

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

**ACTION REFERRAL**

|                          |                        |
|--------------------------|------------------------|
| TO<br><i>Hells/Myers</i> | DATE<br><i>8-26-08</i> |
|--------------------------|------------------------|

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| <b>DIRECTOR'S USE ONLY</b>   | <b>ACTION REQUESTED</b>   |
| 1. LOC NUMBER<br><br><i>000108</i>   | <input type="checkbox"/> Prepare reply for the Director's signature<br>DATE DUE _____                 |
| 2. DATE SIGNED BY DIRECTOR<br><br><i>cc: Ms. Forner Deps,<br/>Quinton<br/>Cleared 11/30/08, letter<br/>attached.</i> | <input checked="" type="checkbox"/> Prepare reply for appropriate signature<br>DATE DUE <i>9-8-08</i> |
|  | <input type="checkbox"/> FOIA<br>DATE DUE _____   |
|  | <input type="checkbox"/> Necessary Action   |

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

Department of Health & Human Services  
Centers for Medicare & Medicaid Services  
61 Forsyth St., Suite. 4120  
Atlanta, Georgia 30303-8909



August 25, 2008

**RECEIVED**

Ms. Emma Forkner, Director

AUG 26 2008

South Carolina Department of Health and Human Services  
Post Office Box 8206  
Columbia, South Carolina 29202-8206

Department of Health & Human Services  
OFFICE OF THE DIRECTOR

Dear Ms. Forkner:

We have reviewed the proposed State Plan Amendment (SPA) to Attachment 4.19-B of your Medicaid State Plan that was submitted under transmittal number 08-004, which was submitted in order to update the payment methodology for Laboratory and X-Ray services. In order for CMS to better understand the services and reimbursement methodology proposed by the State in SC-08-004, we are submitting this Request for Additional Information (RAI). We are available to discuss any question the State may have about the RAI.

Please provide the clarifications requested below:

For all services where the source of funds is a Certified Public Expenditure (CPE), the State plan must provide for reimbursement to the governmental provider at cost. In addition, the provider must have a cost-accounting system in place to appropriately identify, out of the total pool of costs incurred in providing services to all of its clients, only those that represent expenditures made on behalf of Medicaid beneficiaries. The state must provide all the components below for CMS review (including the cost reports). The process would include:

- identification of the specific direct costs (salaries and fringes of the direct medical personnel and non-personnel direct medical supplies and equipment),
- the indirect cost rate used or identification of the specific indirect costs
- use of a statistically valid time study to identify the time spent providing medical services (if required),
- an allocation methodology to Medicaid,
- the methodology used to determine the interim payment amount,
- the reconciliation procedures between interim payments and the actual total costs at the provider level on annual basis,
- a description of the certification process and a copy of the certification forms used by each provider type, and
- a process to return any interim overpayment in FFP to CMS.

In addition to the above, the following should be answered with respect to Lab and X-ray services which are funded with Certified Public Expenditures.

Identification of Providers

CMS needs to know which labs receive cost based reimbursement and whether the governmental status used for this payment matches the governmental designation used for the O/P and I/P UPL.

1. Is there a main State Department of Health lab and additional branch labs throughout the State? Please explain.

Data Integrity

CMS is concerned that South Carolina use appropriate data sources to develop its CPE.

2. CMS asks the State to explain the source of its direct cost data and whether it is based on actual expenditures rather than budgeted amounts. Does SC rely on audited data?

3. How does SC identify cost?

4. CMS requests in writing a listing of the types of clinical and administrative personnel that are included in direct cost.

Indirect Cost

CMS is concerned that South Carolina may have inflated indirect cost by: (1) not using the DCA-approved indirect cost rate; (2) including cost that overlaps with the approved rate; (3) including cost that cannot be direct charged per the cost allocation plan (CAP) and, (4) including multiple layers of indirect cost.

5. CMS requests the State to provide the indirect cost rate it used for FY 07 and 08 and documentation to support the use of those rates.

6. Does South Carolina uniformly apply an indirect cost rate assigned by the cognizant agency in the calculation of indirect cost for all of the laboratories? If so, please provide the rate that was used for each year. If not, please explain. Note: If SC has an indirect cost rate then no other indirect cost outside of that rate may be included in the calculation.

7. Does South Carolina have a methodology that identifies indirect cost through the cost allocation plan? Note: If SC has a methodology that identifies indirect cost through the cost allocation plan then only those indirect costs from the cost allocation plan can be included in the calculation of cost.

8. South Carolina must demonstrate that separately identified indirect cost as noted in question seven may be identified under the approved cost allocation plan. Please provide CMS with primary source documentation to show that these additional indirect costs are

Ms. Forkner

August 25, 2008

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permissible under the CAP. Please document which agencies outside of the laboratory contributed to the calculation of indirect cost.

Cost Reporting Process

9. CMS requests South Carolina to provide a timeline for reconciliation and certification of expenses. CMS requests South Carolina provide a certification form that has been completed by a provider.

If you have any questions related on this request for additional information please contact Elaine Elmore or Rita Nimmmons on programmatic issues or Mark Halter on fiscal issues. Ms Elmore can be reached at 404-562-7417, Ms. Nimmmons can be reached at 404-562-7415, and Mr. Halter can be reached at 404-562-7419. This written request for additional information stops the 90-day clock for the approval process on this SPA, which would have expired on August 25, 2008. Further, in accordance with the CMS guidelines to all State Medicaid Directors, dated January 2, 2001, we request that you provide a formal response to this request for additional information within 90 days from the date of this letter. If we do not receive a formal response by that time, we will conclude that the State has not established that the proposed State Plan Amendment is consistent with all statutory and regulatory requirements. Accordingly, at that time, we will initiate disapproval action on the amendment. In addition, because this SPA was submitted after January 2, 2001, and is effective on or after January 1, 2001, please be advised that we will defer any FFP that you claim for payments made in accordance with this proposed SPA until it is approved. Upon CMS approval, FFP will be available for the period beginning with the effective date through the date of actual approval.

Sincerely,



Mary Kaye Justis, RN, M.B.A.  
Acting Associate Regional Administrator  
Division of Medicaid and Children's Health Operations



For

108

State of South Carolina  
Department of Health and Human Services

Mark Sanford  
Governor

Emma Forkner  
Director

November 20, 2008

Ms. Mary Kaye Justis  
Acting Associate Regional Administrator  
Center for Medicare and Medicaid Services  
Division of Medicaid & Children's Health  
Atlanta Regional Office  
61 Forsyth Street, SW - Suite 4T20  
Atlanta, Georgia 30303-8909

RE: Response to the South Carolina Title XIX State Plan Amendment SC 08-004 RAI dated  
August 25, 2008

Dear Ms. Justis:

The South Carolina Department of Health and Human Services is requesting a sunset provision through June 30, 2009 in order to address the funding issue applicable to the subject state plan amendment. Therefore, we have incorporated and enclosed the requested sunset language on page number 2, paragraph number 3, of Attachment 4.19-B. We are also enclosing a corrected 179.

Thank you for your consideration of this request and if you should have any questions, please contact Jeff Saxon at (803) 898-1023.

Sincerely,

Emma Forkner  
Director

EF/wsh

Enclosures