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11276.6 Costs Reimbursable at 75 Percent FFP for MMIS-Related Clerical or Manual Processing Activities.--Although it is an objective of the MMIS to reduce manual processing (see §11276.3), some manual intervention is necessary to make any computer system perform properly. However, only those manual functions which are directly attributable to the operation of the MMIS are funded at the enhanced FFP.

11276.7 Costs Reimbursable at 75 Percent FFP for Program Management, Prior Authorization of Services, and Audit Functions.--The 75 percent FFP for MMIS operations is available for claims processing and information retrieval functions performed by the State agency or the fiscal agent. This includes the actual processing of claims as well as the production of MMIS reports. As such, the following functions must be reviewed in terms of their relationship to claims processing and information retrieval.

A. Program Management.--Although required to operate a Medicaid program, this function is not reimbursable at the MMIS FFP rate unless directly related to claims processing or information retrieval. For example, making a program management decision on a specific suspended claim is allowable at 75 percent FFP. However, the development and issuance of overall policy is excluded. The development of an edit for the claims processing system to implement a program policy (e.g., a limitation of a service) is allowable at the 75 percent rate and includes the cost of designing and implementing the edit. The cost of the program management staff that developed the policy is allowable only at the regular 50 percent rate as part of ongoing program management.

B. Prior Authorization of Services.--A program management decision on a claim entered into the system and suspended is allowable. However, prior authorization of a service such as orthodontics or elective surgery before the service is delivered is not allowable. Such a decision is based on limitations in the State plan and not directly related to the mechanized claims processing system.

C. Audit.--All State and fiscal agent audit activity is not eligible for enhanced FFP as an MMIS activity. This includes cost report audits, provider audits, and follow up investigation of claims where fraud is suspected.

11276.8 Postage Costs.--The postage necessary to mail various products stemming from the operation of an MMIS, e.g., checks, remittance advices, is not considered part of the operation of an MMIS as defined in §11110. Consequent­ly, all postage costs associated with the operation of an MMIS are matched at the 50 percent FFP rate.

11276.9 Reimbursement of Allocated Costs.--Only direct costs allocable to the development or operation of an MMIS are eligible for reimbursement at enhanced FFP rates. Such costs include utilities, rent, telephone service, etc., necessitated by either the development or operation of an MMIS.

Costs which cannot be specifically identified with the development or operation of an MMIS are matched at the 50 percent FFP rate. Such costs are usually indirect costs including the staff costs associated with agency-wide functions such as accounting, budgeting, legal affairs, general administration, etc.

This differentiation in the funding rates for these two types of costs is not applicable to the reimbursement of fiscal agent costs.

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07-98 APPROVAL OF MMIS SYSTEMS 11276.11

11276.10 Costs Reimbursable at 75 Percent FFP for Fiscal Agent MMIS Opera­tions.-A fiscal agent may perform many additional functions (see §11276.7) for the State beyond those related to MMIS operations eligible for 75 percent FFP, yet bill the State at one all inclusive rate per claim processed. If this is the case, develop a cost allocation plan through which payments to the fiscal agent are broken out for matching at the appropriate FFP rates. (See §11276.9.)

11276.11 List of Reimbursable Costs for State Systems.--

A. Introduction.--This section identifies those activities associated with the design, development, installation, enhancement, and operation of an MMIS, and the appropriate FFP matching rate for which each qualifies. These costs must be specifically identified in the APD, RFP and contract if they are to be claimed at the 90 percent rate. Only items listed for 90 percent or 75 percent rate of funding qualify for enhanced FFP as expenditures for MMIS under §1903(a)(3)of the Act.

