

# 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 2012



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 – 69% of those covered by Medicaid or CHIP are children. In fact, 48% of South Dakota's children will rely on Medicaid or CHIP during the first year of their life.
- Over 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.

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## 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.<sup>1</sup> Mandatory Medicaid services, and optional services covered

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<sup>1</sup> *Medicaid Benefits*, <http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Benefits/Medicaid-Benefits.html>.

by South Dakota, are listed below. All optional services are mandatory for children under age 21 when they are medically necessary.

<i>Medicaid Mandatory Services (examples)</i>	<i>South Dakota Optional Services (examples)</i>
<ul style="list-style-type: none"> <li>• Inpatient hospital services</li> <li>• Outpatient hospital services</li> <li>• Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) services</li> <li>• Nursing facility services</li> <li>• Home health services</li> <li>• Physician services</li> <li>• Rural health clinic services</li> <li>• Federally qualified health center services</li> <li>• Laboratory and X-ray services</li> <li>• Nurse Midwife services</li> <li>• Certified Pediatric and Family Nurse Practitioner services</li> <li>• Transportation to medical care</li> <li>• Tobacco cessation counseling for pregnant women</li> <li>• All Medically Necessary care for eligibles under age 21</li> </ul>	<ul style="list-style-type: none"> <li>• Physician assistants</li> <li>• Psychologists and independent mental health practitioners</li> <li>• Intermediate Care Facilities for the Mentally Retarded (ICF/MR)</li> <li>• Podiatry</li> <li>• Prescription Drugs</li> <li>• Optometry</li> <li>• Chiropractic services</li> <li>• Durable medical equipment</li> <li>• Dental services</li> <li>• Physical, occupational, speech therapy, audiology</li> <li>• Prosthetic devices and eyeglasses</li> <li>• Hospice care, nursing services</li> <li>• Personal care services and home health aides</li> </ul>

**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.

**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 nearly 7,000 low-income seniors, nearly all of whom are also enrolled in Medicare. Medicaid also provides coverage to 17,776 people with disabilities, of whom about half are enrolled in Medicare. In total, more than 15,000 people are “dually eligible” and enrolled in both Medicaid and Medicare, which about 12% 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 144,373 individuals participating in the program during State Fiscal Year 2012. The average monthly enrollment in State Fiscal Year 2012 was 115,731.

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 69% of individuals covered by Medicaid or CHIP are children, and 48% of the children born in South Dakota will be on Medicaid or CHIP during the first year of their life.

In order to receive federal funding, states must cover certain “mandatory” groups to receive any federal matching funds. The mandatory groups are pregnant women and children under age 6 with family income below 133 percent Federal Poverty Limit (FPL); children age 6 to 18 below 100 percent 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 below. In South Dakota, Childless Adults are not currently eligible for Medicaid regardless of their income.

**Table 1. Sample of 2012 Federal Poverty Level Guidelines**

Family Size	Annual Income						
	100% FPL	130% FPL	133% FPL	140% FPL	150% FPL	160% FPL	200% FPL
1	\$11,170	\$14,521	\$14,857	\$15,638	\$16,755	\$17,872	\$22,340
2	\$15,130	\$19,669	\$20,123	\$21,182	\$22,695	\$24,208	\$30,260
3	\$19,090	\$24,817	\$25,390	\$26,726	\$28,635	\$30,544	\$38,180
4	\$23,050	\$29,965	\$30,657	\$32,270	\$34,575	\$36,880	\$46,100

