

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR

ACTION REFERRAL

TO	DATE
For Knew	8-20-10

DIRECTOR'S USE ONLY		ACTION REQUESTED	
1. LOG NUMBER	1011081	<input checked="" type="checkbox"/> Prepare reply for the Director's signature	DATE DUE 8-27-10
2. DATE SIGNED BY DIRECTOR		<input type="checkbox"/> Prepare reply for appropriate signature	DATE DUE _____
cc: Deps, Stensland, Kendall Host		<input type="checkbox"/> FOIA	DATE DUE _____
Closed 8/30/10 after attached.		<input type="checkbox"/> Necessary Action	

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
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3.			
4.			



**RECEIVED**

AUG 19 2010

**Department of Health & Human Services  
OFFICE OF THE DIRECTOR**

STATE OF SOUTH CAROLINA

THE SENATE

COLUMBIA

GLENN F. McCONNELL  
PRESIDENT PRO TEMPORE

P. O. BOX 142  
COLUMBIA, SC 29202  
TELEPHONE: (803) 212-6610

Emma Forkner  
Director, Department of Health and Human Services  
P.O. Box 8206  
Columbia, South Carolina 29202-8206

Dear Director Forkner:

I am in receipt of your letter dated August 11, 2010, and based upon my reading of that letter I feel compelled to respond. Your letter outlines the budget difficulties experienced and faced by the Department of Health and Human Services. You further state that your agency faces a potential budget shortfall this year. You also note that the potential budget shortfall includes liabilities from SFY 2010 that were shifted into SFY 2011.

I appreciate the hardships that your Department is facing. However, those hardships are not isolated at Health and Human Services and are being felt across state government and in the lives of the citizens that our government serves. These are difficult times, and we as state must do only what we can afford to do. Living within our means is something that each family has to do in tough times and it can be no different for state agencies. If we cannot afford to do something, it cannot be done. It is a simple as that. We cannot pass the buck into the future and hope that things will get better.

I am concerned with your statement that liabilities were passed from one year to the next especially knowing how dire this year's budget situation will be. It seems to me that this type of accounting practice does nothing to remedy the underlying issues that the agency is facing and is simply a method to live beyond your means. If there was a shortfall last year, steps should have been taken then to ensure that the department's budget ended the year balanced. I would like to know under what authority the department was able to transfer liabilities in one year's budget to the next budget and why no steps were taken to address obvious shortfalls between your funding and your expenses.

Pls Log to  
EF  
C: Neps, Jerr.  
Kendall, BK

I am also concerned with your statement that there is a potentiality for a budget shortfall this year. While I understand that the department may request authorization to run a deficit, I do not believe this is a good practice for any person much less a state agency. Therefore, I would ask for your plans to address any shortfalls that may occur in your department's budget this year. Specifically I would ask that you provide me with a list of programs that may need to be cut or reduced in order to remedy any potential budget shortfall.

Thank you for your update as to the department's budgetary status and I look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn F. McConnell". The signature is stylized with a large "G" and "M".

Glenn F. McConnell



State of South Carolina  
Department of Health and Human Services

Mark Sanford  
Governor

August 30, 2010

Emma Fortner  
Director

The Honorable Glenn F. McConnell  
President and Pro Tempore  
Post Office Box 142  
Columbia, South Carolina 29202

Dear Senator McConnell:

Thank you for your response to my August 11 letter concerning the South Carolina Department of Health and Human Services' finances. I'm grateful that members of the state's legislative leadership recognize the importance of maintaining a strong Medicaid program for the needy residents of our state.

Frankly, I share your central concern regarding the precarious financial position of SCDHHS at the close of SFY10. We were forced to apply less than ideal temporary solutions in order to close out the year with a positive balance, yet long-term challenges remain. In the last two fiscal years, the agency's budget has been reduced by a total of \$228 million in state dollars. Over the past three budget cycles, reserve funds the agency had maintained as a backstop against unanticipated enrollment increases have been used both by the agency to offset these general fund reductions and reallocated by the General Assembly to other government functions. Funds transferred from the agency to other entities total more than \$500 million (see attached chart). Unfortunately, now that we are faced with steep enrollment increases as a result of the recession, we lack both the reserve funds and the necessary flexibility to significantly reduce expenditures.

