financial integrity of the program.

Sincerely,

/s/

Penny R. Thompson  
Acting Director

Enclosure

cc:

CMS Regional Administrators

CMS Associate Regional Administrators  
for Medicaid and State Operations

State Program Integrity Directors

Lee Partridge  
Director, Health Policy Unit  
American Public Human Services Association

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Brent Ewig  
Association of State and Territorial Health Officials

Joy Wilson  
Director, Health Committee  
National Conference of State Legislatures

Matt Salo  
Director of Health Legislation  
National Governors' Association

## *Executive Summary*

### **Developing Medicaid Payment Accuracy Review Systems**

#### **Demonstration Project**

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration is soliciting proposals from states to participate in a demonstration project to develop methods; (1) to measure the accuracy of state Medicaid payments; (2) of comparing payment accuracy rates between states; (3) of estimating payment accuracy nationally.

The project will cover a minimum of 2 years. This agreement is for the initial year. Funding for the agreement has been secured for the first year of the demonstration project (FFY 2001). Funding for the second year (FFY 2002) has been requested and is expected. CMS will pay 100 % of the costs of participating in the project.

While CMS anticipates that the proposals that are submitted by the states will vary, the overall expectation is that participants in the demonstration project will contribute their knowledge and experience to the other participants. The first year of the project will include six to eight states, expanding to twelve to fifteen states in the second year. The team will also include a consultant and CMS. The best source of information and experience needed to develop successful measurement tools comes from the existing state programs. Accordingly this project will include identifying the best practices from successful efforts currently in use in selected states. This agreement will serve as a catalyst to bring such knowledge and experience together.

This solicitation is for the first year of the demonstration project. Subsequent solicitations will cover additional years. Only one application will be accepted from each state for each year. Applications will be accepted from the State Medicaid Agency or from another relevant state agency (e.g. Audit Agency, Comptroller) if working in collaboration with the Medicaid Agency. Proposals are being solicited under the authority of Section 402(a)(1)(J) of the Social Security Act Amendments of 1967. For purposes of this cooperative agreement, "State" is defined as each of the 50 States and the District of Columbia.

We will announce the first round of awards in July 2001. The first grant period is for 12 months from July 1, 2001 through June 30, 2002. The second grant period will be for 12 months from July 1, 2002 through June 30, 2003. The size of the demonstration group will be roughly doubled in Year 2.

## *Developing Medicaid Payment Accuracy Measurement Systems*

### **Demonstration Project**

Sponsored By:

The Centers for Medicare and Medicaid Services

#### **I. Purpose**

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration is soliciting proposals from states to participate in a demonstration project. This grant offers the opportunity to work collaboratively to develop model methodologies to measure the accuracy of payments made for Medicaid services. The methodologies developed will be useful to management of Payment Accuracy Measurement (PAM) programs at the state level. CMS is also interested in methodologies that multiple states could use as we explore the feasibility of a national rate. To be eligible for selection, the applicant must be; (a) the State Medicaid agency or (b) a state agency working in partnership or agreement with the State Medicaid Agency.

The Medicaid program spends over two hundred billion taxpayer dollars annually on services for eligible beneficiaries. The taxpayer dollars invested in the program must be managed and expended for needed services at reasonable rates. It is incumbent on everyone involved to focus on financial stewardship at all levels of the program. Accordingly, there is increasing attention being paid to payment integrity. CMS has been urged by Congress, the General Accounting Office, the Office of Management and Budget and others, to establish a method to measure the accuracy of Medicaid payments. A payment accuracy rate establishes a base to: (1) identify the extent of problems in the payment system; (2) study causes; and (3) strengthen internal controls. The demonstration project team will have an opportunity to work collaboratively to develop one or more model methodologies to measure the accuracy of payments.

