South Dakota Medicaid Report

South Dakota Department of Social Services (DSS)

Medicaid Overview Report:
Providing Cost-Effective Health Care to South Dakota's Medicaid Recipients

December 2014

DSS
Strong Families – South Dakota's Foundation and Our Future
South Dakota Department of Social Services

South Dakota's Medicaid program plays a vital role in the health care of many individuals. The program is much more than a vehicle for financing acute care in hospitals or care provided by physicians, dentists, optometrists and other medical providers.

- First and foremost, Medicaid or CHIP (Children's Health Insurance Program) covers South Dakota's children – 67% of those covered by Medicaid or CHIP are children. In fact, 50% of South Dakota's children will rely on Medicaid or CHIP during the first year of life.

- More than 56% of our parents and grandparents in nursing homes are dependent upon Medicaid to pay for their care. 25% need Medicaid in order to live in an assisted living facility. And, many of our parents and grandparents rely on Medicaid to pay for much needed services so they can remain living in their own homes and communities in their later years of life.

- Nearly 3,500 South Dakota citizens with developmental disabilities are living in our communities through the support of Community Support Providers, relying on Medicaid to pay for their services.

- Approximately 10,000 South Dakotans with mental health and/or substance abuse challenges receive services in their community through community mental health centers or substance abuse treatment providers paid for by Medicaid.

- Children who have been abused and neglected are provided the services they need through Medicaid payments to providers, including psychiatric residential treatment programs.

- Medicare premiums are paid for low-income South Dakota seniors through the Medicaid program.

- Citizens with developmental disabilities served at the Developmental Center at Redfield are covered by Medicaid.

- Pregnant women who have low-incomes receive pregnancy-related services paid for by the Medicaid program to help ensure healthier birth outcomes.

These South Dakotans are our children, parents, grandparents, neighbors and friends.

While South Dakota and other states are facing difficult economic challenges, South Dakota will continue its efforts to respond to the health care needs of its citizens in a cost-effective manner, provide access and quality of care, and seek to improve health outcomes through innovative initiatives.

Table of Contents

Introduction

This report provides a summary of the Medicaid Program in South Dakota. It is designed to provide a high-level overview of the program, provide basic information on program operations, and highlight key program initiatives.

The report is broken into three sections.

Section 1 provides basic information on the Medicaid Program, including data and information on eligibility, coverage, and program expenditures.

Section 2 provides data relating to the operation and maintenance of program operations, including claims processing, utilization review activities, and the other important functions necessary to appropriately administer the program.

Section 3 highlights DSS's efforts to be good stewards of our tax dollars and to protect the Medicaid Program from fraud, abuse and waste.

Section 1: Program Overview

Organization

The Department of Social Services (DSS) is the designated State Medicaid Agency for South Dakota. The Division of Medical Services within the Department administers assistance to those who qualify for Medicaid or the Children's Health Insurance Program (CHIP). Other agencies also administer programs funded by Medicaid in South Dakota including the Departments of Human Services, Corrections, Education, Health, Military and Veterans Affairs.

What is Medicaid?

Medicaid is the nation's publicly financed health and long-term care coverage program for low-income people. Enacted in 1965 under Title XIX of the Social Security Act, Medicaid is an entitlement program. As an entitlement program, all eligible individuals must receive services. An entitlement program differs from a block grant, which involves a cap in funding and can result in waiting lists. Over time, Congress has gradually expanded Medicaid eligibility criteria to reach more Americans living below or near poverty. Medicaid currently covers an expansive low-income population, including parents and children in both working and nonworking families, individuals with diverse physical and mental conditions and disabilities, and seniors.

Medicaid provides health coverage for millions of low-income children and families who lack access to the private health insurance system that covers most Americans. The program also provides coverage for millions of people with chronic illnesses or disabilities who are excluded from private insurance or for whom such insurance, which is designed for a generally healthy population, is inadequate or cost prohibitive.

What is CHIP? The South Dakota Children's Health Insurance Program, more commonly referred to as CHIP, provides quality health care (including regular check-ups, Well-Child Care exams, dental and vision care) for children and youth. To be eligible for CHIP, children must be under the age of 19 and reside in South Dakota. Children who are uninsured may be eligible for CHIP based on income and eligibility guidelines. Generally speaking, CHIP provides health care for children whose family income is too high to qualify for Medicaid.

What Services are Covered?

States establish and administer their own Medicaid programs and determine the type, amount, duration, and scope of services based on the general federal guidelines. States are required to cover certain "mandatory services," and can choose to provide other "optional services" through the Medicaid program.[1] Mandatory Medicaid services, and optional services covered by South Dakota, are listed below. All optional services, when medically necessary, are mandatory for children under age 21.

Medicaid Mandatory Services (examples)	*South Dakota Optional Services (examples)*
• Inpatient hospital services • Outpatient hospital services • Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) services • Nursing facility services • Home health services • Physician services • Rural health clinic services • Federally qualified health center services • Laboratory and X-ray services • Nurse Midwife services • Certified Pediatric and Family Nurse Practitioner services • Transportation to medical care • Tobacco cessation counseling for pregnant women • All Medically Necessary care for eligibles under age 21	• Physician assistants • Psychologists and independent mental health practitioners • Intermediate Care Facilities for the Mentally Retarded (ICF/MR) • Podiatry • Prescription Drugs • Optometry • Chiropractic services • Durable medical equipment • Dental services • Physical, occupational, speech therapy, audiology • Prosthetic devices and eyeglasses • Hospice care, nursing services • Personal care services and home health aides

What is Medically Necessary?

All benefits must be "medically necessary" in order to be covered by the program. To be "medically necessary" in South Dakota, the covered service must meet the following conditions:

- It is consistent with the recipient's symptoms, diagnosis, condition, or injury;
- It is recognized as the prevailing standard and is consistent with generally accepted professional medical standards of the provider's peer group;
- It is provided in response to a life-threatening condition; to treat pain, injury, illness, or infection; to treat a condition that could result in physical or mental disability; or to achieve a level of physical or mental function consistent with prevailing community standards for diagnosis or condition;
- It is not furnished primarily for the convenience of the recipient or the provider; and
- There is no other equally effective course of treatment available or suitable for the recipient requesting the service which is more conservative or substantially less costly.

[1] *Medicaid Benefits*, http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Benefits/Medicaid-Benefits.html.

What is EPSDT? EPSDT stands for Early and Periodic Screening, Diagnosis & Treatment. Federal Law requires the State to provide screening, diagnosis and all "medically necessary" treatment services, including mental health services, to all Medicaid recipients under 21.

Seniors & Medicare and Medicaid Enrollees

In South Dakota, Medicaid provides health coverage to more than 7,000 low-income seniors, nearly all of whom are also enrolled in Medicare. Medicaid also provides coverage to 18,800 people with disabilities, of whom about half are enrolled in Medicare. On average each month, about 12,000 people are "dually eligible" and enrolled in both Medicaid and Medicare, which is about 10% of all Medicaid enrollees in South Dakota. For these "dual eligible" individuals, Medicaid assists with Medicare premiums and cost-sharing obligations and covers key services, such as long-term care, that Medicare limits or excludes. Medicaid is South Dakota's largest source of coverage for long-term care, covering 56% of all nursing home residents.

Who is Covered?

Medicaid is one of the largest healthcare insurers in South Dakota with 145,828 individuals participating in the program during State Fiscal Year 2014. The average monthly enrollment in State Fiscal Year 2014 was 115,328.

South Dakota's Medicaid Program covers primarily children of low-income families and plays a very important role in the health care of this age cohort. More than 67% of individuals covered by Medicaid or CHIP are children, and 50% of the children born in South Dakota will be on Medicaid or CHIP during the first year of their life.