B. List of Reimbursable Costs.--

1. Design, Development, Installation,

or Enhancement of an MMIS

Rate of Text

Item Funding Reference(s)

Feasibility Study 50% 11275

Planning activities (e.g., preparation 90% 11275

   of an APD)

Preparation of an RFP for an initial 90% 11275

   or replacement MMIS 11269

Preparation of an RFP for an enhancement 90% 11275

   to an MMIS

Proposal evaluation and contractor selection 90% 11275

System and requirements analyses 90% 11110

System design, development, installation, 90% 11275

   and enhancement 11110

DIS 90% 11237

11275

Equipment costs only for use of such equip- 90% 11276.4

ment in the design, development,

installation, or enhancement of an MMIS

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MMIS Operational Costs (Continued)

Rate of Text

Item Funding Reference(s)

Direct personnel costs 90% 11276.2

Direct non-personnel costs 90% 11276.9

Indirect personnel and non-personnel costs 50% 11276.9

Acceptance testing 90% 11237

Supplies used during MMIS implementation 90% 11276.4

Design, development, installation, or 0% 45 CFR 95.617(c)

   enhancement of a proprietary system

Site preparation 75% 11276.4

Training of personnel engaged 50% 42 CFR 432.50(b)

   in the design, development, or

   installation of an MMIS

2. MMIS Operational Costs

Preparation of an APD and/or 75% 11275

  RFP directed toward the potential change

of operator for  an approved MMIS

Proposal evaluation and contractor selection 75% 11275

Hardware used for MMIS operations 75% 11276.3

Supplies used in the operation of an MMIS 75% 11276.4

Claim forms (including encounter data) 75% 11276.3

Entry and maintenance of provider 75% 11276.1

   enrollment data

Direct costs of personnel directly associated 75% 11276.3

    with the operation of an approved MMIS

    including staff responsible for:

Data entry

    Operations control

    Exception and suspense processing (continued)

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MMIS Operational Costs (Continued)

Rate of Text

Item Payment Reference(s)

Claims microfilming  (continued from

previous page):

Peripheral equipment operations

    Computer operations

Claims coding

    System documentation maintenance

    Software maintenance

    SURS parameter coding

    System management

Entry and maintenance of data required under 75% 11100

HIPAA for purpose of electronic data interchange

Direct non-personnel costs 75% 11276.9

Indirect personnel and non-personnel 50% 11276.9

costs

Publications necessary for the 75% 11276.3

operation of an MMIS, such as,

required claim forms

Maintenance of the system necessary to 75% 11276.1

support claims processing and 11276.3

information retrieval functions of an MMIS

Postage 50% 11276.8

Provider relations directly related 75% 11276.1

to MMIS claims processing, such as,

   entry and update of provider data

MMIS production of: 75% 11276.3

   Checks or warrants, Remittance advices

   EOBs, Medical assistance ID cards,

   MARS and SURS reports

Operational costs of an initial or 50% 11255

replacement MMIS until the system

has been approved

Training of personnel directly engaged 75% 42CFR432.50(b)(2)

in the operation of an MMIS

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11280 APPROVAL OF MMIS SYSTEMS 07-98

MMIS Operational Costs (Continued)

Rate of Text Item Payment Reference(s)

3. Other System Costs

Local ADP systems (not statewide 50% 11225

in scope)

Automated administrative support 50% 11276.1

systems (e.g., personnel,

financial management, office

automation)

Design, development, installation, 50% 11280

enhancement, and operation of

eligibility determination systems

Audit functions 50% 11276.7

Provider Manuals 50% 11276.9

11280 APPROVAL OF ELIGIBILITY DETERMINATION SYSTEMS

11280.1 Approval of the APD.--Your submission of the APD, preparation of which is funded by HCFA at 50-percent FFP, informs the Department of your plan for system acquisition or enhancement, and your intent to claim enhanced FFP for design, development, installation, (DDI), or enhancement of an eligibility determination system. It is also used to indicate whether work is to be performed by a contractor or by State personnel. The information content of this document is specified in the definition of an APD. (See §11110 and 45 CFR 95.605.)

