

August 15, 2000

Dear State Program Integrity Contacts:

Section 4753 of the Balanced Budget Act (Modification of Medicaid Management Information System (MMIS)) eliminated the Systems Performance Review (SPR) requirements. However, it requires each State to operate a surveillance and utilization review subsystem that is "adequate to provide efficient, economical, and effective administration" of its Medicaid State plan.

Although the SPR requirements have been eliminated, States are still expected to perform their SUR functions (Section 1903(a)(3) of the Social Security Act; Federal regulations at 42 CFR 433, State Fiscal Administration, Subpart C; 42 CFR 455, Program Integrity: Medicaid; and 42 CFR 456, Utilization Control). Section 433 (specifically, Subpart C), allows for Federal financial participation at the enhanced rate of 75 percent of expenditures for the "operation of a mechanized claims processing and information retrieval system" which would include the direct costs of personnel directly associated with the operation of the system (the costs associated with other personnel are not eligible for this enhanced matching rate).

As part of the Health Care Financing Administration's (HCFA) National Medicaid Fraud and Abuse Initiative, we formed a workgroup to assist States in performing their SUR functions. The workgroup was comprised of staff from State Program Integrity/Surveillance and Utilization Review units, as well as HCFA's Medicaid Fraud and Abuse and Systems areas. The enclosed document, entitled [Guidance and Best Practices Relating to the States' Surveillance and Utilization Review \(SUR\) Functions](#), was produced by the workgroup. This document is designed to provide guidance in conducting Medicaid utilization reviews. It discusses applicable federal requirements, new ways of using traditional mainframe computers, the availability of relational databases and other software applications, new applications for the SUR function, the influence of managed care, and sharing of ideas across State lines. Additionally, the document shares best practices as a source for States seeking ways to improve their SUR function.

HCFA's Southern Consortium and the Center for Medicaid and State Operations feel that this document will be an effective tool in providing guidance for the vital State Medicaid management functions of surveillance and utilization review and program integrity.

Sincerely yours,

Rose Crum-Johnson Southern Consortium Administrator

Timothy M. Westmoreland Director Center for Medicaid and State Operations

[Enclosure](#)

cc: State Medicaid Directors Medicaid Fraud and Abuse Control Technical Advisory Group  
Members

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