The Affordable Care Act included changes to standardize eligibility determination nationally. January 1, 2014, all states, including South Dakota, began using gross vs net income as the basis for determining Medicaid eligibility. These changes also impacted the Federal Poverty Levels used to determine eligibility. The Affordable Care Act has also included changes to the way people can apply for Medicaid and find other insurance if not eligible for Medicaid. Applicants must be able to apply directly to the State Medicaid agency or to the Federally Facilitated Marketplace or a State established exchange. South Dakota is using the Federally Facilitated Marketplace. The ACA also requires that states, as a condition of Medicaid funding, maintain Medicaid income eligibility standards as of March 2010 to calculate eligibility.

In order to receive federal funding, states must cover certain "mandatory" groups. The mandatory groups are pregnant women with income below 138 percent of the Federal Poverty Level (FPL), children under age 6 with family income below 182 percent of the FPL; children age 6 to 18 below 116 percent of the FPL; parents below cash-assistance eligibility levels; and elderly and persons with disabilities who receive Supplemental Security Income (SSI). South Dakota Eligibility Categories, and their relationship to the FPL, are outlined in Table 1. In South Dakota, childless non-disabled adults are not currently eligible for Medicaid regardless of their income.

Table 1. Sample of 2014 Federal Poverty Level Guidelines

Family Size	Annual Income				
	100% FPL	116% FPL	138% FPL	182% FPL	209% FPL
1	$11,670	$13,537	$16,105	$21,239	$24,390
2	$15,730	$18,247	$21,707	$28,629	$32,876
3	$19,790	$22,956	$27,310	$36,018	$41,361
4	$23,850	$27,666	$32,913	$43,407	$49,847

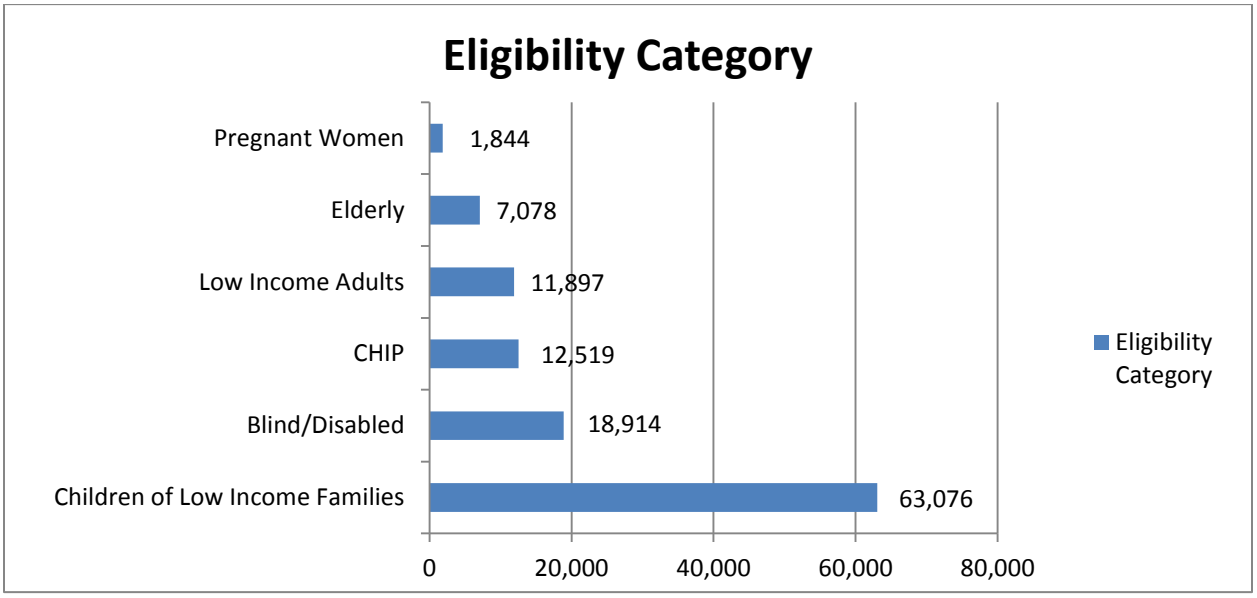
Table 2. South Dakota Eligibility by Percent of Federal Poverty Level

Eligibility Group	% FPL
Pregnant Women	138%*
Children Under Age 6	182%*
Children Age 6 – 19	116%*
Parent/Caregiver/Relatives of Low Income Children	53%*
Aged, Blind and Disabled (Single)	74%
Aged, Blind and Disabled (Couple)	83%
CHIP (Children's Health Insurance Program)	209%*

*These figures include the 5% mandatory disregard for MAGI groups

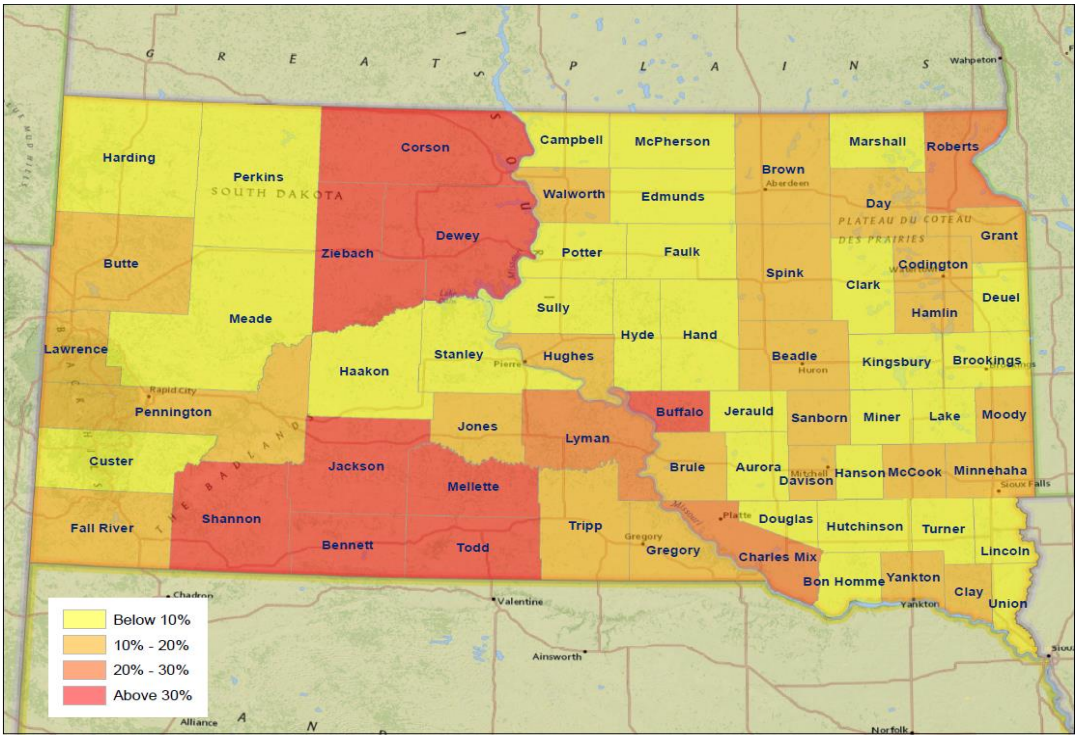
For the Medicaid Program as a whole, two-thirds of enrollees are children and one-third of enrollees are adults. The latter category is comprised of pregnant women (pregnancy-related services only), individuals who are elderly or disabled, and parents in very low income families (e.g., a family of three has an annual income of $10,489, which is 53% of the federal poverty level). The number of individuals participating in the program, by eligibility category, is outlined in Graph 1.

