

**DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR**

**ACTION REFERRAL**

TO <i>Mells</i>	DATE <i>1-16-08</i>
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DIRECTOR'S USE ONLY		ACTION REQUESTED	
1. LOG NUMBER  <b>000366</b>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____  <input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>1-29-08</i>  <input type="checkbox"/> FOIA DATE DUE _____  Necessary Action _____		
2. DATE SIGNED BY DIRECTOR  <i>Claudia 2/29/08, attn attached</i>			

APPROVALS <small>(Only when prepared for director's signature)</small>	APPROVE	* DISAPPROVE <small>(Note reason for disapproval and return to preparer.)</small>	COMMENT
1.			
2.			
3.			
4.			



**SOUTH CAROLINA  
PRIMARY HEALTH CARE  
ASSOCIATION**

*please log to William*

January 14, 2008

**RECEIVED**

Emma Forkner, Director  
South Carolina Department of Health and Human Services

JAN 16 2008

PO Box 8206

1801 Main Street

Columbia, SC 29202-8206

Department of Health & Human Services  
OFFICE OF THE DIRECTOR

Dear Ms. Forkner:

I would first like to take this opportunity to thank you and Ms. Myers for taking the time to meet with six of the Board members of the South Carolina Primary Health Care Association (SCPHCA) and me on Friday, November 2, 2007. We are excited about continuing our working relationship with the South Carolina Department of Health and Human Services (DHHS) under your leadership. During our meeting in November, we presented several issues the Federally Qualified Health Centers (FQHCs) were working with your staff to resolve. The three areas of concern remain as follows:

1. Additional revenues (i.e. dollars from fundraising, foundation grants, DHEC contracts, etc.) are being used to offset costs involved with the reconciliation of annual cost reports. This result is having a negative affect on FQHCs' encounter rates and causing many centers to question whether it is financially worthwhile to seek the additional funds.
2. The turnaround time (delay in receipt) associated with the quarterly HMO wraparound payments continues to disrupt a major FQHC funding stream and therefore, negatively affecting cash flow and day-to-day operations; and
3. The length of time it takes to reconcile annual cost reports. There are 3 known centers that have not had their 2005 cost settlements.

Additionally, the classification of Electronic Medical Records (EMR) as administration needs to be addressed. The Center's position is that this is a clinical/medical cost and should be charged accordingly. There is also a major concern regarding what costs are allowable as there have never been any written instructions outlining such. A meeting occurred between the FQHCs, the SCPHCA, and two members of your staff, Jeff Saxon and Debbie Strait in October, 2007. At Mr. Saxon's request, a list of all additional funding revenues that the centers felt should not be used to offset cost were emailed to Ms. Debbie Strait on October 29<sup>th</sup>. There has been no further action taken on this issue.

I think it is important to stress the critical financial state several health centers are in because of the need for their cost settlement and/or wraparound payments. Although all FQHCs have other funding sources, Medicaid contributes to more than one-third (in

2211 Alpine Road Extension, Columbia, South Carolina 29223

T. 803.788.2778, 800.438.3895 • F. 803.788.8233 • [www.scporca.org](http://www.scporca.org)

terms of patients and revenue) of the FQHCs' operations. The centers applaud the efforts of your staff to implement a new process by which wraparound payments are made monthly instead of quarterly. This new process will greatly improve the centers' cash flow.

A meeting of the FQHC directors will convene on Wednesday, January 16, 2008, at 10:00 a.m. in Columbia. Any update I could receive from you prior to the meeting would be helpful as I am expected to provide information regarding the status of these unresolved issues. Should you or a DHHS designee wish to speak to the FQHC directors, I will be more than happy to arrange the agenda to accommodate your schedule.

The SCPHCA values its relationship with DHHS and looks forward to building a stronger relationship as South Carolina's Medicaid program transitions towards a managed care model. Please do not hesitate to contact me directly should additional information be needed.