Generally, there are three major areas in which Medicaid expenditure growth can be affected, positively or negatively, to any significant degree: eligibility, provider rates, and management of services. The following describes the constraints on each of these important cost levers:

Eligibility: As I noted in my previous letter, the state's Medicaid rolls have grown by more than 90,000 beneficiaries since the recession began (see attached enrollment chart). Medicaid now covers approximately 43% of all children in South Carolina, and pays for approximately 53% of all births. Between 2,500 and 5,000 beneficiaries are being added each month, and many of these new enrollees incur greater health care expenditures than

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existing beneficiaries. The newly enacted federal Patient Protection and Affordable Care Act makes it virtually impossible for states to reduce Medicaid eligibility. Specifically, states cannot enact any "eligibility standards, methodologies or procedures" that make eligibility more restrictive. This restriction was previously a condition of accepting additional federal dollars through the American Recovery and Reinvestment Act.

Provider Rates: While reducing any provider payment rate must be approached with care and deference to maintaining access to necessary services, modest adjustments are frequently made by other states to help ameliorate budget shortfalls. Approximately 40 states have reduced Medicaid provider rates over the past two years as a way to curb expenditures, including our neighbors in Georgia and North Carolina. South Carolina is the only state with a legislative prohibition against rate reductions, which was enacted in October 2008. As you may recall, Proviso 89.87 states, among other things, "the Department of Health and Human Services shall not decrease provider reimbursement rates from their current levels." It is worth noting that South Carolina's Medicaid physician rates are benchmarked at 86% of Medicare rates, with some specialties receiving as much as 120% of Medicare. This is significantly higher than many other states reimburse for services.

Service Management: The majority of service expenditures paid under Medicaid are for federally mandated services, such as physician visits, hospitalization, nursing home care and non-emergency transportation. States also can provide an array of optional services, such as prescription drugs, hospice care, chiropractic services and family planning services. In SFY09, SCDHHS sought to lower certain provider rates and reduce or eliminate a number of optional services in an effort to reduce expenditures. These included a program designed to curb teen pregnancy (MAPPS), Medicaid-only hospice care and others. Several of these reductions were later restored through state legislation. The agency has been successful in implementing a number of other service reductions, including increasing prior authorizations. Many of these are detailed in the attached Growth Management document.

Although administrative costs make up less than 3% of the agency's overall budget, with personnel costs accounting for about 1%, I agree that we must be austere and seize opportunities to operate more efficiently. We have taken many steps over the past several years to live up to this standard. The agency's job vacancy rate is currently at 15%, the highest level in SCDHHS' history. We also have implemented numerous furloughs, and earlier this month executed a lay-off of our 44 employees. Additionally, we have streamlined operations and enhanced program integrity efforts. These efforts also are outlined in the Growth Management document.

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The agency is currently engaged in a dialogue with Medicaid providers and other stakeholders concerning additional ways in which we can significantly reduce expenditures. We have scheduled individual meetings with groups to explore specific options that can be shared with members of the General Assembly later this year. It is my belief that we can arrive at politically palatable solutions only by working cooperatively with our Medicaid partners and ensuring they recognize the gravity of the program's budget situation. I would invite you to visit [www.scdhhs.gov/budgetproject](http://www.scdhhs.gov/budgetproject) to learn more.

Thank you again for your inquiry on these important issues. I would be happy to meet with you or your staff to further explain any aspect of the Medicaid program.