Graph 1. Medicaid Participation by Eligibility Category, SFY 2014



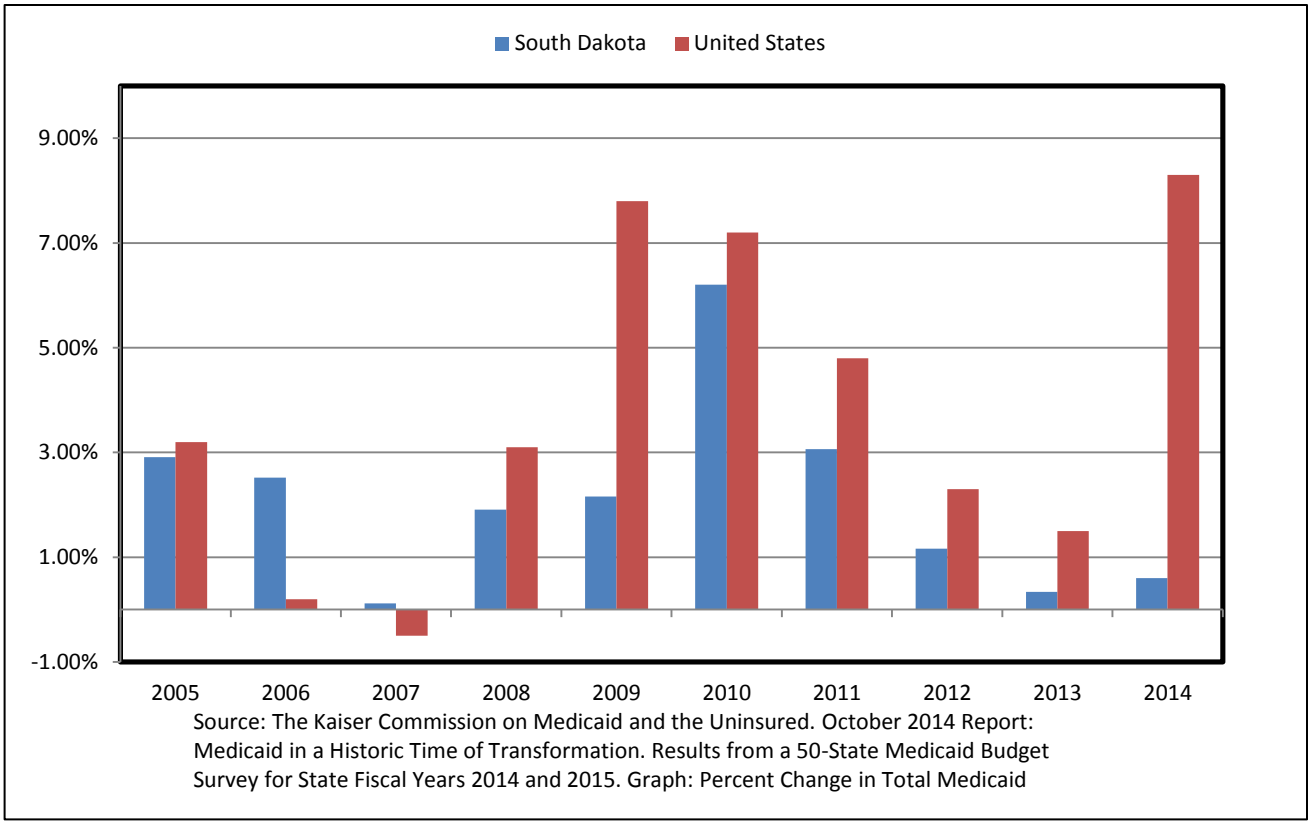
Medicaid enrollment varies considerably by county. For the entire state of South Dakota, 14% of the population was eligible for Medicaid in SFY 2014 (see Map 1 – refer to Appendix A for complete details).

Map 1. Persons Eligible for Medical Services by County, SFY 2014



Enrollment in the South Dakota's Medicaid program has also generally experienced less annual growth than the United States as a whole (see Graph 2).

Graph 2. Annual Change in Medicaid Enrollment in 50 States and DC, 2005 to 2014

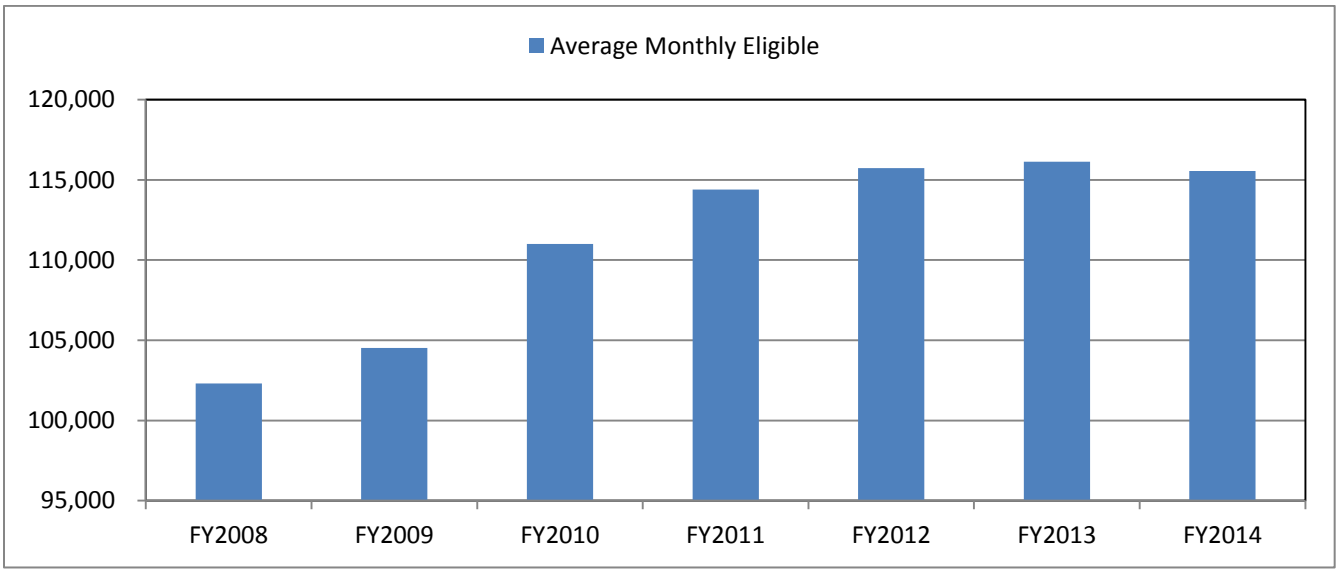


Source: The Kaiser Commission on Medicaid and the Uninsured. October 2014 Report: Medicaid in a Historic Time of Transformation. Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2014 and 2015. Graph: Percent Change in Total Medicaid

How Much Does the Program Cost?