Sincerely,



Lathran J. Woodard  
Chief Executive Officer  
South Carolina Primary Health Care Association

c: David Hayden, PCA Board President  
Jeff Saxon, SC DHHS  
Debbie Strait, SC DHHS  
Felicity Myers, SC DHHS

**South Carolina Primary Health Care Association**  
**Uninsured Patients - Includes Migrant and Homeless**  
**From the 2005 & 2006 UDS Report**

Center	Per UDS - Total Uninsured		
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Sandhills Medical Foundation, Inc.	1,937	2,298	361
Sea Island Foundation, Inc.	2,642	2,548	(94)
St. James-Santee Family Health Center, Inc.	1,667	1,902	235
Sumter Family Health Center, Inc.	2,599	3,054	455
<b>Total</b>	<b>107,606</b>	<b>109,161</b>	<b>1,555</b>



*State of South Carolina*  
*Department of Health and Human Services*

809 366 ✓

Mark Sanford  
Governor

Emma Forkner  
Director

February 29, 2008

Ms. Lathran J. Woodard, Chief Executive Officer  
South Carolina Primary Health Care Association  
2211 Alpine Road Extension  
Columbia, S.C. 29223

Dear Ms. Woodard:

This is in response to your letter dated January 14, 2008. Please pardon my delay in responding to your association's concerns. I will address each concern separately as well as provide our solution that should adequately address most of the concerns that have been raised.

Offset of Additional Revenues (i.e. Grant Income)

Currently the South Carolina Medicaid Federally Qualified Health Center (FQHC) reimbursement methodology provides for retrospective cost based reimbursement subject to limitations on allowable overhead costs as well as adjustments for minimum productivity levels. Medicare allowable cost definitions are used unless otherwise noted. Annual cost reports are submitted by providers on an annual basis.

Revenues such as grant income that are reported by FQHCs are reviewed by staff to determine whether or not the income is restricted or unrestricted in nature as well as to determine whether or not it is associated with allowable Medicaid costs that are used to establish Medicaid FQHC encounter rates. If the grant income is determined to be unrestricted in nature, then the SCDHHS would not offset this income against allowable Medicaid reimbursable costs as this income is considered the property of the FQHC to be used as it deems appropriate. However, in the event that the grant income must be used only for a specific purpose as designated by the donor, it will be considered restricted and thus would be offset against reimbursable costs if the costs for which the grant covers are generally allowed in the determination of the Medicaid encounter rate (i.e. allowable within the scope of services). The intent of this principle is to avoid duplication of recovery by the provider for costs incurred

from the SC Medicaid program and from other sources. Please note that in the event the FOHC does not isolate non-allowable costs associated with restricted grants (i.e. non-reimbursable services or services outside the Medicaid scope of services), then the SCDHHS will have no choice but to offset this income against allowable SC Medicaid costs until the FOHC isolates the nonallowable costs.

The above statement represents our current treatment of grant revenue. Staff from the Division of Ancillary Reimbursements will review the funding revenues provided in the October 29, 2007 email and will provide the results of our review of this funding by March 14, 2008.

#### Turnaround Time Associated With Quarterly HMO Wraparound Payments

The South Carolina Department of Health and Human Services understands the FOHC cash flow issues relating to these settlements. We are currently in the process of testing and reconciling the agency's monthly/quarterly HMO encounter data against the quarterly encounter data that is supplied by the HMOs and used by the Division of Ancillary Reimbursements to determine the HMO wraparound payments. Once we have reconciled these differences, we can begin to make these payments on a more timely basis. Until then, we will continue to determine the wraparound payments on a quarterly basis and it is my understanding that we are currently working on the September 30, 2007 quarter. A copy of our quarterly analysis will be provided to each FOHC for their review.