The APD and following documents will be submitted to the Administration for Children and Families (ACF), Department of Health and Human Services, and will be distributed to the various funding programs for approval. Approvals, disapprovals, comments, and/or suggestions relating to multi-program requests will be coordinated by ACF.

Reimbursable costs will be submitted in accordance with an approved cost allocation plan. After November 13, 1989 HCFA will approve its share of costs for design, development, and installation or enhancements of eligibility determination systems at 50-percent FFP. An APD approved before that date will be funded at 90-percent FFP until completed. If work is to be performed under contract, see 45 CFR 95.611(b).

11280.2 Approval of Operations.--FFP at the 50-percent rate of reimbursement for the title XIX share of the operational costs of eligibility determination systems is available provided the following requirements for such systems are met. (See 45 CFR 95.621(b).)

A. Retroactive Funding.--For operational cost of a system, approved for a period of operation before November 14, 1989, HCFA will approve its share of costs of an eligibility determination system at the 75-percent rate. From that date forward the rate is 50-percent.

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07-98 APPROVAL OF MMIS SYSTEMS 11280.2 (Cont.)

B. Request for HCFA Approval.--Within 30 days of the system becoming fully operational, provide the Director, Center for Medicaid and State Operations (CMSO), HCFA, with:

o Certification that all Medicaid specific functions and objectives identified in the federally approved advance planning document for the system and modification thereto are being performed and have been met.

o A list of all Medicaid specific functions performed by the system.

o A summary of the DDI total costs, the DDI costs allocated to HCFA, and an estimate of the share of the operational costs allocated to HCFA. The methodology used to arrive at this allocation of operational costs should also be submitted.

C. HCFA Determination Process.--After acknowledging receipt of this material, HCFA determines which review process it will employ in formally approving the title XIX portion of the eligibility determination system. The two review methodologies are:

1. A review in HCFA central office (CO) of the system's documentation in conjunction with an analysis of the outcome of the ACF certification review; or

2. A review in HCFA CO of the system's documentation followed by a HCFA post-installation, onsite review of the system.

Which of these methodologies HCFA employs depends on an analysis of these factors as they relate to the eligibility determination system:

o The magnitude of the title XIX financial investment in the development and operation of the system.

o Whether the State has a medically needy program and/or is a 209(b) State.

o The judgment of the HCFA RO as to the operational effectiveness of the system.

o The judgment of the other operating divisions (ACF and the Food and Nutrition Service) as to the capabilities of the system.

o The findings of the ACF certification review.

D. Required System Documentation for Onsite Review.--In the event an on-site review is required by HCFA, submit the additional system documentation to HCFA CO:

o A narrative description of the system architecture.

o An overall system flow chart identifying the computer programs, files, process flow, and external interfaces which highlights the Medicaid specific aspects of the system.

o A narrative description of each Medicaid specific computer program, module, routine, and file within the system.

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o A data element dictionary with each Medicaid data element identified.

o A list of all Medicaid specific reports and outputs produced by the system.

o The results of the acceptance testing of the Medicaid portions of the system.

o Written evidence of MSIS acceptance/compliance with HCFA requirements.

This list is not an all-inclusive list of system documentation. You may submit other types of system documentation to demonstrate how your eligibility determination system supports the Medicaid program

E. Outcome.--Within 6 months of the operational date of the system (assuming you have submitted the required documentation within the timeframe specified in subsection B), HCFA will officially inform you whether the eligibility determination system is approved; i.e., whether you may continue to claim FFP for the title XIX share of the operational costs of the system.

11281. ELIGIBILITY VERIFICATION SYSTEMS (EVS), SWITCHING COMPANIES, ELECTRONIC CLAIMS CAPTURE (ECC), AND ELECTRONIC CLAIMS MANAGEMENT (ECM) SYSTEMS -OVERVIEW

EVSs are any State systems through which providers of medical services are furnished Medicaid eligibility status for those individuals seeking services. This function, when performed through the MMIS and subject to the criteria contained in §11281.1, may qualify for enhanced FFP. EVSs that qualify for enhanced funding are addressed in §11281.1.