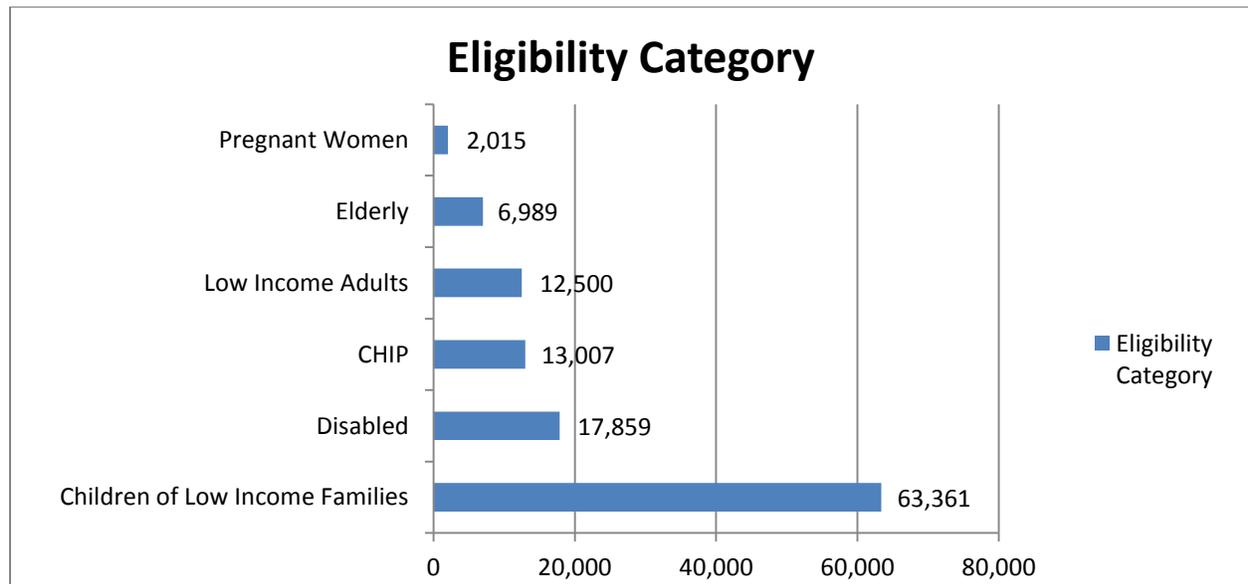
**Table 2. South Dakota Eligibility by Percent of Federal Poverty Level**

Eligibility Group	% FPL
Pregnant Women	133%
Children Under Age 6	133%
Children Age 6 – 19	100%
Parents and Low-Income Families	52%
Aged, Blind and Disabled (Single)	75%
Aged, Blind and Disabled (Couple)	83%
CHIP (Children’s Health Insurance Program)	200%

Note that despite the increase in Medicaid enrollment and the escalating costs of care, federal law generally limits the ability of states, including South Dakota, to cut Medicaid eligibility. Specifically, the federal Affordable Care Act (ACA) requires that states, as a condition of Medicaid funding, maintain existing Medicaid eligibility, including income and resource standards used to calculate eligibility.

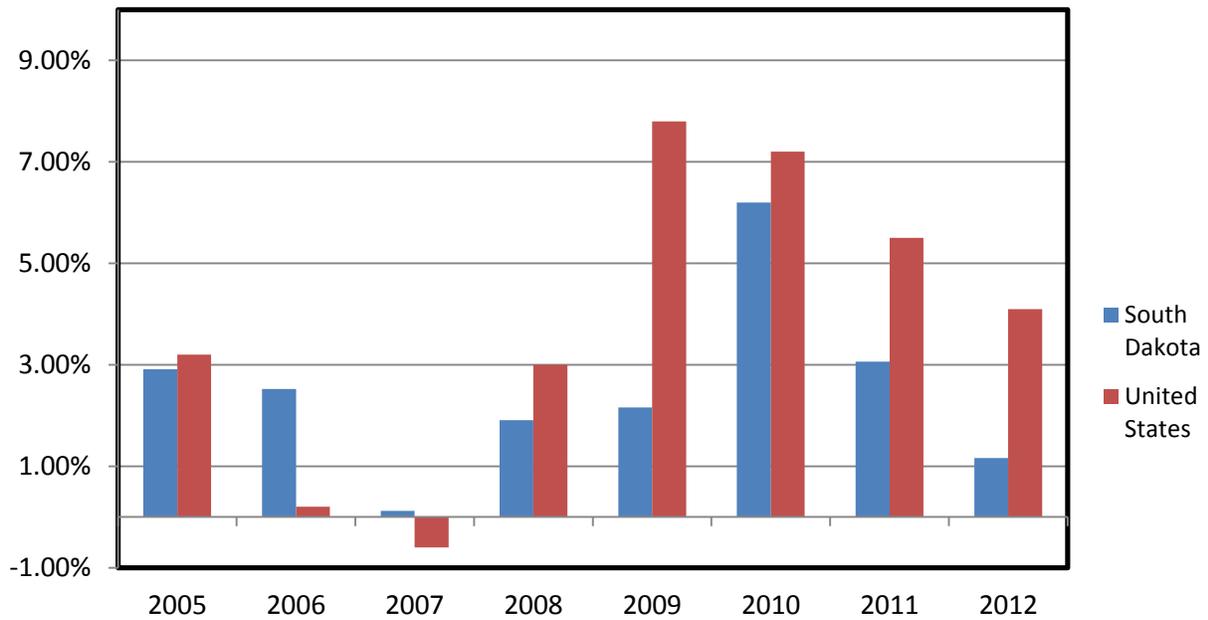
For the Medicaid Program as a whole, two-thirds of enrollees are children and one-third of enrollees are adults. The latter category is comprised of pregnant women (pregnancy related services only), individuals who are elderly or disabled, and parents in very low income families (e.g., a family of three has an annual income of \$9,552, which is 52% of the federal poverty level). The number of individuals participating in the program, by eligibility category, is outlined in the following graph:

