

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

**ACTION REFERRAL**

TO <i>Supra</i>	DATE <i>1-23-13</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>101-225</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>cc: Mr. Keck, COS, Deps, CMS file</i>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____
	<input type="checkbox"/> FOIA DATE DUE _____
	<input checked="" type="checkbox"/> Necessary Action

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

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
Atlanta Regional Office  
61 Forsyth Street, Suite 4T20  
Atlanta, Georgia 30303



**DIVISION OF MEDICAID & CHILDREN'S HEALTH OPERATIONS**

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January 16, 2013

SC-12-009

Mr. Anthony E. Keck, Director  
Department of Health & Human Services  
1801 Main Street  
Columbia, SC 29201-8206

**RECEIVED**

**JAN 22 2013**

Department of Health & Human Services  
OFFICE OF THE DIRECTOR

Dear Mr. Keck:

Thank you for the Operational Advance Planning Document-Update (OAPD-U) that South Carolina submitted to the Centers for Medicare & Medicaid Services (CMS) on November 30, 2012. In accordance with 45 CFR Part 95, Section 95.610, the State submitted the OAPD-U to summarize the operational activities and expenditures of its contract with Health Management Systems for implementation of Medicaid National Correct Coding Initiative (NCCI) edits and other payment policy and edit work. The OAPD-U includes a description of contract activity for the most recent State Fiscal Year, and documents the State's projected budget and planned acquisition activities for the next 12-month period. The implemented Medicaid NCCI edits and other prepayment edits enhance claims editing functionality for the State's Medicaid Management Information System (MMIS).

CMS approves South Carolina's OAPD-U effective on the date of this letter. Our approval of the State's OAPD-U is subject to the requirements in regulations at 45 CFR Part 95. Funding identified in the OAPD-U was previously approved by CMS in a letter to the State dated September 27, 2010, approving the State's Implementation Advance Planning Document (IAPD) for procurement of a Medicaid NCCI project contractor.

As indicated by South Carolina in the OAPD-U, payments to Health Management Systems for work under this contract are determined by a contingency fee arrangement based on savings realized by the State. Regarding such contingency fee contracts (CFCs), CMS reminds the State that we allow Federal Financial Participation (FFP) in contingency fees paid as Medicaid Administration as long as the following conditions are met:

1. The fee must be contingent upon Medicaid cost avoidance savings or recoveries in which the Federal Government shares. The intent of the CFC must be to produce Medicaid program savings, not additional expenditures reported for FFP. Payments contingent upon recoveries from the Federal Government are not allowable.
2. The CFC must be awarded based upon a competitive procurement that includes issuance of a Request for Proposal or Invitation for Bid which is formally advertised and targets a wide audience. Only free and open competition can support the kind of price or cost analyses

required by 45 CFR 74.45 and the cost principles found in OMB Circular A-87, Attachment B, Section 33(a), to demonstrate that the contract costs are reasonable in relation to the services rendered. And,

3. The savings upon which the contingency fee payment is based must be adequately defined and the determination of fee payments documented to CMS's satisfaction. This is critical because savings other than cash collections can be difficult to quantify, and may be attributable to factors not related to the contractor's actions or to state implementation of contractor recommendations.

The State is reminded that onsite reviews may be conducted to determine whether or not the objectives for which Federal Financial Participation (FFP) was approved are being accomplished, and whether or not the automatic data processing (ADP) equipment or services are being efficiently and effectively utilized in support of approved programs or projects as provided for at 45 CFR Part 95, Section 621 and the State Medicaid Manual (SMM). As provided by the SMM, Section 11200 and by 45 CFR 95.611, all subsequent revisions and amendments to the APD for this project will require CMS prior written approval to qualify for FFP. In accordance with 45 CFR Part 95.623, State acquisition of ADP equipment and services without prior approval could result in disallowance of FFP.

Any changes to previously approved contracts for this effort require CMS prior approval pursuant to 45 CFR 95.611. Allowable costs are determined by 42 CFR Part 433.116, 45 CFR Part 92, 45 CFR Part 95, Subpart F, and the SMM, Part 11. Only actual costs incurred are reimbursable. The State must provide adequate support for all costs claimed in addition to providing detailed records and proper audit trails.

I would like to thank you and your staff for your success in implementing the Medicaid NCCI project. If there are any questions concerning this information, please contact John Allison at (828) 575-2876 or via email at [John.Allison@cms.hhs.gov](mailto:John.Allison@cms.hhs.gov).

Sincerely,



Jackie Glaze  
Associate Regional Administrator  
Division of Medicaid & Children's Health Operations