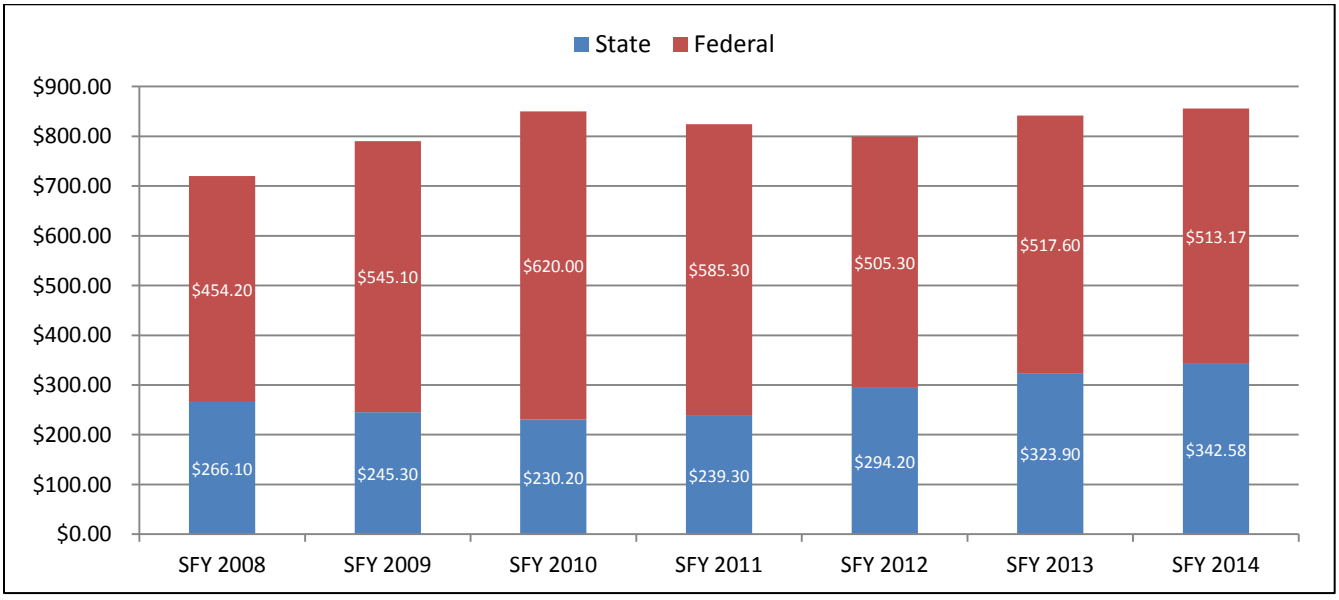
Medicaid is naturally counter-cyclical, when the economy weakens, revenues decline, and the number of Medicaid Eligible increases. National experts indicate that every 1% increase in unemployment results in an increase of 1 million Medicaid and CHIP Eligible nationwide. FY2014 is the first year in which South Dakota has seen a negative growth in the number of Medicaid Eligible.

Graph 3. South Dakota Medicaid Average Monthly Eligible, SFY 2008 – 2014



South Dakota experienced unprecedented growth in Medicaid Eligible during SFY 2009-2010 when the recession hit the state, which in turn, affected expenditures. Rates of growth in recent years have leveled off. In SFY 2014, South Dakota's Medicaid expenditures were $855.8 million (see Graph 3-A).

Graph 3-A. South Dakota Medicaid Expenditures, SFY 2008 – 2014



Notes: From SFY09-SFY11, state general fund matches were impacted by enhanced federal funding through the American Reinvestment and Recovery Act (ARRA). SFY10 also includes certain one-time expenditures.

The providers with the largest percentage of total Medicaid expenditures in South Dakota in SFY 2014 were hospitals, nursing homes/assisted living providers and Department of Human Services/Developmental Disability community support providers. A list of providers and their respective expenses include the following:

Table 3-B. Majority of Expenses by Provider Type, SFY 2014

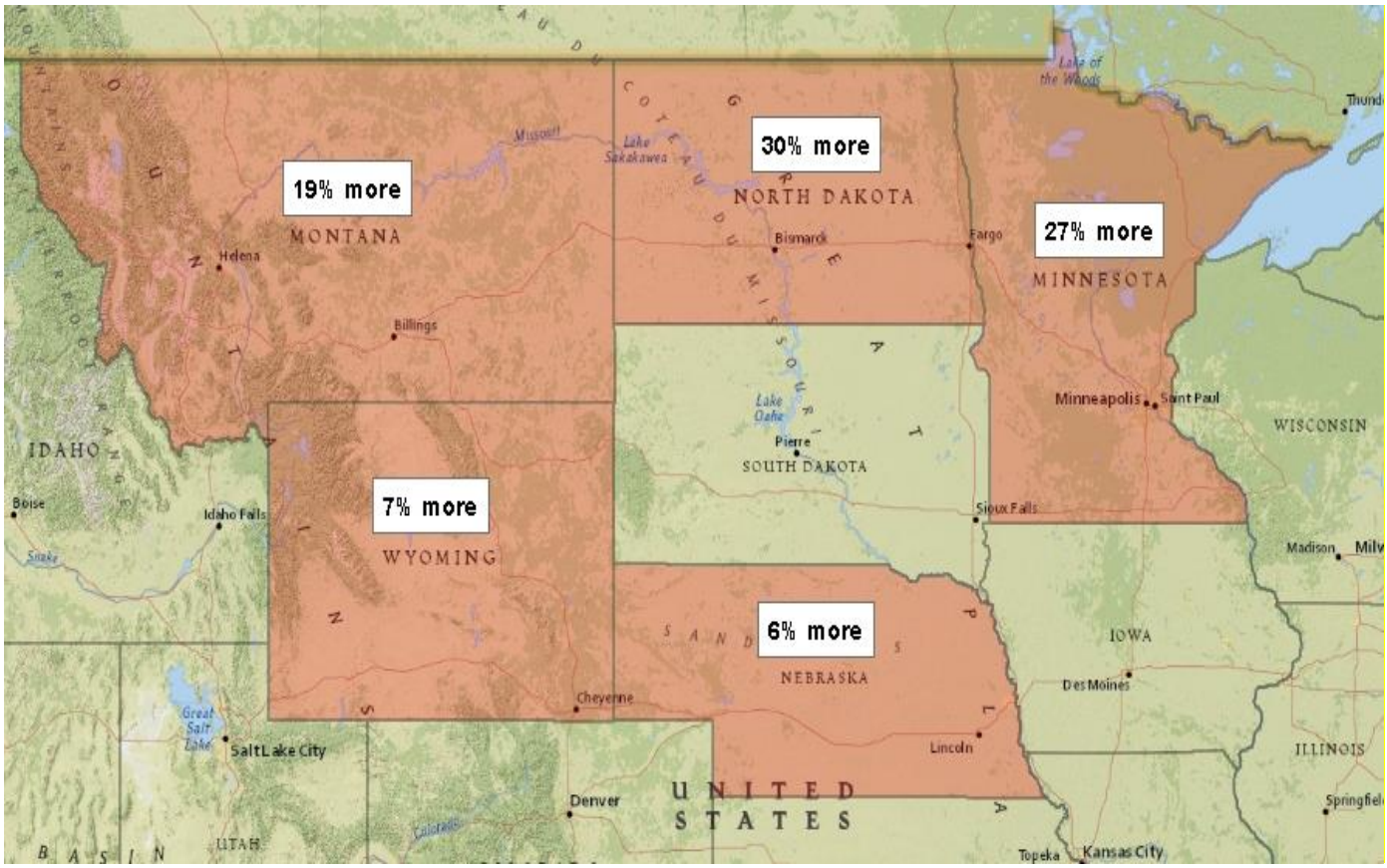
Provider	SFY 2014 Expense (Millions)	% of Total
Hospital	$174.9	23.0%
Nursing Homes/Assisted Living Providers/Hospice	$140.7	18.5%
Community Support Providers	$114.4	15.0%
Physicians, Independent Practitioners and Clinics	$106.8	14.0%
Indian Health Services	$72.8	9.6%
Pharmacies	$32.0	4.2%
South Dakota Developmental Center and Human Services Center	$34.9	4.6%
Substance Abuse, Mental Health and Other Community Support Providers	$22.1	2.9%
Psychiatric Residential Youth Care Providers	$28.0	3.7%
Dentists	$17.2	2.3%
Durable Medical Equipment Providers	$9.8	1.3%
In-Home Service Providers for the Elderly and Skilled Home Health	$ 8.3	1.1%
Total for Majority of Expenses	**$761.9**	