Sincerely,



Emma Forkner  
Director

Attachments:

Agency Fund Transfers

Population Trends

Current Restrictions

Growth Management Efforts



# Base Reductions and Transfers

## SFY 2009

- July 2008 – Base Reduction = \$2.8 million
- October 2008 - 8.1% Cut = \$76.7 million
- December 2008 - 7% Cut = \$61.1 million
- April 2009 - 2% Cut = \$16.2 million
- Transfers - \$90.8 million

## SFY 2010

- July 2009 – Incorporated \$16.2 million from April
- September 2009 – 4% Cut = \$32.2 million
- December 2009 – 5% Cut = \$38.3 million
- Transfers - \$370.9

## SFY 2011

- July 2011 – Base Reduction \$1.08 million
- Transfers - \$90.7

## Total

- SFY 09 = \$247.6 million
- SFY 10 = \$441.4 million
- SFY 11 YTD = \$91.8 million
- **\$ 780.8 Million Total**





## Current Restrictions

What DHHS Is Not Allowed to Do:

### ■ Federal Restrictions

- ☐ Medicaid eligibility standards, methodologies or procedures cannot be made more restrictive.
- ☐ Enrollment in Medicaid waivers cannot be made more restrictive.
- ☐ Prompt pay requirements prevent slowing down or delaying provider payments

### ■ State Legislative Restrictions

- ☐ Proviso 89.87 prohibits DHHS from reducing or transferring funds from MAPPS, PACE and FQHC's.
- ☐ Proviso 89.87 prohibits DHHS from reducing provider rates
- ☐ Proviso 21.7 prohibits the reduction of admin/swing beds
- ☐ Proviso 21.11 requires DHHS to provide optional chiropractic services.
- ☐ Proviso 21.15 prevents DHHS from reducing pharmacy reimbursement rates.
- ☐ Proviso 21.20 prevents the use of prior authorization for drugs used to treat mental illness, HIV/AIDS or cancer.
- ☐ Proviso 90.13 requires DHHS to restore a variety of provider rates and optional services that had previously been reduced.

## Growth Management Efforts

Changes Attempted or Implemented	Type of Change	Was This Change Implemented, Blocked, or Restored?
<b>SFY 2008</b>		
Hospice Nursing Home Room and Board reduced to 98%	Service Management	Implemented
<b>SFY 2009</b>		
Reduce Aged, Blind, and Disabled Income Disregards - \$50 to \$20	Eligibility	Change considered, but not allowed under ARRA
Low Income Families - 3 Month Redetermination if No Income	Eligibility	Change considered, but not allowed under ARRA
Required Verification of Pregnancy for Pregnant Women Category	Eligibility	Change considered, but not allowed under ARRA
Low Income Families - Tightened Income Disregard Criteria	Eligibility	Change considered, but not allowed under ARRA
Closed or Denied Applications Must Re-Apply - No 30-Day Rule	Eligibility	Change considered, but not allowed under ARRA
Transitional Medicaid Asst. -Reduced from 24 Months to 12 Months	Eligibility	Change restored - ARRA requirements
Psychiatric Rehabilitation Treat Facility Waiver	Eligibility	Change restored - ARRA requirements
Physician Fee Schedule - 84% Medicare	Rate Reduction	Change restored - Legislative Intent
Pediatric Sub-Specialist - 98% Medicare	Rate Reduction	Change restored - Legislative Intent
Dental Fee Schedule - 84% Medicare	Rate Reduction	Change restored - Legislative Intent
Labor and Delivery - \$1,200 to \$1,000	Rate Reduction	Change restored - Legislative Intent
DME Fee Schedule - 97%/87% Medicare	Rate Reduction	Change restored - Legislative Intent
Delayed NH annual rate adjustment	Rate Reduction	Change restored - Legislative Intent
All Other Provider Rates Prohibited	Rate Reduction	Recission Bill restricts DHHS from reducing rates (89.112)
Discontinue SyvekPatch Coverage	Service Management	Change restored - Legislative Intent
Discontinue Hospice Program	Service Management	Change restored - Legislative Intent
MAPPs Changes Prohibited	Service Management	Recission Bill restricts DHHS from reducing MAPPs (89.112)
PACE Program Reduction Prohibited	Service Management	Recission Bill restricts DHHS from reducing PACE (89.112)
FQHCs - Reductions to Services or Rates Prohibited	Service Management	Recission Bill restricts DHHS from reducing FQHCs (89.112)
Administrative Days/Swing Beds Reduction Prohibited	Service Management	Provisio 21.7 prohibits DHHS from reducing these services
Chiropractic Services Required	Service Management	Proviso 21.20 requires Chiropractic Services
Prior Authorization of Mental Health, HIV/AIDS, Cancer Drugs Prohibited	Service Management	Proviso 21.23 prohibits DHHS from managing these drugs
Defines reimbursement amount for drugs and dispensing fee	Rate Required	Proviso 21.18 Set reimbursement and dispensing amounts
Private/School Therapies - 95% Medicare	Rate Reduction	Implemented
Continued Healthy Connection Choices Statewide Rollout	Service Management	Implemented
J-Codes: AWP -18%	Rate Reduction	Implemented
Adopted InterQual Criteria for utilization review	Service management	Implemented
Established Psychiatric/Counseling Utilization Control	Service Management	Implemented
Qualis Prior Authorization Changes Implemented	Service Management	Implemented
Pharmacy Lock-In initiated for multiple pharmacy abusers	Service Management	Implemented
Initiated Prior Authorization for Hospice Participation	Service Management	Implemented
DME Changes - Nebulizers, Cranial Bands, Alcohol Wipes, Power Chairs	Service Management	Implemented
Implemented Panorex Minimum Age Limits	Service Management	Implemented
Fluoride Application Rate Revisions	Service Management	Implemented
Limited Dental Sealents to Permant moiaris	Service Management	implemented
Pharmacy Hepatitis C Care Coordination started	Service Management	Implemented
Chiropractic Services limits reduced from 12 to 8 visits	Service Management	Implemented
Lab/Home Health Restriction - 36415	Service Management	Implemented
Established Annual Limits for Rehab therapies	Service Management	Implemented