**Graph 1. Medicaid Participation by Eligibility Category, SFY 2012**





**Graph 2. Annual Change in Medicaid Enrollment in 50 States and DC, 2005 to 2012**

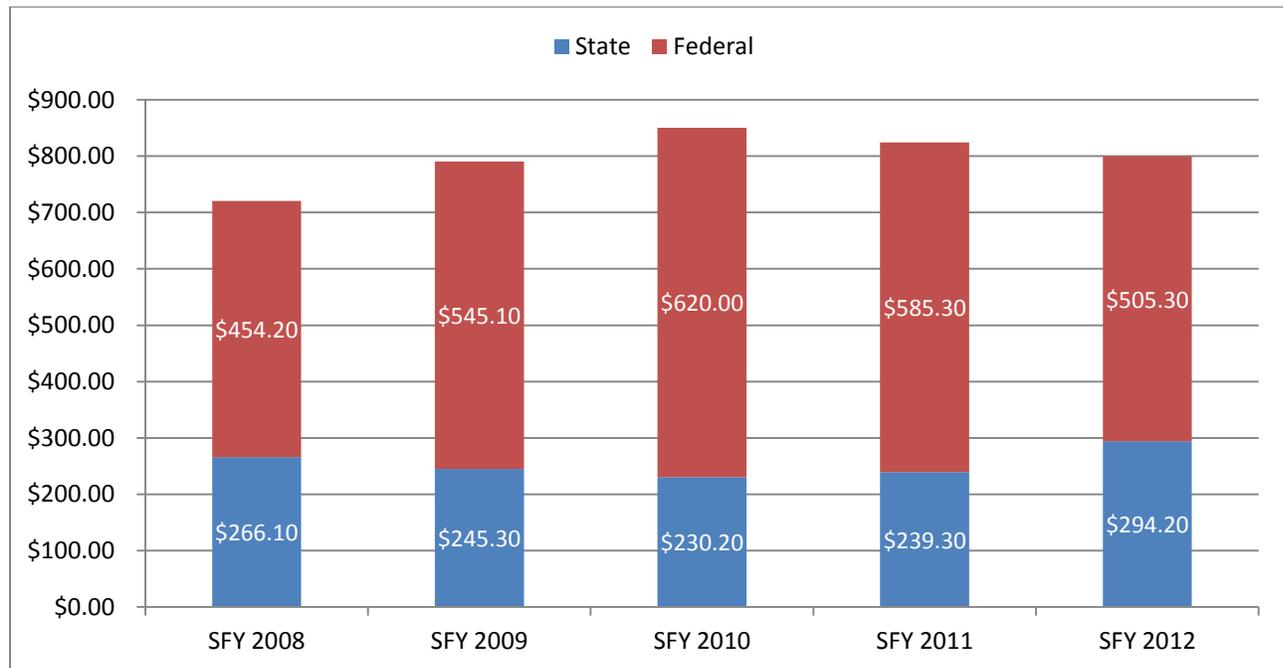


### **How Much Does the Program Cost?**

Medicaid is naturally counter-cyclical. When the economy weakens, revenues decline, and the number of Medicaid eligibles increases. The downturn in the economy drove significant growth in assistance programs, including Medicaid. National experts indicate that every 1% increase in unemployment results in an increase of 1 million Medicaid and CHIP eligibles nationwide.

South Dakota experienced unprecedented growth in Medicaid eligibles during SFY 2009-2010 when the recession hit the state, which in turn, affected expenditures. Rates of growth are returning to pre-recessionary levels. In SFY 2012, South Dakota's Medicaid expenditures were \$799.5 million (see Graph 3).