Although children make up the majority of Medicaid enrollees, most Medicaid spending is attributable to the elderly and people with disabilities. In South Dakota, similar to the rest of the United States, the elderly and disabled represent 20% of the Medicaid population but account for roughly 61% of spending. In addition, a recent analysis of South Dakota Medicaid inpatient hospital statistics revealed that 2.5% of South Dakota Medicaid inpatient hospital recipients are responsible for 48% of inpatient hospital payments. This is consistent with findings that nationwide, the top 5 percent of the population accounted for nearly 50 percent of health care expenditures.[2]

[2] Steven B. Cohen, PhD Statistical Brief #392: The Concentration and Persistence in the Level of Health Expenditures over Time: Estimates for the U.S. Population, 2009-2010 (November 2012)
http://meps.ahrq.gov/data_files/publications/st392/stat392.pdf

It is also worth noting that South Dakota has a very conservative Medicaid reimbursement policy and focuses on managing program costs. As a result, the state spends less for each Medicaid enrollee (per capita) than surrounding states. Wyoming pays 7% more per Medicaid enrollee; Nebraska pays 6% more; Montana pays 19% more; North Dakota pays 30% more; and Minnesota pays 27% more.[3]

Map 2. South Dakota's Variance in Medicaid Spending per Enrollee, FY2010



[3] Kaiser Family Foundation, Statehealthfacts.org

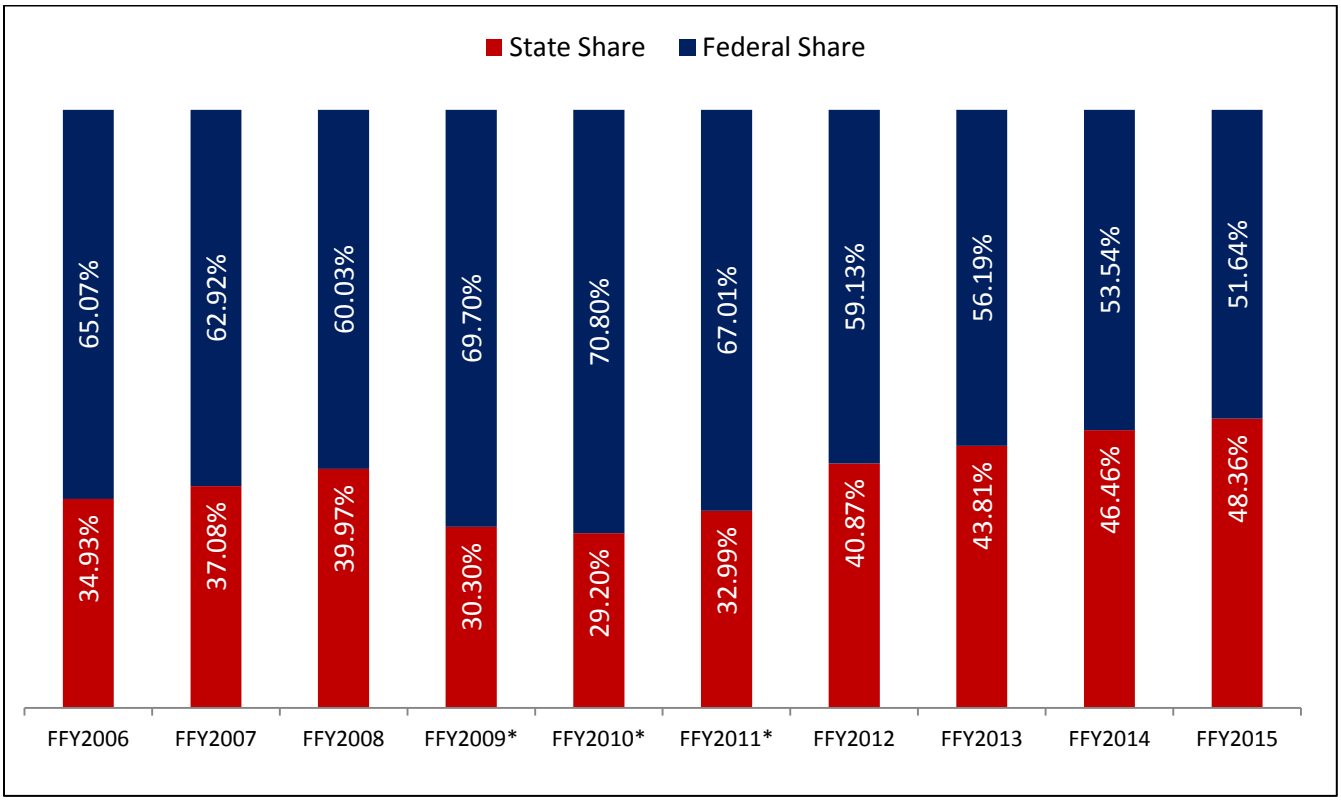
What is the Role of Federal Funding in South Dakota's Medicaid Program?

The federal government's share of a state's expenditures for most Medicaid services is called the federal medical assistance percentage (FMAP). The remainder is referred to as the nonfederal share, or state share. Determined annually using the previous three years personal income data for each state, the FMAP is designed so that the federal government pays a larger portion of Medicaid costs in states with lower per capita incomes relative to the national average (and vice versa for states with higher per capita incomes). FMAP rates differ by state and range from the minimum 50% federal share in states with higher per capita income like Massachusetts up to 73.58% in states with lower per capita income like Mississippi. (FFIS Issue Brief 14-32)

In FFY 2014, the FMAP for South Dakota was 53.54%.South Dakota continues to face substantial FMAP decreases. In FFY 2014 South Dakota experienced a 2.65 percentage point decline from FFY 2013 rate of 56.19%. For FFY 2015 the FMAP will decline another 1.9% reduction. It is estimated that a one percentage point change can reduce or increase South Dakota's funding responsibility by about $7.5 million.

Services funded through the Children's Health Insurance Program (CHIP) receive an enhanced FMAP rate. The CHIP match rate is about 15% higher than the FMAP rate. South Dakota's enhanced CHIP match rate for FFY15 is 66.15% federal.

Graph 4. South Dakota Federal Medical Assistance Percentage (FMAP), FFY2006 to FFY2015



* Notes: From SFY09-SFY11, state general fund matches were impacted by enhanced federal funding through the American Reinvestment and Recovery Act (ARRA).

What is the Relationship of Medicaid to the Indian Health Services?

While Indian Health Services (IHS) is responsible for providing health care to American Indians, the South Dakota Medicaid Program serves as the safety net for this population, and will cover services that cannot be provided or accessed through the IHS system. This has significant financial implications, as Medicaid (unlike the federal IHS) is jointly funded by the State and federal government. During SFY14, an average of 40,933 American Indians were on Medicaid every month, which represents 35.5% of all the individuals eligible for Medicaid. This percentage has remained fairly consistent over the course of the last 9 years, despite the fact that American Indians comprised only about 10% of the state's population. During SFY14 total expenditures for services provided to American Indians, including services at the Indian Health Services, totaled $244.7 million. Approximately $71.2 million of that was 100% federally funded.

What is the Responsibility of Medicaid Recipients to Share in the Cost of Services?