While CMS anticipates that the proposals that are submitted by the states will vary. States participating in this demonstration project will participate as a member of the demonstration study team. The team members will include six to eight states in the first

- year, expanding to twelve to fifteen in the second year. A consultant and CMS staff will also participate. The goals of the study team will be to: (1) overcome the various obstacles to identifying payment errors; (2) foster experimentation to identify successful strategies and practices that will help public payers in future PAM projects; and (3) help CMS gain perspective on the conceptual and practical challenges facing states in

implementing Medicaid payment accuracy measurement systems. The study team will construct, test and evaluate PAM methodologies in order to arrive at one or several methods that are accurate and cost-effective on a state specific and potentially national level.

Recognizing that the best source of experience and knowledge of the payment for Medicaid services resides in the state agencies, CMS wishes to bring together leadership from the states to insure the development of the best possible methodologies. It is important to explore the different approaches currently in use, recognize best practices and incorporate leading edge knowledge. This synthesis will be an effective part of improving the management functions in the Medicaid system and continuing to address program integrity issues.

In summary, the purpose of this demonstration project is to develop methods; (1) to measure Medicaid payment accuracy on a state specific basis; (2) of comparing payment accuracy across states; and (3) of estimating payment accuracy nationally.

## *II. Background*

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration is soliciting State Medicaid Directors to work on a demonstration project entitled, "Developing a Medicaid Payment Accuracy Measurement Systems". In this demonstration project states will have an opportunity to work collaboratively with CMS to develop model methodologies to measure the accuracy of payments made for Medicaid services. The methodologies developed may be useful to management of Payment Accuracy Measurement (PAM) programs at the state level. CMS is also interested in methodologies that multiple states may find useful. To be eligible for selection, the applicant must be the state agency with responsibility for operation of the Medicaid program, or one working in partnership or agreement with the State Medicaid Agency. The State Medicaid Agency may partner with others in their state as appropriate (e.g., Auditor / Comptroller). CMS will pay 100% of the cost of participating in the demonstration project. The costs of participating in this project qualify as a Medicaid Administrative costs matched at 50% (administrative cost match rate) or at 75% (Skilled Professional Medical Personnel or MMIS). The funds provided through this demonstration project will cover what would normally be the state share of this Medicaid administrative activity. (e.g. if you approve project costs in year 1 that total \$100,000 all subject to the 50 percent basis match rate, you would claim \$100,000 FFP, receive a \$50,000 project grant from CMS and \$50,000 from regular Medicaid funds.) The project is for a minimum of two years. Funding has been secured for the first year and is anticipated for the second year.

A number of states have performed limited Medicaid payment accuracy studies, reviews, or audits in connection with their annual Single Audit Act (A- 133) audits. Several states have done more intensive work. Each A-133 effort has been unique, with different strengths. CMS is interested in building on those efforts to advance the state-of-the-art. The grant will assist in examining approaches that review a universe of beneficiary claims that covers a broad range of services. The benefits from measurement include pinpointing problem areas so that improvement strategies can be better focused; identifying industry best practices; improving care delivery; improving fraud detection efforts by identifying specific payment system vulnerabilities; and establishing a base line for comparing performance within the state and across state lines.

CMS expects overpayments identified from specific claims to be recovered, where cost effective and appropriate as determined by the participating state in conjunction with CMS.

CMS feels that measurement tools are an effective part of improving the management functions in the Medicaid system and continuing to address program integrity issues. We encourage your participation in this demonstration project to assure that the tools developed embody practical approaches to addressable issues. Working together, we have the greatest opportunity to improve services to the beneficiaries. Please call Tom Stegbauer (410) 786-0292 if you have questions or want more information related to this program.



### **III. Demonstration Project**

The Centers for Medicare and Medicaid Services' goal in this collaborative project is to bring together a group of interested states to develop methods of: (1) identifying state specific payment accuracy rates; (2) comparing payment accuracy between states; and (3) estimating payment accuracy nationally.

Selected states will participate as part of a work group to: (a) share their experiences with measuring payment accuracy; (b) discuss different approaches to auditing; (c) select best practices of the industry; and (d) analyze various methodologies. Participating states will also be asked to share their experiences with other interested states in appropriate conferences, as determined by the group.

