



February 26, 2013

Beverly A.H. Buscemi, Ph.D., State Director
South Carolina Department of Disabilities and Special Needs
P.O. Box 4706
Columbia, SC 29240

Dear Dr. Buscemi,

This letter is to follow-up our discussion last December regarding our intention to comprehensively review all Medicaid funded programs and services operated and/or coordinated by the South Carolina Department of Disabilities and Special Needs (SCDDSN). These programs account for approximately \$560 million of Medicaid spending annually – 9.4 percent of the state's total Medicaid budget. As the State Medicaid Agency, the South Carolina Department of Health and Human Services (SCDHHS) is charged with the complete administration of the Title XIX Program. Because of our historical arrangement where SCDDSN has coordinated Medicaid funding for services to clients with disabilities and related needs, there has been a rising concern regarding our ability to effectively demonstrate how Medicaid funds are used to support these important program's goals.

Most recently there has been a convergence of issues, including the recent U.S. Office of Inspector General (OIG) audit of room and board costs under the Intellectual Disabilities and Related Disabilities (ID/RD) waiver; the Centers for Medicaid and Medicare Services (CMS) finding regarding administrative cost percentage for waiver services and the need to negotiate a separate administrative contract; and questions regarding the system of funding local Disability and Special Needs Boards through band and other payment arrangements. These issues, as well as new Affordable Care Act requirements for provider enrollment and screening, the carve-out of genetic counseling services, and changes in the populations served by the SCDDSN and Medicaid programs drive the need for a comprehensive review.

In order to move forward with solutions to redesigning a more effective program, we have initiated a comprehensive rate review and analysis of all Medicaid services billed by SCDDSN. The objectives of this review include, but are not limited to:

- Ensure that changes in the cost allocation methodology bring SCDDSN into compliance with the OIG recommendations of the September, 2012 Room and Board report.
- Determine the appropriate activities required to administer waiver services, a determination of where these activities are best performed and the appropriate level of reimbursement for these services.
- Establish what Medicaid eligible services are being delivered and in what volume to Medicaid eligible consumers with disabilities served by SCDDSN, Disabilities and Special Needs Boards, and SCDDSN sub-contracted private providers.

- Determine what services are currently reimbursable under Medicaid, but not being billed, and currently not reimbursable under Medicaid but are necessary to support the health and well-being of Medicaid eligible participants.
- Establish a clear understanding of how the Medicaid program currently pays providers for services (i.e., the band payment system, how cost outliers are accounted for, what is used for direct service costs, what is retained by SCDDSN, etc.) and if the current state allows for the effective management of program economy, efficiency, access and outcomes.
- Establish a clear understanding of how decisions related to medical necessity and service authorization are made and make recommendations to maximize program accountability and Medicaid recipient outcomes.
- Identify any needed changes in SCDDSN's financial reporting and funding methodologies to ensure compliance with federal and state requirements and guidelines.
- Make recommendations that will improve accountability and transparency in the use of Medicaid funds for programs that serve SCDDSN Medicaid participants.
- Determine to what level recipient freedom of choice is being achieved, and to make recommendations to remove any barriers to freedom of choice.
- Determine what changes may be needed to rates, waiver documents, service contracts and Memorandums of Agreement based on these recommendations.

It is our expectation that we will work collaboratively on this review and that your financial statements, contracts with providers, and performance measures and data will be open to us. While this is not a Program Integrity audit, we will notify you of any findings that do necessitate a referral to Program Integrity. Our shared responsibility and goal is to ensure that the Medicaid services needed by the populations being served by SCDDSN are provided in the most effective way possible under Medicaid policy. This review will help us find ways to best respond to changing circumstances and the ability to continue to meet those needs.

Our staff will begin coordinating this comprehensive review with your key staff shortly, so there will be more information to come. As usual, your support is invaluable and much appreciated.

Sincerely,



Anthony E. Keck
Director