States have the option to charge premiums and to establish out of pocket spending (cost sharing) requirements for Medicaid enrollees. Out of pocket costs may include copayments, coinsurance, deductibles, and other similar charges. Certain vulnerable groups, such as children and pregnant women, are exempt from most out of pocket costs, and copayments and coinsurance cannot be charged for certain services. In addition, American Indians receiving services through IHS or upon IHS referral are exempt from copayments. Copayments are also waived for American Indians who have ever received care or are eligible to receive care from IHS, Urban Indian Health or another Tribal facility.

As a result of South Dakota's limited eligibility policy, and the broad exemptions included in federal law, the state has a very low number of Medicaid enrollees to whom copayments are applicable.

Within these parameters, South Dakota imposes significant cost sharing requirements on its consumers to promote the efficient use of services. Examples of South Dakota Medicaid copayment amounts include the following:

- Non-generic prescription drugs: $3.30
- Generic prescription drugs: $1.00
- Durable Medical Equipment: 5%
- Non-emergency dental services: $3 co-pay, $1,000 annual limit for adults
- Inpatient Hospital: $50 per admission
- Non-emergency outpatient hospital services, which includes emergency room use for non-emergent care: 5% of billed charges, maximum of $50

Section 2: Medicaid Programs and Operations

This section of the report will provide general information relating to South Dakota's Managed Care Program known as PRIME, Health Home program, as well as information about South Dakota's management of the Pharmacy program and other key operational activities.

PRIME

PRIME (Provider and Recipient in Medicaid Efficiency Program)is South Dakota's primary care case management program, which consists of Primary Care Providers who render primary care and are responsible for managing the enrollees' health care in preauthorizing, locating, coordinating and referring visits to other Medicaid providers. Approximately 80% of South Dakota Medicaid consumers, including children, low-income families, pregnant women, and disabled recipients are required to enroll in the program and choose one primary care provider (PCP) to be their health care case manager.

Pursuant to this program, participating primary care physicians (PCPs) are responsible for directing all Managed Care designated services, providing referrals for specified non-emergent specialty and hospital services, and for guaranteeing 24 hours a day, 7 days a week access to medical care. The PCPs are reimbursed under the usual fee-for-service system. In addition, PCPs receive a monthly case management fee of $3.00 per member per month. This program is designed to improve access, availability, and continuation of care while reducing inappropriate utilization, over-utilization, and duplication of Medical Assistance Program covered services while operating a cost-effective program.

Health Home Program

To improve patient outcomes and experiences, the Department implemented the Health Home program in July 2013. It delivers customized and enhanced health care services to meet the specific needs of Medicaid recipients with chronic medical or behavioral health conditions.

More specifically, the initiative provides six core services:

- Comprehensive Care Management
- Care Coordination
- Health Promotion
- Comprehensive Transitional Care
- Patient and Family Support
- Referral to community and support services

By utilizing these core services, the Health Home initiative aims to reduce inpatient hospitalization and emergency room visits, increase the integration between physical and behavioral health services, and enhance transitional care between institutions and the community.

In SFY14 around 6,000 recipients received services in Health Homes. Recipients are placed in one of four tiers based on the severity of illness and risk of future costs.

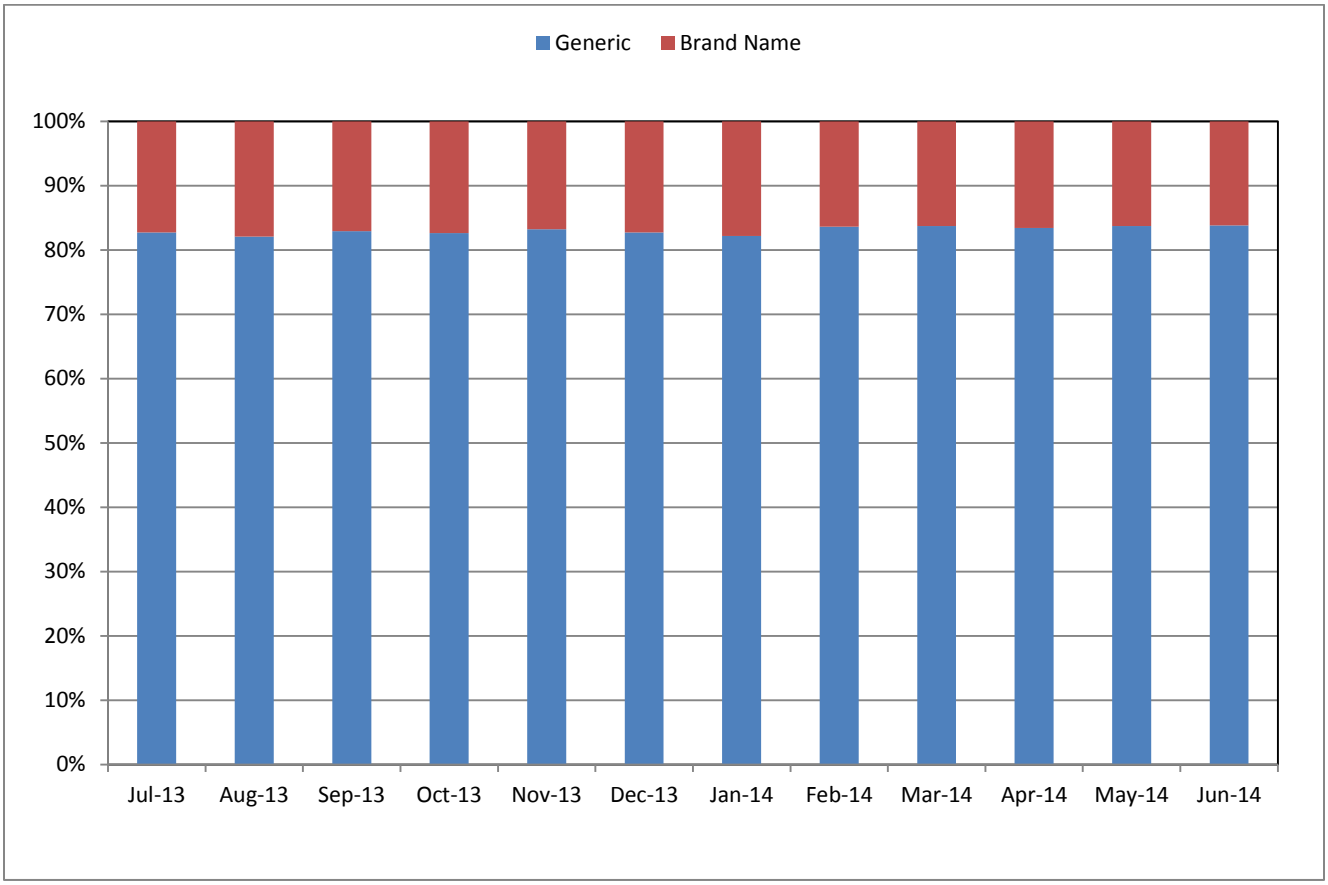
Health Home services are available through more than 100 primary care clinics including 11 Indian Health Service facilities and 23 Federally Qualified Health Care Centers. There are also 11 Community Mental Health Centers that are also participating. In total, there are 545 Health Home providers serving 124 locations.

PRIME and Health Home Program Overviews	
Referral/Authorization is Required: Physician/Clinic Psychiatry/Psychology NPs, PAs Residential Treatment Nurse Midwives Durable Medical Equipment Ophthalmology (not refractive) Therapy (Physical/Speech) Community Mental Health Center Inpatient/Outpatient Hospital Services Pregnancy Related Services Ambulatory Surgical Center Lab/X-Ray Services (at another facility)	**Referral/Authorization is NOT Required:** Pharmacy True Emergency Services Family Planning Dental Services Optometric (Routine eye care) Podiatry Ambulance/Transportation Anesthesiology Chiropractic Independent Radiology/Pathology Immunizations Chemical Dependency Treatment *Independent Lab/X-Rays (when sending samples or specimens to any outside facility for analysis only)
Medicaid will only pay for medically necessary covered services authorized by the primary care provider. Managed care and Health Home services provided which are not authorized are the recipient's responsibility to pay.	