CMS will be a member of the working group and provide leadership to the effort. CMS will provide; (a) consultants who are knowledgeable in the measurement of payment accuracy measurement and statistical methodologies; (b) administrative support to the activities of the group; (c) oversee the development of nationally applicable information; and (c) assist with the dissemination of the results of the demonstration project nationally.

#### **A. Who May Apply**

Applications will be accepted from two types of agencies; (1) the State Medicaid Agency; or (2) the Auditor, Comptroller or other state agency, in partnership with the State Medicaid Agency. For the purpose of this cooperative agreement, "State" is defined as each of the 50 States and the District of Columbia. Only one application will be accepted per state. See Part VI for specific information regarding the application process.

#### **B. Duration of Awards**

The award is for the first year of the demonstration project. Participants in the first year will be encouraged to apply for the second year.

1. **Year One Participants:** States participating for the first year of the project will form the initial study team. This team will work to share and develop and test various approaches to payment measurement. It is a desire to have the experiences of the participants represent different methodologies. CMS desires to have participants in this team that represent a wide variance of characteristics and experience. The demonstration project would be richer if the participants demonstrated differences in population density / managed care versus fee-for-service / practice patterns / and Program Integrity development.
2. **Year Two Participants:** States selected to participate in year two of the grant will evaluate the most promising experiences from the initial year of the project. The emphasis in year two will be to share, discuss and refine study methodologies that represent best practices. Year 2 participants will still be in the initial stages of trying various PAM approaches. Participants in the first year of the demonstration project will be encouraged to apply for the second year.

### **C. Amounts and Timelines for Funding**

CMS anticipates announcing the first round of awards within thirty days of receiving the applications. The first funding will be for the year beginning July 1, 2001 and ending June 30, 2001. Contingent upon appropriations awards for the second year will be announced in March 2002. The amount of award will vary from state to state. CMS will pay for 100 % of the appropriate costs for the demonstration project. The costs of conducting the demonstration project qualify as a Medicaid Administrative cost matched at 50% (basis administrative cost match rate) or at 75% (Skilled Professional Medical Professional or MMIS). The funding is provided through the Health Care Fraud and Abuse Control Program (CMSC) and authority for the project is provided for under Section 402(a)(1)(J) of the Social Security Amendments of 1967. The actual award amount will be determined based on the extent of costs experienced during the demonstration project by the participating state. The funds will be distributed through the mechanism used to fund Medicaid expenditures for the participating state. The detailed financial proposal accompanying the response to this solicitation must demonstrate an understanding of the funding mechanism.

### **D. Uses of Funds**

Funds may be used for payment of direct expenses associated with the demonstration project. The expenses must be incurred at the state level and may be expended by government or other organizations or entities with the responsibility to perform the activities requested under the agreement. Examples might include: SURS unit costs

incurred for chart review, contractor related expenses for auditing medical records or the costs to retrieve records from various locations.

Funds under this initiative may not be used for services or consultants whose purpose is not related to this demonstration project. Funds may not be used for equipment purchase or overhead costs. The indirect costs may not to exceed 9%.

## **TV. Review Criteria and Process**

### **Required Features –50 Points**

State agencies must demonstrate an understanding of the current state payment accuracy measurement in Medicaid and other health care payment systems. At a minimum, a literature review of published research should be included in the application that reflects this understanding and identifies the conceptual and operational opportunities and challenges confronted in payment accuracy measurement. In addition, applicants should reflect the enforcement, policy and operational strategies that might be employed in taking action on the findings.

Proposed methodologies must have the following characteristics. These constructs have been selected to provide a framework that would help establish consistency in approach to data collection and analysis.

- The sampling frame must be all claims submitted in at least a quarter's worth of fee-for-service claims processing.
- Include all services funded by the State Medicaid Agency. Long Term Care is an area of interest.
- Statistically valid sampling.
- Classification of improper payments by source of error. (Processing, Documentation, Coverage, and Medical Necessity)
- Review of all documentation supporting the provider claim, including the Medical Records. Applicants are to indicate the preferred method of record collection and sampling. (Asking providers to send in records; the agency going on site to collect the record from the provider.)