#### Reconciliation of Annual Cost Reports

The South Carolina Department of Health and Human Services shares the FOHC's concern with this issue. While it is our goal to perform the cost settlements in a timely manner this does not happen in all cases due to staffing issues, awaiting provider responses to questions raised during the course of the agency's desk review of the cost reports, etc. In the interim, the agency will continue to calculate estimated interim Medicaid settlements on the Medicaid fee for service recipients upon the receipt of the "as filed" annual cost reports. The interim settlement calculation will be determined at seventy percent of the settlement amount using the "as filed" costs subject to the overhead limitation and minimum productivity levels. Priority has been assigned to the Bureau of Reimbursement Methodology and Policy to fill vacant positions as well as finalize the reviews of all of the outstanding cost report settlements.

#### Electronic Medical Records (EMR)

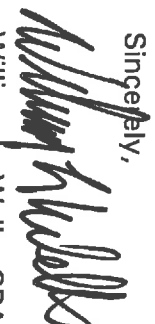
The Division of Ancillary Reimbursements will review the specifics of this expenditure and advise the association of our decision by March 14, 2008. As part of our review process, we will contact the Medicare Intermediary for their position on this cost.

To summarize, the South Carolina Department of Health and Human Services understands the important role that FOHCs play within the health care system. It is our position that we must review all options available to ensure that FOHC cash flow issues are not interrupted by the

voluntary transition of Medicaid fee for service recipients into the MCOs. It is also our intent to pay a fair and equitable Medicaid rate for services provided. Because of this, the SCDHHS will begin to pursue development of an alternate Medicaid prospective payment system (PPS) reimbursement methodology for FQHCs. The development of such a methodology would include the following actions and provide the following improvements over our current reimbursement system. **We will also address and correct the inaccurate application of the overhead calculation that was agreed to by a prior SCDHHS administration:**

- PPS rates would be developed based upon a field audited base year cost report. Under this audited base year cost report, minimum productivity levels as well as the limits on allowable overhead costs would be incorporated. Also, restricted grant income would be offset against total allowable Medicaid reimbursable costs as described above.
- Future PPS rates would be increased by the Medicare MEI in future years.
- Annual cost report submissions would no longer be required as retrospective cost settlements would no longer be performed under the PPS reimbursement methodology (i.e. the Medicaid PPS rate would be the only reimbursement received on behalf of Medicaid fee for service recipients).
- Restricted grant income would no longer be an issue in those years where the PPS rates would be used. It would only need to be reviewed in the event that the base year cost reporting period would be changed to a more current period.
- The SCDHHS and the South Carolina Primary Health Care Association would work together in developing the requirements for a "change in the scope of services" which could be used to increase or possibly decrease a FQHC's Medicaid PPS rate.

Thank you for the services that you provide to our Medicaid recipients. We look forward to your response to our initiative. If you or your staff should have any questions, please contact Mr. Jeff Saxon at 898-1040.

Sincerely,  
  
William L. Wells, CPA  
Deputy Director

WLW/ssh

SAT 10  
Jett

Report before  
Director's mtg.



ND HUMAN SERVICES  
OFFICE OF DIRECTOR

Brer - PLS. AL

Log #364 ✓

FOIe's of 8c

full w/ one  
log copy etc.

1-16-08

From Lathan's weekend

Cost report attempt  
reprepared  
\$ to offset cost.

Cost pd for JUS. -  
Time lags - behind

ACTION REQUESTED

☐ Prepare reply for the Director's signature

DATE DUE \_\_\_\_\_

☒ Prepare reply for appropriate signature

DATE DUE 1-29-08

☐ FOIA

DATE DUE \_\_\_\_\_

Necessary Action

APPROVALS

(Only when prepared  
for Director's signature)

APPROVE

\* DISAPPROVE  
(Note reason for  
disapproval and

DATE COMMENT

1. Hutton

2/

pd - Sept 07

2. spoke w/ JUS. + WHF -

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3. we stilling by prints mailed  
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, \$ Non Med uninsured



*please  
log to William*



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PRIMARY HEALTH CARE  
ASSOCIATION**

January 14, 2008

**RECEIVED**

JAN 16 2008

Emma Forkner, Director  
South Carolina Department of Health and Human Services  
PO Box 8206  
1801 Main Street  
Columbia, SC 29202-8206

Department of Health & Human Services  
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