Pharmacy Management Program

South Dakota also aggressively manages the pharmacy benefit. This management approach includes a strong clinical prior authorization process, as well as the utilization of a Pharmacy and Therapeutics (P&T) Committee and Drug Utilization and Review (DUR) Committee comprised of pharmacists and physicians. Members of both the P&T and DUR Committees have served for many years and have significant knowledge of the South Dakota marketplace. As a result of these activities, South Dakota's generic utilization is approximately 83%. High utilization of generic drugs, which are typically much less expensive than brand drugs, is generally considered evidence of successful pharmacy management programs. South Dakota continues to aggressively pursue generic drug utilization and continues to see a steady increase in generic drug use.

Graph 5: Generic vs. Brand Name Drug Utilization, July 2013 – June 2014



Home and Community Based Services (HCBS)

South Dakota Medicaid also provides home and community-based service options to individuals 60 years of age and older and 18 years of age and older with qualifying disabilities who meet financial and level of care eligibility requirements. The focus of these services is to enable these South Dakotans to live independent and meaningful lives while maintaining close family and community ties. The home and community based waiver program promotes in-home and community-based services to prevent or delay premature or inappropriate institutionalization.

Services available under the HCBS Waiver include in-home services and assisted living:

In-home service Services:

- Homemaker Services
- Personal Care Services (Bathing and Personal Hygiene)
- Adult Day Services
- Personal Emergency Response Systems
- Meals and Nutritional Supplements
- Specialized Medical Equipment/Supplies including Telehealth
- Medication Administration Devices
- Respite Care
- Adult Companion Services
- Environmental Accessibility Adaptations

Assisted Living Services:

- Assistance with daily living including
    - eating, bathing, dressing, and personal care, and meals
    - supervision of self-administration of medications
    - laundry and housekeeping assistance
- 24 hour staffing

Home and community-based services are instrumental to reducing nursing home utilization and to improving the quality of independent living for aging seniors. Providing services under the Waiver are proven to be cost-effective. The following tables (Tables 4 – 6) reflect the average monthly expenditures provided per client under the Title XIX In-Home Waiver, $820.00 in SFY2014, and Assisted Living Waiver, $945.84 in SFY2014, compared to $3,171.58 during the same timeframe utilizing Nursing Home services.

Table 4. HCBS Waiver In-Home Services

State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Client
2012	474	$1,720,017	$302.00
2013	407	$3,096,654	$634.00
2014	414	$4,072,132	$820.00

Table 5. HCBS Waiver Assisted Living Services

State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Client
2012	689	$8,268,237	$1,000.03
2013	662	$7,759,493	$976.77
2014	688	$7,808,825	$945.84

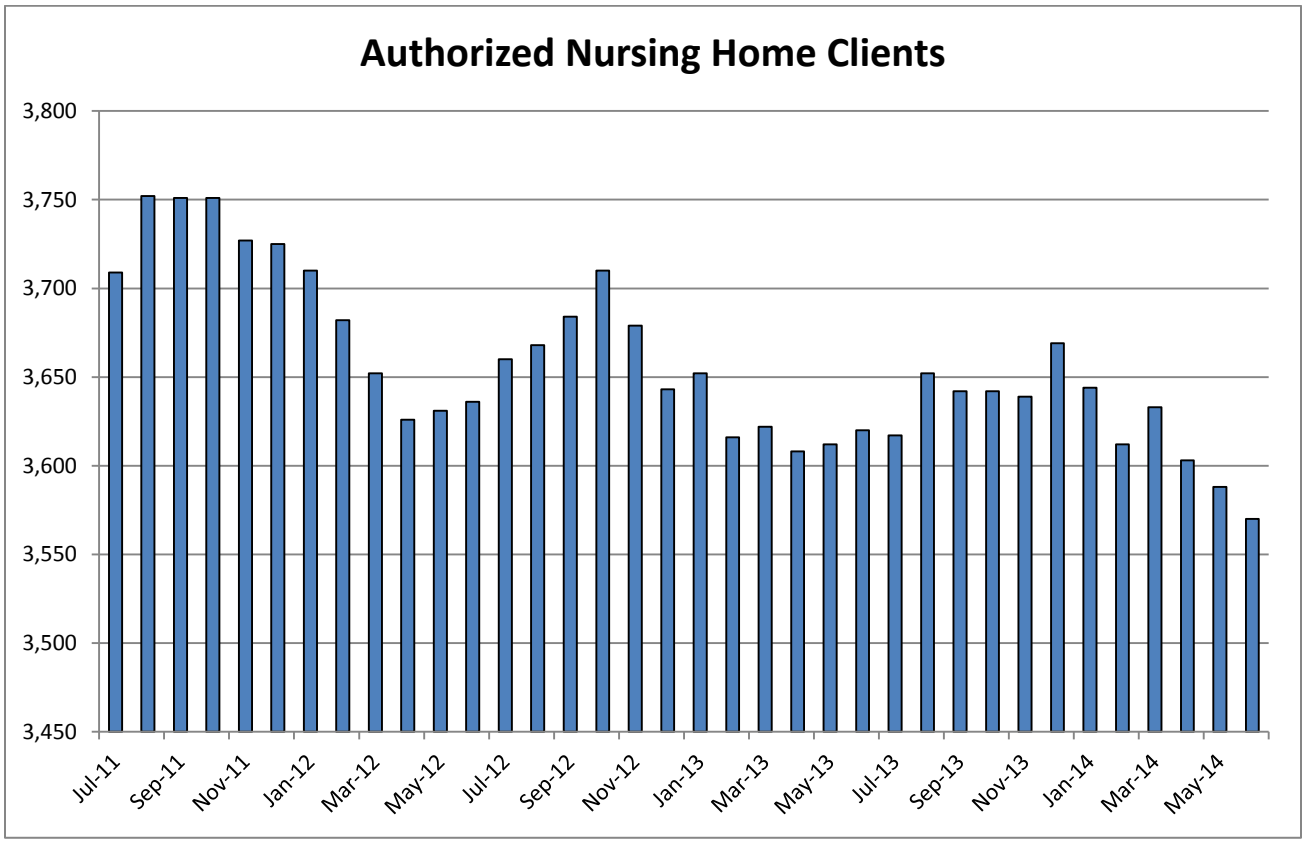
Table 6. Nursing Home Services (DSS Only)

State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Client
2012	3,402	$135,479,618	$3,318.63
2013	3,360	$132,446,931	$3,284.89
2014	3,332	$126,812,527	$3,171.58

Nursing Home Services

Medicaid provides funding for 56% of the individuals in nursing homes. In SFY2014 a monthly average of 3,332 individuals were funded through Medicaid. Nursing home utilization continues to decline. Graph 6 illustrates the decline in the number of authorized nursing home residents who are eligible for Title XIX during the period of July 2011 to June 2014.

Graph 6. Authorized Nursing Home Clients, July 2011 – June 2014



Utilization Review Program

Medicaid services are subject to utilization review by clinical professionals within South Dakota's Medicaid Program. The purpose of the utilization review program is to safeguard against unnecessary and inappropriate medical care rendered to Medicaid recipients. Medical services and/or records are reviewed for medical necessity, quality of care, appropriateness of place of service and length of stay (inpatient hospital). In addition, utilization data is used to identify the need for provider educational efforts, policy clarifications, or possible program integrity review efforts.