**Graph 3. South Dakota Medicaid Expenditures, SFY 2008 – 2012**



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 2012 were hospitals, nursing homes/assisted living providers, and DHS/DD community support providers. A list of providers and their respective expenses include the following:

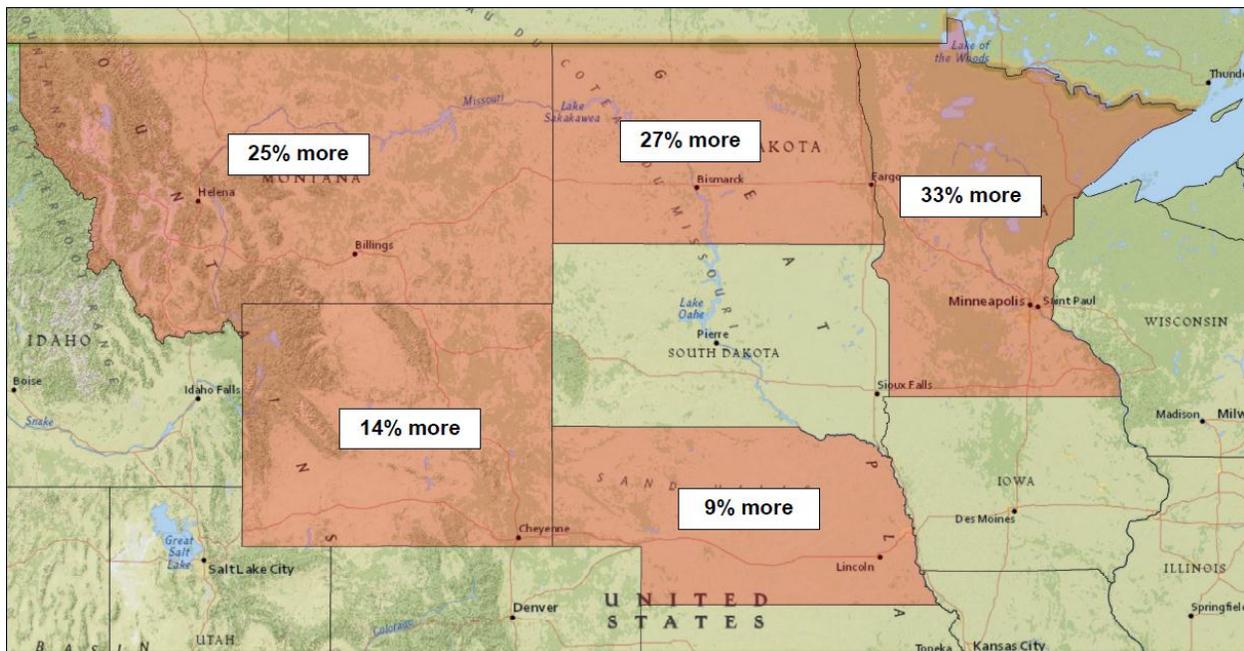
**Table 3. Majority of Expenses by Provider Type, SFY 2012**

Provider	SFY 2012 Expense (Millions)	% of Total
Hospital	\$168.6	23.14%
Nursing Homes/Assisted Living Providers	\$149.2	20.47%
Community Support Providers	\$108.9	14.94%
Physicians, Independent Practitioners and Clinics	\$91.3	12.53%
Indian Health Services	\$62.8	8.62%
South Dakota Developmental Center and Human Services Center	\$32.7	4.49%
Pharmacies	\$27.0	3.71%
Substance Abuse, Mental Health and Other Community Support Providers	\$22.5	3.09%
Psychiatric Residential Youth Care Providers	\$31.6	4.34%
Dentists	\$17.8	2.44%
Durable Medical Equipment Providers	\$10.2	1.40%
In-Home Service Providers for the Elderly and Skilled Home Health	\$6.1	0.84%
<b>Total for Majority of Expenses</b>	<b>\$728.70</b>	

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 22% 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 2.7% of South Dakota Medicaid hospital inpatient stays is responsible for 48% of inpatient payments. These findings are consistent with recent findings that, overall, the top 5 percent of the population accounted for nearly 50 percent of health care expenditures.<sup>2</sup>

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, including Wyoming (14% less), Nebraska (9% less), Montana (25% less), North Dakota (27% less), and Minnesota (33% less).<sup>3</sup>

