

STATE OF COLORADO FY 2011-12 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13 Change Request for FY 2011-12 Budget Request Cycle												
Decision Item FY 2011-12		Base Reduction Item FY 2011-12			Supplemental FY 2010-11 <input checked="" type="checkbox"/>			Budget Amendment FY 2011-12 <input checked="" type="checkbox"/>				
Request Title:		Implement National Correct Coding Initiative										
Department:		Health Care Policy and Financing			Dept. Approval by: John Bartholomew <i>JTB</i>			Date: January 3, 2011 <i>12/16/10</i>				
Priority Number:		S-7 BA-3			OSPB Approval:			Date: <i>12-21-10</i>				
	Fund	1 Prior-Year Actual FY 2009-10	2 Appropriation FY 2010-11	3 Supplemental Request FY 2010-11	4 Total Revised Request FY 2010-11	5 Base Request FY 2011-12	6 Decision/ Base Reduction FY 2011-12	7 November 1 Request FY 2011-12	8 Budget Amendment FY 2011-12	9 Total Revised Request FY 2011-12	10 Change from Base (Column 5) FY 2012-13	
Total of All Line Items		Total	22 767 387	34 553 769	(211 316)	34 342 453	31 825 489	0	31 825 489	190 601	32 016 090	190 601
		FTE	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
		GF	5 348 546	6 134 303	(96 766)	6 037 537	6 147 926	0	6 147 926	47 650	6 195 576	47 650
		GFE	0	0	0	0	0	0	0	0	0	0
		CF	642 364	2 433 429	0	2 433 429	1 766 770	0	1 766 770	0	1 766 770	0
		CFE/RF	100 328	100 328	0	100 328	100 328	0	100 328	0	100 328	0
		FF	16 676 149	25 885 709	(114 550)	25 771 159	23 810 465	0	23 810 465	142 951	23 953 416	142 951
(1) Executive Director's Office.		Total	22 767 387	34 553 769	(211 316)	34 342 453	31 825 489	0	31 825 489	190 601	32 016 090	190 601
(C) Information Technology		FTE	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Contracts and Projects,		GF	5 348 546	6 134 303	(96 766)	6 037 537	6 147 926	0	6 147 926	47 650	6 195 576	47 650
Information Technology		GFE	0	0	0	0	0	0	0	0	0	0
Contracts		CF	642 364	2 433 429	0	2 433 429	1 766 770	0	1 766 770	0	1 766 770	0
		CFE/RF	100 328	100 328	0	100 328	100 328	0	100 328	0	100 328	0
		FF	16 676 149	25 885 709	(114 550)	25 771 159	23 810 465	0	23 810 465	142 951	23 953 416	142 951
Non-Line Item Request:		None										
Letternote Revised Text:		None										
Cash or Federal Fund Name and COFRS Fund Number:		FF Title XIX										
Reappropriated Funds Source, by Department and Line Item Name:		N/A										
Approval by OIT?		Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> N/A:										
Schedule 13s from Affected Departments:		None										

CHANGE REQUEST for FY 2011-12 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	S-7, BA-3
Change Request Title:	Implement National Correct Coding Initiative

SELECT ONE (click on box):

- Decision Item FY 2011-12
- Base Reduction Item FY 2011-12
- Supplemental Request FY 2010-11
- Budget Request Amendment FY 2011-12

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

The Department of Health Care Policy and Financing requests a reduction of \$211,316 total funds including a reduction of \$96,766 General Fund in FY 2010-11 and an increase of \$190,601 total funds including \$47,650 General Fund to implement the National Correct Coding Initiative. The initiative was passed as part of Colorado Senate Bill 10-167 and is mandated by federal statute under Section 6507 of the Patient Protection and Affordable Care Act of 2010.

General Description of Request:

In the 2010 Legislative Session, the Department sponsored Senate Bill 10-167, the Colorado Medicaid False Claims Act, which proposed a six-part initiative to help align the State's efforts with the then federal False Claims Act. As enacted, the State is eligible to retain an additional 10% of Medicaid recoveries from federal global health care fraud settlements and 50% of these additional recoveries will be deposited into the Health Care Policy and Financing Cash Fund for Program Integrity investigations and enforcement measures.

One of the initiatives under Senate Bill 10-167 is the National Correct Coding Initiative, which was patterned after Medicare's National Correct Coding Initiative (NCCI). Similar to Medicare's NCCI, Colorado proposed to use two types of edits that are intended to control improper coding that leads to inappropriate payment of fee-for-service claims. This includes procedure-to-procedure edits and medically unlikely edits (MUE). . In order to implement the edits into the Medicaid program, the Department assumed system development changes were required in the Medicaid Management Information System (MMIS) and would not be operational until March 2011.

Senate Bill 10-167 passed both chambers and was signed into state law by Governor Ritter on May 26, 2010.

While Colorado was enacting Senate Bill 10-167, Congress passed two bills affecting the implementation of the state Medicaid False Claims Act. On March 23, 2010 the president signed bill number H.R. 3590, Patient Protection and Affordable Care Act of 2010 into federal law (Public Law 111-148). This bill was subsequently amended by bill number H.R. 4872, Health Care and Education Recovery Act of 2010 and was signed into federal law (Public Law 111-152) on March 30, 2010. Together both bills are referred to as the Affordable Care Act.