An EVS may be performed through an agent of the State who disseminates eligibility information to the providers and charges these providers for this information. (Agent as used in this context does not apply to the FA or its subcontractors.) Typically, these transactions occur from the agent directly to the providers. Rules governing this type of EVS are contained in §2080.18. This section deals with an EVS that may be operated by you or your FA as a component of the MMIS using the services of a switching company. (See §11281.1.C.) Eligibility information can also be disseminated from the eligibility determination system in the State. These systems are not considered part of the MMIS and do not qualify for enhanced FFP. (See §11280.)

ECC is the system which facilitates the submission of claims from the providers through a direct link over telephone lines to the MMIS. No other medium such as claims forms, magnetic tape, floppy disks, etc., is necessary to transmit the claims to the MMIS. You may choose to furnish equipment to providers to make these transactions possible and this equipment is eligible for 75-percent FFP provided that the conditions contained in §11281.2 are met. ECC systems must be for the dual purpose of verifying eligibility **and** electronic claims capture. Equipment furnished to providers for purposes of performing only one of these two functions does not qualify for any FFP.

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An ECM system not only captures claims over telephone lines, facilitated by networks, but also adjudicates the claims submitted by the provider on-line and in real time. The term ECM was created by §4401(h) of OBRA 1990. OBRA 1990 contemplated the use of ECM for adjudicating outpatient drug claims. Guidelines for ECM are contained in §11281.3.

EVSs, ECCs, and ECMs must meet the requirements for an MMIS in order to qualify for enhanced funding.

NOTE: Subtitle F of Public Law 104-191 mandates that the Secretary of the Department of Health and Human Services adopt a wide range of national standards for the electronic exchange of health information. Standards are to be adopted for: 1) electronic transactions and data elements, 2) code sets, 3) unique health identifiers for individuals, providers, health plans, and employers, 4) security of health information, and 5) electronic signatures. The recommended standards for various types of standards mandated under Public Law 104-191 will be made available for public comment via Notices of Proposed Rulemaking in the Federal Register. Once standards are published as Final Rules in the Federal Register, States and all health related providers must implement standards within 2 years from the Federal Register publication date. The final standards will supersede any/all standards currently in place for electronic transactions and data elements.

11281.1 EVS as Component Of MMIS - Funding Policy and Operational Requirements.-

A. Funding.--EVSs are subject to all prior approval and other approval requirements to be funded with FFP. Additionally, the following rules apply for the funding of EVSs.

o Your cost to design, develop, and install an EVS that accesses an approved MMIS is funded at the 90-percent rate of FFP subject to §11205.

o Your telecommunications equipment and other hardware (both telecommunications and non-telecommunications hardware) necessary to perform this function and which directly accesses your MMIS files is funded at the 75-percent rate of FFP subject to §11210.

o Your telecommunications equipment and other hardware or software that accesses a non-MMIS system or file, including a contractor system outside of the approved MMIS, is funded at the 50-percent rate of FFP.

o Operational costs of an EVS which accesses an approved MMIS and conforms to the operational requirements contained in subsection B are funded at the 75-percent rate of FFP.

o Telecommunications equipment which you furnish to a provider, such as modems, point of sales terminals, etc., is not eligible for **any** funding with FFP if this equipment is for the sole purpose of EVS. This equipment is eligible for FFP at the enhanced rate of 75 percent if it **also** serves to facilitate ECC or ECM.

o Your toll-free telephone line is funded at the 50-percent rate of FFP for purposes of answering eligibility inquiries outside of the MMIS. A toll-free line which accesses the MMIS for purposes of eligibility verification is funded at the 75-percent rate of FFP.