**Map 2. South Dakota’s Variance in Medicaid Spending per Enrollee, FY2009**



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

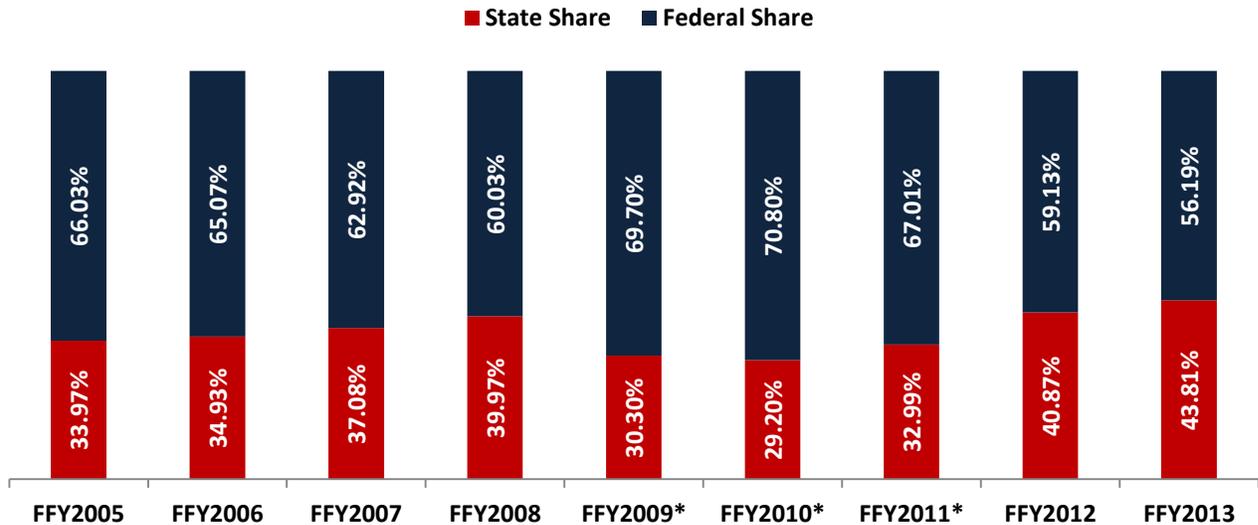
The federal government’s share of a state’s expenditures for most Medicaid services is called the federal medical assistance percentage (FMAP). The remainder is referred to as the nonfederal share, or state share. Generally determined annually, the FMAP is designed so that

<sup>2</sup> Steven B. Cohen, PhD and William Yu, MA, AHRQ Statistical Brief #354: The Concentration and Persistence in the Level of Health Expenditures over Time: Estimates for the U.S. Population, 2008-2009 (January 2012); [http://meps.ahrq.gov/mepsweb/data\\_files/publications/st354/stat354.shtml](http://meps.ahrq.gov/mepsweb/data_files/publications/st354/stat354.shtml)

<sup>3</sup> Kaiser Family Foundation, Statehealthfacts.org

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). In FFY 2012, the FMAP for South Dakota was 59.13%.

**Graph 5. South Dakota Federal Medical Assistance Percentage (FMAP), FFY2005 to FFY2013**



\*FFY09, FFY10, FFY11 adjusted for ARRA. FMAP rates without ARRA adjustment: FFY09 62.55% federal/37.45% general, FFY10 62.72% federal/ 37.28% general, FFY11 61.25% federal/ 38.75% general.

Beginning in FY09, states received a temporary FMAP increase that was included in the American Recovery and Reinvestment Act (ARRA) and later extended by H.R. 1586. Enhanced federal funds were provided from October 2008 through June 2011, subject to certain requirements. South Dakota received an additional \$48 million in federal Medicaid funding in FFY 2009 due to this temporary extension of the FMAP. South Dakota is facing one of the most substantial FMAP decreases in FFY 2013 with a 2.94 percentage point decline from FFY 2012 rate of 59.13%. It is estimated that a one percentage point change can reduce or increase South Dakota’s funding responsibility by about \$7 million.

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

While 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 SFY12, an average of 40,859 American Indians were on Medicaid every month, which represents 35.2% of all the individuals eligible for Medicaid. This percentage has remained fairly consistent over the course of the last 7 years, despite the fact that American Indians comprised only 10.1% of the state’s population. During SFY11, total expenditures for services provided to American Indians, including services at the Indian Health Services, totaled \$238.4 million. Approximately \$62.8 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 the Provider and Recipient in Medicaid Efficiency Program, or “PRIME.” Information on South Dakota’s management of the Pharmacy program and other programs will also be provided, along with information related to key operational activities.

### PRIME

PRIME 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.