## Growth Management Efforts

Changes Attempted or Implemented	Type of Change	Was This Change Implemented, Blocked, or Restored?
Set daily frequency limits for Lab/Radiological Exam Code 71010	Service Management	Implemented
Implemented Diabetic Supplies Preferred Point of Sale Program	Service Management	Implemented
Change from 34 to 31-Day Pill supply	Service Management	Implemented
Pharmacy Services Override reduced to 6	Service Management	Implemented
After Hours Reimbursement Rate Elimination	Service Management	Implemented
Discontinuation of Group OT/PT	Service Management	Implemented
Discontinued Cough and Cold Medicines	Service Management	Implemented
Completed HCC planned rollout; 60% members assigned to PCP	Service Management	Implemented
Program Integrity - Overpayments	Fraud & Abuse	Implemented
Program Integrity - Recoveries, All Sources (Provider, Bene., Global)	Fraud & Abuse	Implemented
Third Party Liability Recoveries (Medicare, Health, Casualty, Estate)	Recovery	Implemented
Organ Transplant Procedures moved In-House	Administrative	Implemented
Reduce Child Abuse Response Program Contract	Administrative	Implemented
New Vision Eyewear Contract negotiated	Administrative	Implemented
Encouraged Electronic Claims Payments	Administrative	Implemented
Switch from paper to e-Bulletins	Administrative	Implemented
<b>SFY 2010</b>		
Changes to Medicaid Eligibility Categories to Reduce Rolls	Eligibility	MOE - ARRA; MOE ACA
Administrative Days/Swing Beds Reduction	Service Reduction	Proviso 21.7 prohibits DHHS from reducing these services
Chiropractic Services Elimination	Service Reduction	Proviso 21.11 prohibits DHHS from reducing Chiropractic
Prescription Reimbursement Payment Reductions	Rate Reduction	Proviso 21.18 prohibits DHHS from reducing Rx rates
Prior Authorization of Mental Health, HIV/AIDS, Cancer Drugs	Service Management	Proviso 21.23 prohibits DHHS from managing these drugs
All Other Provider Rates	Rate Reduction	Proviso 89.96 prohibits DHHS from reducing rates
Updated Inpatient Retrospective Review standards	Service Management	Implemented
Pharmacy Care Coordination Pilot - Antipsychotics for Children	Service Management	Implemented
Lesion Removal/Dermal Anomalies - Utilization Control	Service Management	Implemented
Dose Optimization: Refilling Prescriptions in Cost-Effective Quantity	Service Management	Implemented
Prior Authorization of Hospice Placements	Service Management	Implemented
CLTC Waiver Slots- Capped at Levels Allowed Under ARRA (2008 Levels)	Service Management	Implemented
Clarified reimbursement policy for Visual Evoked Potential Procedure	Service Management	Implemented
70% of eligible beneficiaries assigned to PCP	Service Management	Implemented
Implemented utilization control for atypical antipsychotics for children under 7 yrs	Service Management	Implemented
Clarified time limits for claims submissions	Administration	Implemented
Agency Vacancy Rate Maintained at 10% or More	Administration	Implemented
Transitioned to Electronic Remittance Package	Administration	Implemented
Voluntary and Mandatory Furlough Programs	Administration	Implemented
Voluntary Separation Incentive Program	Administration	Implemented
Suspension of Pay Increases, Except for Promotions/Reclassifications	Administration	Implemented
Suspension of Leave Transfer Pool, Tuition Asst., Employee Bonuses	Administration	Implemented
Reduction of Agency Worker's Compensation Premiums	Administration	Implemented
Implemented Travel Restrictions	Administration	Implemented