### **Optional Features —30 Points**

Participating states wishing to include some of the unique characteristics of their program may tailor their approach to reflect their individual programs by adding to the above listing of features. The following list is not exhaustive and states may include other areas of emphasis. Responses should reflect consideration and understanding of each of the following elements.

- Patient / Beneficiary interviews and surveys. –Some studies of payment accuracy have included interviewing the beneficiaries to determine that accuracy of claims information. States may wish to include this feature.
- Pre-payment vs. post-payment review. Applicants may wish to study the claims approval/rejection process as part of the project. This could entail a review of the denial process.
- Managed Care / Capitation Payments. Applicants are asked to provide suggested approaches to reviewing the accuracy of payments for care provided in a managed system. Approaches could include review of compliance with quality standards; access to providers; and payment for services.
- Medical Necessity. CMS's experience with Medicare and the experience of most states indicate that reviewing the medical need for services is valuable in determining the accuracy of the entire system. A review of medical necessity may also provide a method of evaluating the patient's medical outcome.

### **Partnering with other Agencies within the State – 10 Points**

Applicants may wish to involve other state agencies. This partnering may provide a broader understanding of the accuracy of payments. Examples of partners might include; State Audit Agencies or Comptrollers, Medical Fraud Control Unit, and State 01G. The State Medicare Agency must be the lead in the project.

### **Staffing – 10 Points**

Key staff, possessing the experience and skills to conduct and participate in this demonstration project must be assigned. Please provide a listing of the staff to be assigned including experience and qualifications. Include phone numbers and email addresses.

### **In General:**

A panel of experts will conduct a review of all applications. The panel will assess each application based on the areas specifically listed to determine the match with the proposal and the extent to which it furthers the purposes of the demonstration project. CMS reserves the right to modify certain sections of the proposals based on the recommendations of the panel. CMS reserves the right to assure reasonable geographic and other representation. CMS reserves the right to reject any and all proposals. CMS will make final award decisions after consideration of the recommendations of the panel.

CMS anticipates announcing the awards in July 2001. States will receive written confirmation of final award decisions.

## *V. General Provisions*

Although applicants have considerable flexibility in developing this demonstration project, the state must agree to the following:

### Reporting

States receiving awards must agree to cooperate with any Federal evaluation of the product of the work and to provide required information and reports in a form prescribed by CMS. The reports will be designed to explore and compare the accuracy of payments for Medicaid services. The reporting format will be supplied by CMS and through the efforts of the pilot study group.

### Coordination with Demonstration Project Team

Awardees will be working with a group of similar states to explore methodologies for determining the accuracy of Medicaid payments. The work methods and procedures will be coordinated with the group and not determined independently by the awardees. The contributions of all participants will be considered when selecting test methodologies.

### Meetings

States receiving awards should plan to attend an initial coordination meeting of other participants in the study. CMS and consulting staff will meet with appropriate state staff at the state offices as appropriate. It is anticipated that a meeting to review findings will be scheduled near the conclusion of the study.

### Civil Rights

All recipients under this agreement must meet the requirement of the Civil Rights Act of 1964; Section 504 of the Rehabilitation Act of 1973; the Discrimination Act of 1975; and provisions of Title II, Subtitle A of the Americans with Disabilities Act of 1990.

## ***TI. Applying for this Demonstration Project***

### **Application Format**

Appendix Three contains a format for submitting an application.

### **Deadline for Submission**

The closing date for proposals submitted under this solicitation is June 7, 2001. Applications mailed through the U.S. Postal Service of a commercial delivery service will be considered on time if they are received in CMS 's Grants Office or postmarked by the closing date. Submissions by facsimile (fax) transmission will not be accepted. A proposal not postmarked by the closing date will be considered late. Late proposals will not be considered, and will be returned without review.

