TABLE OF CONTENTS

PAGE

CHAPTER 1 ADMINISTRATION AND OBJECTIVES 7-1-1

CHAPTER 2 SAMPLING METHODS 7-2-1

CHAPTER 3 REVIEW PROCESS 7-3-1

CHAPTER 4 REPORTS 7-4-1

CHAPTER 5 DATA ANALYSIS 7-5-1

Rev. 1 i

LEGAL BACKGROUND AND AUTHORITY

42 CFR 431, State Organization and General Administration, Subpart P -Quality Control

CITATION OF REGULATION

Subpart P - Quality Control

Section 131.800 Medicaid quality control (MQC) system.

(a) Basis and purpose. This section establishes State plan requirements for a medicaid quality control system designed to reduce erroneous expenditures by monitoring eligibility determinations, third-party liability activities, and claims processing.

(Sec. 1902(a)(4) of the Act)

(b) Definitions. For purposes of this section -

"Active case" means an individual or family determined to be currently eligible for medicaid.

"Claims processing error" means FFP has been claimed for a medicaid payment that was made -

(1) For a service not authorized under the State plan;

(2) To a provider not certified for participation in the medicaid program;

(3) For a service already paid for by medicaid; or

(4) In an amount above the allowable reimbursement level for that service.

"Eligibility error" means that medicaid coverage has been certified or payment has been made for a recipient under review who -

(1) Was ineligible when certified or when he received services under the State's plan; or

(2) Had not met recipient liability requirements when certified eligible for medicaid; that is, he had not incurred medical expenses equal to the amount of this excess income over the State's financial eligibility level.

"Negative case action" means a medicaid application that was denied or otherwise disposed of without a determination of eligibility (for instance, because the application was withdrawn or abandoned) or an individual or family for whom medicaid eligibility was terminated.

"State agency" means either the State medicaid agency, or a State agency that is responsible for determining eligibility for medicaid.

Rev. 1 v

"Third-party liability error" means FFP has been claimed for a medicaid payment when -

(1) All or part of the medical services should have been paid for by a third party; and

(2) The State failed to meet the requirements of Section 433.135 of this subchapter for considering third party liability.

(c) State plan requirements. A State plan must provide for operating a medicaid quality control (MQC) system that meets the requirements of paragraphs (d) through (h) of this section.

(d) Basic elements of MQC system.

The agency -

(1) Must operate the MQC system in accordance with the policies, sampling methodology, review procedures, and reporting forms and requirements specified in medicaid quality control manuals issued by HCFA;

(2) Must select statistical samples of both active and negative case actions;

(3) Must review each case in the sample to identify eligibility errors; and

(4) Must review any claims pertaining to each active case to identify erroneous payments resulting from -

(i) Ineligibility

(ii) Recipient understated or overstated liability;

(iii) Third-party liability; and

(iv) Claims processing errors;

(5) In order to verify eligibility information, must conduct field investigations, including -

(i) Personal interviews for each case in the active case sample; and

(ii) Personal interviews for cases in the negative case action sample, to the extent necessary to verify erroneous eligibility determinations; and

(6) Must use 6-month sampling periods, from April through September and from October through March.

(e) Reporting requirements. The agency must submit reports to the Administrator, in the form and at the time specified by him, including -

(1) A description of the State's sampling plan for active cases and negative cases;

(2) A monthly report on eligibility case reviews completed during the month for all cases in the active case sample for that month and selected cases from the negative case sample for that month;

(3) A monthly report on payment reviews completed during the month for cases in the active case sample. (States must wait 5 months after each sample month before accumulating claims paid for each case - through the fourth month following the sample month);

(4) A summary report on eligibility findings and payment error findings for all cases in the 6-month sample, to be submitted by May

vi Rev. 1

31 of each year for the previous April-September sampling period, and by November 30 for the October-March sampling period; and

(5) Other data and reports that the Administrator requests.

(f) Access to records. The agency, upon request, must provide HEW staff with access to all records pertaining to its MQC reviews to which the State has access.

(g) Corrective action. The agency must-

(1) Take action to correct any eligibility, third-party liability, claims processing or negative case action errors found in the sample cases;

(2) Take administrative action to prevent or reduce the incidence of those errors; and

(3) By July 31 each year, submit to the Administrator a report on its error analysis and a corrective action plan.