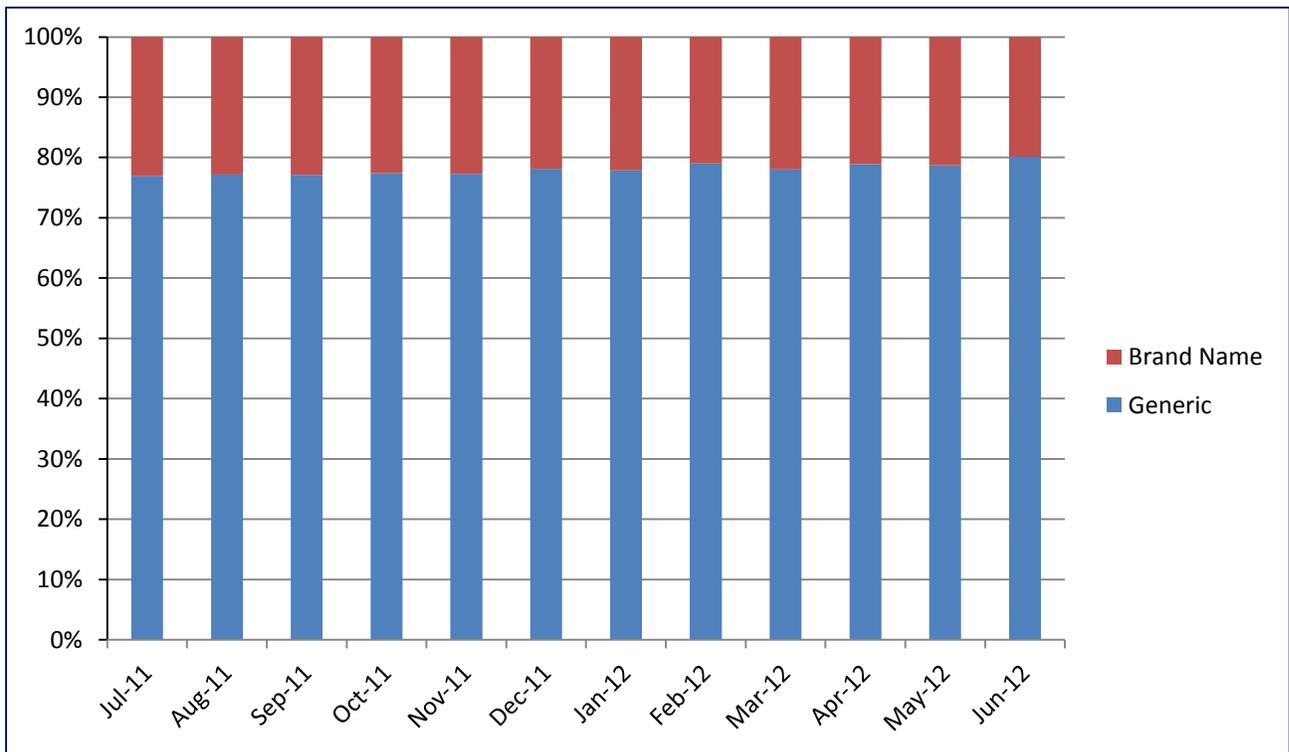
Pursuant to this program, participating primary care physicians (PCPs) are responsible for directing all Managed Care designated services, providing referrals for specified non-emergent specialty and hospital services, and for guaranteeing 24 hours a day, 7 days a week access to medical care. The PCPs 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.

<b>PRIME Program Overview</b>	
<p><b>Managed Care Services - Referral/Authorization is Required:</b>            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)</p>	<p><b>Non-Managed Care Services - Referral/Authorization is NOT Required:</b>            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)</p>
<p><i>Medicaid will only pay for medically necessary covered services authorized by the primary care provider. Managed care services provided which are not authorized are the recipient’s responsibility to pay.</i></p>	

## Pharmacy Management Program

South Dakota also aggressively manages the pharmacy benefit. This management approach includes a strong clinical prior authorization process, as well the utilization of a Pharmacy and Therapeutics (P&T) Committee and Drug Utilization and Review (DUR) Committee comprised of pharmacists and physicians appointed by the Governor. Members of both the P&T and DUR Committees have served for many years, participate on a volunteer basis, and have significant knowledge of the South Dakota marketplace. As a result of these activities, South Dakota's generic utilization is approximately 78.1%. High utilization of generic drugs, which are typically much less expensive than brand drugs, is generally considered evidence of successful management programs. South Dakota continues to aggressively pursue generic drug utilization and has seen a 2 percent increase in generic drug use over the past 12 months.