An original proposal should be sent with seven copies to:

Centers for Medicare and Medicaid Services  
Grants Management Staff  
Office of Strategic Planning  
Mail Stop C2-21-15  
7500 Security Boulevard  
Baltimore, Maryland 21244-1850

Attn: Marilyn Lewis-Taylor

Phone: (410) 786-5701

e-mail: [mlewistaylor@hcf.gov](mailto:mlewistaylor@hcf.gov)

Please note: While state agencies are only required to submit an original and two copies, the submission of an original and seven copies will greatly expedite the application and review process.



***VII. Additional Information***

For additional information regarding this solicitation, please contact:

Medicaid Payment Accuracy Measurement Project  
Finance, Systems and Quality Group; CMSO; CMS  
Mail Stop S3-13-15  
7500 Security Boulevard  
Baltimore, Maryland 21244-1850

Attn: Tom Stegbauer (410) 786-0292 e-mail: [tstegbauer\(2~hcfa](mailto:tstegbauer(2~hcfa)

## *Appendix Three*

### **Application Format and Guidelines**

Please use the format outlined below and submit materials in the order listed.

The narrative option of the proposal should not exceed 5 double-spaced typewritten pages with one-inch margins on all sides, 12-point font. This page limit does not include cover letter, budget, or required appendices.

Additional documentation may be appended; however, material should be limited to information relevant but not essential to the specific scope and purpose of the grant. Do not include critical details in an appendix, as appendices will not be included for the rating process.

States receiving awards may be asked for an electronic version of their proposals. States must submit their application initially in paper (hard copy) format.

A complete proposal consists of a narrative application plus the required material and a completed application kit. Application material should be organized as follows:

#### **1. State agency's Cover Letter**

A letter from the Director of the State Medicaid Agency or other designate state agency identifying his/her agency as the lead organization, indicating the title of the project, principle contact person, and the amount of funding projected to be requested.

#### **2. Application Kit Forms**

Appendix five contains the standard forms, which must be completed and enclosed as part of the proposal.

#### **3. Letter of Agreement from the State Medicaid Agency**

If the State Medicaid Agency is not the lead agency, a letter from the Director of the State Medicaid Agency is required specifying the Medicaid Agency's agreement to the designation of the specified agency as the lead.

#### **4. Partnerships**

Describe and partnership with other state agencies on this project.

## 5. Experience

Describe experience with auditing measuring the accuracy of Medicaid payments.

Include at least one report of the measurement experience, as available.

## 6. Study Features

State agencies must demonstrate an understanding of the current state payment accuracy measurement in Medicaid and other health care payment systems. At a minimum, a literature review of published research should be included in the application, that reflects this understanding and identifies the conceptual and operational opportunities and challenges confronted in a payment accuracy measurement. In addition, requestors should reflect the enforcement, policy and operational strategies that might be employed in taking action on the findings.

## 7. Study Elements

Participants are free to include some of the unique characteristics of their programs. The elements below are represent some areas of interest for CMS, although not exhaustive or definitive. Responses should reflect an understanding of each element of this group, and other unique areas of interest for the applicant:

- Patient / Beneficiary interviews.
- Pre-payment vs. post payment review.
- Managed Care/Capitation Payments.
- Medical Necessity.

## 8. Organization and Staffing

Describe the project organization and staffing. Identify key staff identified to work on the project, including the director or lead person. Include brief biographical sketches of the project director or lead person and key project staff

## 9. Budget

For the budget on form SF-424A, provide an estimate of the aggregate expenditures expected for the project.

*Appendix Five*

**Application Kit (standard forms)**

**SF-424A: Budget Information**

**SF-424B: Assurances-Non-Construction Programs Biographical Sketch**

If copies of these forms are needed, they may be obtained from the CMS web site  
[HYPERLTh4K http://www.hcfa.gov.htm](http://www.hcfa.gov.htm) [www.hcfa. ~ov~](http://www.hcfa.gov) 'Research and Demonstration'; 'Grant Opportunities'.