Program Operations

Provider Enrollment

Providers must meet a number of federal and state requirements in order to enroll as Medicaid providers and make updates to that information in order to remain an eligible provider. By the end of FY 2014, there were more than 15,000 providers enrolled in the program of which 5,000 average monthly provided services.

Claims Processing

South Dakota operates its own claims processing and management information system. This system is highly effective in making accurate payments, as demonstrated by a recent federal error rate measurement (see page 23), which was the lowest error rate in the nation. The system also processes payments in a timely fashion. On average, claims are paid within three days.

In FY 2014, South Dakota's system:

- Processed more than 4.8 million claims;
- Answered more than 90,817 calls from providers.

Rate Setting

The Department of Social Services is also responsible for setting payment rates for a large number of Medicaid providers, including hospitals, outpatient facilities, nursing homes, federally-qualified health clinics, and behavioral health providers, among many others.
South Dakota has adopted a DRG (Diagnostic Related Group) payment methodology for the majority of inpatient-hospital expenditures. Under the DRG system, hospitals are reimbursed based on the principal diagnosis or condition requiring the hospital admission. The DRG system is designed to classify patients into groups that are clinically coherent with respect to the amount of resources required to treat a patient with a specific diagnosis. Applicable additional payments are added for capital, medical education, and outliers. Hospitals with lower numbers of Medicaid discharges are reimbursed on a percentage of billed charges. Outpatient hospital services are reimbursed on a percentage of billed charges.

Other provider types are reimbursed using standardized fee schedules (e.g. physicians) or are reimbursed based on cost reports submitted by providers (e.g. nursing facilities).

Health Information Technology

South Dakota Medicaid has paid $35 Million dollars in federal funds to eligible providers and eligible hospitals as part of the Electronic Health Records (EHR) Payment Program since its inception in late 2011. Established by the Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009, the Medicaid EHR Incentive Payment Program provides incentive payments for eligible providers for the adoption and meaningful use of certified Electronic Health Records.

Phase one allows eligible hospitals including acute care and children's hospitals and eligible providers to register for the South Dakota program. Eligible hospitals must register before December 31, 2014 in order to receive a payment for 2014. Physicians, certified nurse midwives, dentists, nurse practitioners, and some physician assistants are eligible professionals who have until March 30, 2015 to register to receive their 2014 incentive payment.

The program makes a series of payments to eligible providers based on the providers meeting and demonstrating the program objectives. Many South Dakota providers are receiving their second or third payments by demonstrating meaningful use of their EHR systems. The program ends in 2021.

Section 3: Program Integrity

Third Party Liability

As a condition of receiving Medicaid benefits, recipients agree to allow Medicaid to seek payment from available third party health care resources on their behalf. All other third party resources must be used before Medicaid dollars are spent. These resources, such as health and casualty insurance and Medicare, are important means of keeping Medicaid costs as low as possible. During SFY14, more than $8.7 million in third party liability was recovered.

Fraud and Abuse

South Dakota utilizes a number of approaches to maintain program integrity and prevent fraud and abuse that includes both internal and external approaches, as described below.

Internal approaches:

- ***Surveillance and Utilization Review Unit:*** This federally mandated review process conducts post-payment provider reviews.
- ***Quality Improvement Organization:*** This program reviews inpatient hospital claims to insure quality of services and correct coding.
- ***Office of Recoveries and Fraud Investigations:*** This division conducts investigations of recipient fraud and recovers payments from third party liability sources.
- ***Drug Utilization Review:*** In partnership with South Dakota State University, this program conducts a retrospective review of recipients' drug claims and provides education to physicians.

External approaches:

- ***Medicaid Integrity Contractors:*** This program involves federal contractors conducting independent audits of providers.
- ***Medicaid Fraud Control Unit:*** Located in The South Dakota Attorney General's Office, in FFY 2013 this department recovered $1.7 million in restitution for the Medicaid Program.
- ***Payment Error Rate Measurement Program (PERM):*** This federal program involves the review of medical records, eligibility records, and paid claims by contractors. In its most recent review (2011), South Dakota had the lowest error rate of the 17 states reviewed for claims payment, data processing, eligibility and medical records review.

What is the Payment Error Rate Measurement Program (PERM)? The Federal PERM program measures improper payments in Medicaid and CHIP and produces error rates for each program. The error rates are based on reviews of the fee-for-service (FFS), managed care, and eligibility components of the programs in the fiscal year (FY) under review. The error rate is a measurement of payments made that did not meet statutory, regulatory or administrative requirements. During its most recent review period (2011), of the 17 states reviewed, **South Dakota had the *lowest claims payment, data processing, and medical records review error rate of 1.2% and the lowest eligibility determination error rate 0.0%.***

Appendix A: Person eligible for Medical Services by County, Fiscal Year 2014

County	Average Monthly Eligibles	Est. 2013 Census	Percent of Population
Aurora	246	2,720	9.0%
Beadle	3,515	18,080	19.4%
Bennett	1,408	3,452	40.8%
Bon Homme	631	7,046	9.0%
Brookings	2,191	32,968	6.6%
Brown	4,148	37,907	10.9%
Brule	737	5,366	13.7%
Buffalo	864	2,024	42.7%
Butte	1,717	10,330	16.6%
Campbell	60	1,334	4.5%
Charles Mix	2,257	9,241	24.4%
Clark	362	3,610	10.0%
Clay	1,472	13,935	10.6%
Codington	3,214	27,853	11.5%
Corson	1,654	4,215	39.2%
County N/A	1,632	N/A	N/A
Custer	671	8,468	7.9%
Davison	2,517	19,823	12.7%
Day	677	5,596	12.1%
Deuel	349	4,320	8.1%
Dewey	2,303	5,586	41.2%
Douglas	260	3,023	8.6%
Edmunds	283	4,041	7.0%
Fall River	880	6,839	12.9%
Faulk	158	2,386	6.6%
Grant	675	7,281	9.3%
Gregory	682	4,242	16.1%
Haakon	137	1,894	7.2%
Hamlin	730	5,961	12.2%
Hand	243	3,391	7.2%
Hanson	151	3,405	4.4%
Harding	52	1,262	4.1%
Hughes	2,094	17,508	12.0%
Hutchinson	676	7,145	9.5%
Hyde	107	1,391	7.7%
Jackson	974	3,216	30.3%
Jerauld	187	2,066	9.1%
Jones	102	1,001	10.2%
Kingsbury	385	5,065	7.6%
Lake	936	12,055	7.8%
Lawrence	2,395	24,910	9.6%
Lincoln	1,868	49,858	3.7%
Lyman	876	3,892	22.5%
Marshall	610	5,654	10.8%

McCook	201	2,457	8.2%
McPherson	358	4,763	7.5%
Meade	2,254	27,202	8.3%
Mellette	735	2,081	35.3%
Miner	193	2,333	8.3%
Minnehaha	23,757	179,640	13.2%
Moody	615	6,404	9.6%
Pennington	15,121	105,761	14.3%
Perkins	275	3,037	9.1%
Potter	166	2,394	6.9%
Roberts	2,126	10,251	20.7%
Sanborn	221	2,324	9.5%
Shannon	7,390	14,118	52.3%
Spink	768	6,610	11.6%
Stanley	228	2,981	7.6%
Sully	44	1,437	3.1%
Todd	5,256	9,982	52.7%
Tripp	1,035	5,498	18.8%
Turner	775	8,361	9.3%
Union	1,115	14,829	7.5%
Walworth	838	5,524	15.2%
Yankton	2,693	22,696	11.9%
Ziebach	1,081	2,834	38.1%
Totals	**115,328**	**844,877**	**13.7%**