**Graph 6: Generic vs. Brand Name Drug Utilization, July 2011 – June 2012**



## Home and Community Based Services (HCBS)

South Dakota Medicaid also provides home and community 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:

- Homemaker Services
- Personal Care Services (Bathing and Personal Hygiene)
- In-home Nursing Services
- 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

Effective October 1, 2011, the Centers for Medicare and Medicaid Services (CMS) approved the five-year renewal of the HCBS Waiver operated by the Division of Adult Services and Aging. 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 clients under the Title XIX In-Home Waiver (\$302.00 in SFY2012) and Assisted Living Waiver (\$965.30 in SFY2012) compared to \$3,133.81 during the same timeframe utilizing Nursing Home services.

**Table 4. Title XIX In-Home Waiver**

State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Clients
2010	138	\$652,014	\$394.00
2011	198	\$923,235	\$389.00
2012	474	\$1,720,017	\$302.00

**Table 5. Title XIX Assisted Living Waiver**

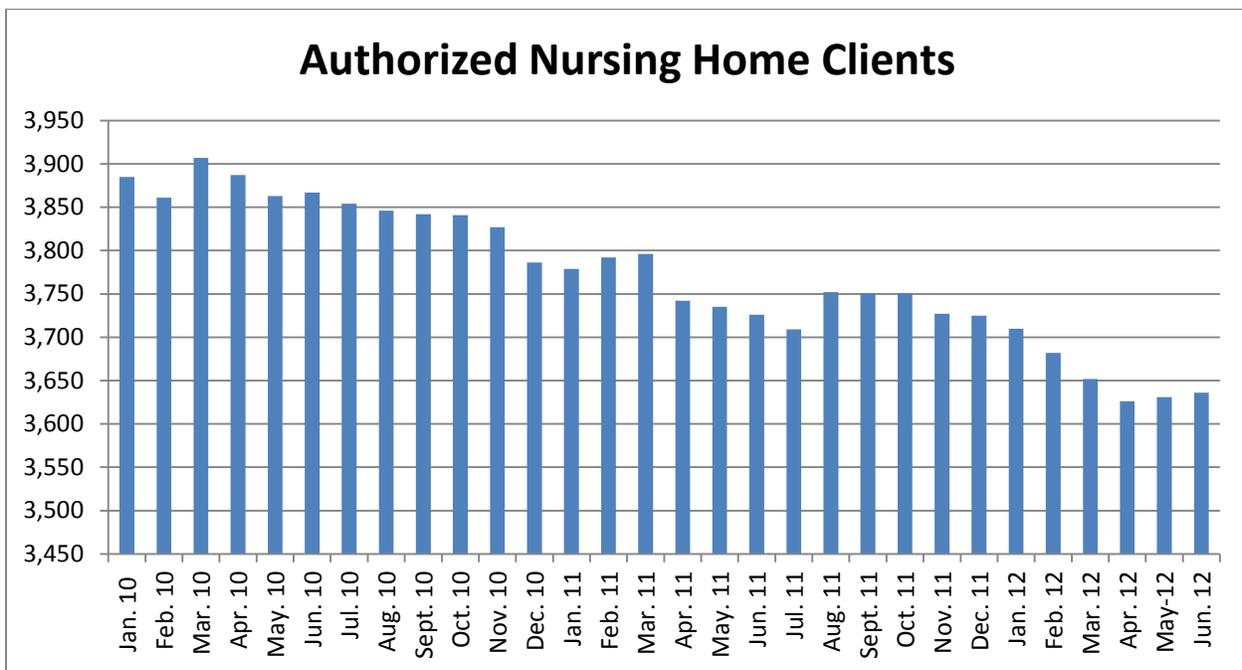
State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Clients
2010	689	\$8,481,598	\$1,025.58
2011	706	\$8,479,535	\$1,000.90
2012	689	\$8,268,237	\$965.30

**Table 6. Nursing Home Services**

State Fiscal Year	Fiscal Year Monthly Average Clients	Fiscal Year Expenditures	Average Monthly Expenditure Per Clients
2010	3,591	\$142,581,842	\$3,234.01
2011	3,501	\$139,519,967	\$3,251.94
2012	3,402	\$135,479,618	\$3,133.81

The next graph illustrates a decline in the number of authorized nursing home residents who are eligible for Title XIX during the period of January 2010 to December 2012.