## Growth Management Efforts

Changes Attempted or Implemented	Type of Change	Was This Change Implemented, Blocked, or Restored?
Curtailed In-House Training, Elimination of Leadership Retreats	Administration	Implemented
Automated internal reports	Administration	Implemented
RFP for Blue Cross/Blue Shield Front-End Claims Contract	Administration	Implemented
Re-negotiation of Jefferson Square, Favor Place Leases	Administration	Implemented
Started Contingency-Based Contract to Identify & Recover Overpayments	Fraud & Abuse	Implemented
Hospital Self-Audits to Recover Rx Funds Over Acquisition Costs	Fraud & Abuse	Implemented
Program Integrity - Recoveries, All Sources (Provider, Bene., Global)	Fraud & Abuse	Implemented
Third Party Liability Recoveries (Medicare, Health, Casualty, Estate)	Recovery	Implemented
Insurance Verification and Recovery Contract - Payor of Last Resort	Recovery	Implemented
<b>SFY 2011</b>		
Changes to Medicaid Eligibility Categories to Reduce Rolls	Eligibility	MOE - ARRA; MOE ACA
Legislature required State Plan Amendment to change pharmacy reimbursement	Rate Increase	Proviso 21.15 requires increase in Rx rates by Oct 10
Administrative Days/Swing Beds Reduction	Service Reduction	Proviso 21.7 prohibits DHHS from reducing these services
Chiropractic Services Reductions	Service Reduction	Proviso 21.11 prohibits DHHS from reducing Chiropractic
Prescription Reimbursement Payment Reductions	Rate Reduction	Proviso 21.15 prohibits DHHS from reducing Rx rates
Prior Authorization of Mental Health, HIV/AIDS, Cancer Drugs	Service Management	Proviso 21.20 prohibits DHHS from managing these drugs
All Other Provider Rates	Rate Reduction	Proviso 89.87 prohibits DHHS from reducing rates
Suspended GAPS Program	Service Reduction	Implemented
Pharmacy overrides reduced from 6 to 4	Service Reduction	Implemented
Prior authorization required for all private outpatient mental health services	Service Management	Implemented
Initiated Dental ASO for dental claims	Service Management	Implemented
HIV Waiver - Capped at Levels Allowed Under ARRA (2008 Levels)	Service Management	Implemented
Mandatory enrollment in Healthy Connections Choices	Service Management	Planned
RFP for QIO Prior Authorization System for FFS	Service Management	MMO
RFB for HI Tech Radiology Management	Service Management	MMO
RFB for Incontinence Products	Service Management	MMO
RFP for Transportation	Service Management	MMO
RFP for NCCI Edits	HCR	Planned