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11281.1 (Cont.) APPROVAL OF MMIS SYSTEMS 07-98

o Staff costs, either yours or your FA's, to respond to provider queries are funded at the 75-percent rate of FFP if the staff is accessing the MMIS.

o Staff costs for personnel who access non-MMIS systems or files for purposes of verifying eligibility, e.g., county workers interacting with an eligibility determination system, are funded at the 50-percent rate.

B. Operational Requirements.--In order to qualify for any FFP, the EVS must communicate all of the following information to providers:

o Eligibility status for the date queried;

o Third party payers who must be billed prior to Medicaid;

o Recipient participation in a managed care program; and

o Program and service restrictions (e.g., lock-in, lockout).

C. Transmitting Operational Requirements Using Switching Companies.--The information

concerning the operational requirements listed in subsection B may be transmitted via on-line real time transactions using switching companies (switches). A switch is an entity which uses telecommunications to act as a conduit or pass-through of data to facilitate a provider's access to that data. The function of a switch is limited to acting as a conduit of real time on-line transaction data, i.e., it receives and transmits to or from SAs, Medicaid FAs, and providers without altering or retaining the data in route. A switch may serve as a billing agent for providers only if it meets the requirements for both the switch and billing agent functions defined in §2080.18E and ensures that both of those functions are maintained as separate and distinct operations.

D. Safeguards.--You must insure that appropriate safeguards are in place to protect the confidentiality of eligibility information. The use or disclosure of this information is restricted to purposes directly connected with the administration of the Medicaid program. It is recommended, but not required, that the EVS maintain records of all inquiries made, the information conveyed, and to whom the information is conveyed. HCFA recommends retaining these records for at least 1 year.

At no time is it permissible for data to be released for a mass number of recipients unless specific identification of each recipient is made. For example, it is not appropriate to release information to a provider asking for a listing of all recipients in a geographic area. It is appropriate to release information to a provider (e.g., a hospital) inquiring about the eligibility status of all inpatients when they can identify a patient by his/her Medicaid identification number, or by two or more of the following: patient's full name, including middle initial; patient's date of birth; or patient's social security number.

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11281.2 ECC - Funding Policy and Operational Guidelines.--

A. Funding.--ECC systems are subject to all prior approval and other approval requirements to be funded with FFP.

Additionally, the following rules apply for the funding of ECC:

o Your cost to design, develop, and install an ECC that interacts with an approved MMIS is funded at the 90-percent rate of FFP subject to §11205.

o Your telecommunications equipment and other equipment which directly accesses your MMIS files is funded at the 75-percent rate of FFP subject to §11210.

o Your operational costs, including telecommunications network costs, of an ECC system which conforms to the operational requirements contained in subsection B are funded at the 75-percent rate.

o Telecommunications equipment which you furnish to a provider, such as modems, point of sales terminals, etc., is not eligible for **any** funding with FFP if this equipment is for the sole purpose of ECC. This equipment is eligible for FFP at the enhanced rate of 75 percent if it **also** serves to facilitate EVS. (See §11281.1.)

o You **must** retain ownership of any equipment furnished to providers over its useful life cycle (as specified in your approved APD) if purchased with your own and/or Federal funds.

o Other entities, either State or private, may wish to make use of the equipment furnished to providers. This is permissible provided that:

- No additional costs are borne by the Medicaid agency to modify the equipment;

- HCFA is credited with its share of any usage or rental fee charged by the State agency according to the provisions contained in 45 CFR 74.42 (c)(1); and

- Any APD involving a joint venture for purposes of purchasing equipment contain an allocation of costs for non-Medicaid uses.