(h) Protection of recipient rights. Any individual performing activities under the Medicaid quality control program must do so in a manner consistent with Sections 435.902 and 436.901 of this subchapter concerning the rights of the recipient

(43 FR 45188, Sept. 29, 1978, as amended at 44 FR 17935, Mar. 23, 1979)

Section 431.801 Disallowance of Federal financial participation for erroneous State payments.

(a) Purpose. This section establishes rules and procedures for disallowancing Federal financial participation (FFP) in erroneous Medicaid payments due to eligibility errors, as detected through the Medicaid Quality Control (MQC) system required under Section 431.800 of this subpart.

(b) Definitions. For purposes of this section - "Base period" means a six month MQC sampling period used to calculate each State's error rate and the national standard. The initial base period is July through December 1978. For subsequent years, the base period is April through September.

"Eligibility errors" has the same meaning as specified in Section 431.800(b).

"National standard" means the weighted mean of all State error rates for a base period.

"State error rate" means the rate of eligibility payment errors detected under the MQC system for each review period.

"State target error rate" means the error rate that a State must achieve in order to avoid a disallowance of FFP under this section. A State's target error rate is equal to the high of the national standard or percent of that State's error rate during the base period.

(c) Setting the State's error rate. An error rate for each State will be determined for each MQC review period, in accordance with

Rev. 1 vii

instructions issued by HCFA. Erroneous eligibility determinations by the Social Security Administration (SSA) of Supplemental Security Income (SSI) eligibility will not be included in determining the State's error rate. If a State fails to complete a valid MQC review as required for any sampling period, HCFA will assign the State an error rate based on the best information available to HCFA.

(d) Establishing the target error rate. Each year, after the end of the base period, HCFA will calculate a national standard and will notify each State agency what that State's target error rate is for the following April through September and October through March MQC review periods.

Example. The State's payment error rate in the base period is 20 percent. The national standard is 8 percent. To find the target error rate, we start with 20 percent and multiply by 84.3 percent which gives a target error rate of 16.9 percent. If this State reduces its error rate only to 18.2 percent during one of the subsequent disallowance periods, its FFP for that period may be reduced by 1.3 percent, the short fall from the 16.9 percent target.

(e) Period for disallowance of FFP. The State target error rate established for each base period will be used to determine whether the State is subject to a disallowance during the following April through September and October through March MQC review periods. During each of these two periods, a State will be subject to a reduction in FFP for program services (see Section 433.10 of this subchapter) equal to the percentage points by which it exceeded its target error rate. The first disallowance period will be April through September, 1979.

(f) Procedures for disallowance of FFP. (1) HCFA will notify each State that is subject to a disallowance under paragraph (e) of this section. A State will have 65 days from the date on this notification in which to show that this disallowance should not be made because the State's failure to meet its target error rate was due to factors beyond its control.

(2) Events that will be considered by the Secretary in determining whether a State's failure to meet its target error rate was due to factors beyond its control include-

(i) Disasters such as fire, flood or civil disorders, that -

(A) require the diversion of significant personnel normally assigned to Medicaid eligibility administration, or

(B) destroyed or delayed access to significant records needed to make or maintain accurate eligibility determination;

(ii) Strikes of State staff or other government or private personnel necessary to the determination of eligibility or processing of case changes;

viii Rev. 1

(iii) Sudden and unanticipated workload changes which result from changes in Federal law and regulation, or rapid, unpredictable caseload growth in excess of, for example, 15 percent for a 6 month period; and

(iv) State actions resulting from incorrect written policy interpretation to the State by a Federal official reasonably assumed to be in a position to provide such interpretation.

(3) The failure of a State to act upon necessary legislative changes or to obtain budget authorization for needed resources does not constitute a factor beyond the State's control.

(4) The Secretary may disallow the full amount calculated under paragraph (e) of this section or reduce the disallowance in whole or in part, to the extent he determines that the State's failure to meet its target error rate was due to factors beyond its control.

(5) A State may request reconsideration in accordance with the procedures specified in 45 CFR 201.14 and 45 CFR Part 16.

Section FR 12591, Mar.7, 1979

Rev. 1 ix