**Graph 7. Authorized Nursing Home Clients, January 2010 – December 2012**



## **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**

### ***Program Enrollment***

In FY 2012, over 1,800 new providers enrolled in the Medicaid Program. To enroll, providers must meet applicable national, federal and state licensing and certification requirements. The DSS remains focused on recruiting providers to provide services to our recipients.

### ***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 21), which was the lowest error rate in the nation. The system also processes payments in a timely fashion. On average, claims are paid within four days.

In FY 2012, South Dakota's system:

- Processed more than 5 million claims;
- Screened, imaged, and data entered more than 402,800 paper; and
- Answered more than 108,250 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). South Dakota is currently evaluating possible prospective payment reforms to improve the rate setting methodology for outpatient care.

### ***Health Information Technology***

Electronic Health Records (EHRs) play a key role in improving quality and safety, facilitating access to care while improving efficiency. The EHR Incentive Payment Program was established by the Health Information Technology Economic and Clinical Health (HITECH) Act of 2009 to promote the use of EHRs by providers.

The South Dakota Medicaid EHR Incentive Program, launched in December 2011, provides incentive payments to eligible professionals and eligible hospitals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years.

## 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 SFY12, more than \$7.7-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.

**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.

- **Medicaid Fraud Control Unit:** Located in The South Dakota Attorney General's Office, in FFY 2012 this department recovered more than \$7,330,000 from global pharmaceutical manufacturer settlements, and nearly \$235,000 from provider fraud recoveries.

**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: Persons Eligible for Medical Services by County, Fiscal Year 2012

County	Average Monthly Eligibles	April 2010 Census	Percent of Population
Aurora	245	2,710	9.0%
Beadle	3,139	17,398	18.0%
Bennett	1,403	3,431	40.9%
Bon Homme	668	7,070	9.4%
Brookings	1,998	31,965	6.3%
Brown	4,102	36,531	11.2%
Brule	603	5,255	11.5%
Buffalo	867	1,912	45.3%
Butte	1,667	10,110	16.5%
Campbell	74	1,466	5.0%
Charles Mix	2,189	9,129	24.0%
Clark	333	3,691	9.0%
Clay	1,436	13,864	10.4%
Codington	3,037	27,227	11.2%
Corson	1,612	4,050	39.8%
Custer	665	8,216	8.1%
Davison	2,520	19,504	12.9%
Day	714	5,710	12.5%
Deuel	372	4,364	8.5%
Dewey	2,640	5,301	49.8%
Douglas	271	3,002	9.0%
Edmunds	298	4,071	7.3%
Fall River	939	7,094	13.2%
Faulk	189	2,364	8.0%
Grant	739	7,356	10.0%
Gregory	704	4,271	16.5%
Haakon	141	1,937	7.3%
Hamlin	781	5,903	13.2%
Hand	260	3,431	7.6%
Hanson	180	3,331	5.4%
Harding	60	1,255	4.8%
Hughes	1,935	17,022	11.4%
Hutchinson	669	7,343	9.1%
Hyde	134	1,420	9.5%
Jackson	939	3,031	31.0%
Jerauld	172	2,071	8.3%
Jones	122	1,006	12.1%
Kingsbury	428	5,148	8.3%
Lake	996	11,200	8.9%
Lawrence	2,449	24,097	10.2%
Lincoln	1,809	44,828	4.0%
Lyman	882	3,755	23.5%

County	Average Monthly Eligibles	April 2010 Census	Percent of Population
McCook	390	5,618	8.4%
McPherson	613	2,459	10.9%
Marshall	198	4,656	8.1%
Meade	2,210	25,434	8.7%
Mellette	739	2,048	36.1%
Miner	218	2,389	9.1%
Minnehaha	22,933	169,468	13.5%
Moody	652	6,486	10.0%
Pennington	15,477	100,948	15.3%
Perkins	246	2,982	8.3%
Potter	195	2,329	8.4%
Roberts	2,221	10,149	21.9%
Sanborn	242	2,355	10.3%
Shannon	7,293	13,586	53.7%
Spink	800	6,415	12.5%
Stanley	244	2,966	8.2%
Sully	62	1,373	4.5%
Todd	5,035	9,612	52.4%
Tripp	973	5,644	17.2%
Turner	833	8,347	10.0%
Union	1,099	14,399	7.6%
Walworth	833	5,438	15.3%
Yankton	2,688	22,438	12.0%
Ziebach	1,052	2,801	37.6%
County N/A	3,306	N/A	N/A
	<b>115,934</b>	<b>814,180</b>	<b>14.2%</b>