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11281.2 (Cont.) APPROVAL OF MMIS SYSTEMS 07-98

B. Operational Requirements.--In order to qualify for enhanced FFP, the ECC must perform all of the following functions:

o All EVS functions detailed in §11281.1.B and D;

o Transmit claims to the MMIS;

o Accept claims only from providers eligible for the Medicaid program;

o Certain logic/consistency editing that screens the claim prior to transmission to the MMIS. At a minimum, the following editing must be included:

- Dates of service entered are logical (e.g., February 30 is not accepted);

- Service rendered is consistent with the place of service/type of service; and

- Number of services performed is consistent with the span of time (e.g., 20 physician hospital visits in a 2-day span of time is a potential inconsistency).

o Notify the provider shortly after transmission if the claim(s) submitted is acceptable for further processing and if services are covered under the State Plan; and

o Interact with personal computers owned by the providers, i.e., perform all the operational functions in this section in conjunction with personal computers already owned by providers. If any equipment or software is furnished to these providers, it must be compatible with the personal computer.

11281.3 ECM - Funding Policy and Operational Guidelines.--

A. Funding.--An ECM system is limited to processing covered outpatient drugs and performs all the functions of both the EVS and ECC system. However, the ECM system not only captures the claim but also adjudicates the claims on-line in a real time environment. The funding policy for the ECM system is the same as that of the ECC system.

B. Operational Requirements.--In order to qualify for enhanced FFP, the ECM system must perform all of the following functions:

o All EVS functions detailed in §11281.1.B;

o All ECC functions detailed in §11281.2.B;

o Claims adjudication, which includes screening against all edits and audits contained in your MMIS applicable to the claim type billed, and taking all steps up to but not including payment of claims; and

o Claims data processed through the ECM system must be integrated into a single

comprehensive utilization and management reporting system. (See §11225.)

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11282. ELECTRONIC FUND TRANSFER (EFT) AND ELECTRONIC REMITTANCE ADVICES (ERA)

Technology which permits ECC also makes possible other kinds of electronic transferrals. You may choose to transfer funds directly to the accounts of your providers rather than issue a check to the provider. You may also utilize the ECC to convey an ERA to the provider, instead of mailing a hard copy remittance advice (RA) to the provider. You may also have RAs print at the provider location through printers attached to the devices used for ECC. All EFT and ERA activities are eligible for enhanced rates of FFP, subject to all prior approval requirements. You may also wish to have RAs listed on an electronic bulletin board which can only be accessed by that provider. Safeguards must be in place to insure that only the provider who rendered the services, or his/her designated agent, can access this information. This may be accomplished by password protecting files, hierarchical security structure, etc.

**NOTE:** Subtitle F of Public Law 104-191 mandates that the Secretary of the Department of Health and Human Services adopt a wide range of national standards for the electronic exchange of health information. Standards are to be adopted for: 1) electronic transactions and data elements, 2) code sets, 3) unique health identifiers for individuals, providers, health plans, and employers, 4) security of health information, and 5) electronic signatures. The recommended standards for various types of standards mandated under Public Law 104-191 will be made available for public comment via Notices of Proposed Rulemaking in the Federal Register. Once standards are published as Final Rules in the Federal Register, States and all health related providers must implement standards within 2 years from the Federal Register publication date. The final standards will supersede any/all standards currently in place for electronic transactions and data elements.

11282.1 Signature Requirements For ECC/EFT.--42 CFR 455.18 and 455.19 require that either the claim submitted or the check or warrant payable to the provider contain language acknowledging that the provider is aware that payment is from Federal and State funds and that any falsification, or concealment of a material fact, may be prosecuted under Federal and State laws. States that employ both ECC and EFT, in order to comply with these regulations, are to obtain a signed statement from the provider which certifies that the provider is aware that payment is from Federal and State funds and that anyone who misrepresents or falsifies essential Medicaid claims information may be prosecuted under Federal and State laws. This statement must be resubmitted upon a change in provider representative and updated as needed.

If a State employs either ECC or EFT but not both, you must continue to comply with the requirements of 42 CFR 455.18 and 455.19. However, as an option, these States may elect to make use of the statement signed by the provider described in the preceding paragraph.

It is recommended that States confer with their State Attorney General's office to ascertain if any other safeguards peculiar to your State are needed to insure that cases of fraud and abuse may be prosecuted to the fullest extent possible.

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