Specifically under the Patient Protection and Affordable Care Act of 2010, Title VI – Transparency and Program Integrity, Subtitle F – Additional Medicaid Program Integrity Provisions, Section 6507 – Mandatory State Use of National Correct Coding Initiative affects the implementation of Colorado's Medicaid False Claims Act. While this section of the bill requires state Medicaid agencies to implement NCCI, the Department did not receive guidance from the Centers for Medicare and Medicaid Services (CMS) until September 1, 2010.

The State Medicaid Director letter of September 1, 2010 directs state Medicaid agencies to implement five NCCI compatible methodologies into their MMIS effective for claims filed on or after October 1, 2010. Additionally, CMS estimates that there would be approximately 1.3 million edits available for download into the MMIS every calendar

quarter. Because the NCCI would become part of the MMIS, CMS is providing authority to grant 90% federal financial participation (FFP) to states for design, development, and installation and 75% FFP for annual maintenance and operation costs.

Although the Department was appropriated \$344,846 total funds in FY 2010-11 to implement NCCI, it estimated system development costs based on only two NCCI methodologies and not five (see Table 1 Row A). Moreover, it did not expect the changes to be operational until March 2011. In order to meet the implementation deadline as soon possible in FY 2010-11, the Department proposed to CMS an interim solution whereby it would implement a subset of the 1.3 million edits by December 1, 2010. The interim solution would be effective until the Department implements a full solution of all five NCCI methodologies by approximately July 1, 2011.

The Department estimates the interim solution would be implemented using MMIS pool hours, but the one-time implementation cost of the full solution is estimated at \$292,913 total funds and \$668,750 total funds in annual operations cost beginning July 1, 2011. The Department anticipates that CMS would grant 90% FFP for implementation of full solution and 75% FFP for annual maintenance costs for the full solution.

Because CMS is granting 90% FFP for implementation of NCCI rather than the 75% FFP assumed in the appropriation from SB 10-167 and requiring five NCCI methodologies instead of two, the Department is requesting a change in funding splits for FY 2010-11 and \$47,650 additional General Fund to fund higher than expected operations cost in FY 2011-12 and every fiscal year thereafter. Despite the additional General Fund need in FY 2011-12, the Department still estimates savings of \$103,882 total funds (see Table 4) based on the original assumptions in SB 10-167.

Consequences if Not Funded:

The Department is not able to absorb the additional maintenance and operation cost required by this federal mandate within existing resources. Without additional General Fund, the Department would be unable to properly implement the estimated 1.3 million NCCI edits on a quarterly basis. Moreover, if the edits cannot be implemented into the

MMIS then the Department would not be able to realize savings to offset Medical Services Premiums expenditures as estimated in Senate Bill 10-167. Lastly, failure to meet the federally required implementation of NCCI may result in reduction of federal financial participation for the MMIS (42 C.F.R. §433.119 (c), (2010)).

Calculations for Request:

Summary of Request FY 2010-11	Total Funds	General Fund	Federal Funds
Total Request	(\$211,316)	(\$96,766)	(\$114,550)
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	(\$211,316)	(\$96,766)	(\$114,550)

Summary of Request FY 2011-12	Total Funds	General Fund	Federal Funds
Total Request	\$190,601	\$47,650	\$142,951
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	\$190,601	\$47,650	\$142,951

Summary of Request FY 2012-13	Total Funds	General Fund	Federal Funds
Total Request	\$190,601	\$47,650	\$142,951
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	\$190,601	\$47,650	\$142,951

Table 1: Revised Funding Need to Implement NCCI in FY 2010-11					
Row	Description	Total Funds	General Fund	Federal Funds	FFP
A	Estimated NCCI Implementation	\$344,846	\$86,211	\$258,635	75%
B	Estimated NCCI Operations	\$159,383	\$39,846	\$119,537	75%
C	Subtotal for NCCI Appropriation in SB 10-167 (Row A + Row B)	\$504,229	\$126,057	\$378,172	75%
D	NCCI One-time Purchase Cost	\$292,913	\$29,291	\$263,622	90%
E	Revised Funding Need (Row D – Row C)	(\$211,316)	(\$96,766)	(\$114,550)	

Row	Description	Total Funds	General Fund	Federal Funds	FFP
A	Estimated NCCI Operations Cost in SB 10-167	\$478,149	\$119,538	\$358,611	75%
B	Actual NCCI Operations Cost	\$668,750	\$167,188	\$501,562	75%
C	Revised Funding Need (Row B – Row A)	\$190,601	\$47,650	\$142,951	

Row	Description	Total Funds	General Fund	Federal Funds	FFP
A	FTE and Operating Expenses	\$128,668	\$64,334	\$64,334	50%
B	MMIS Operations Cost for NCCI	\$478,149	\$119,537	\$358,612	75%
C	Medical Services Premiums Savings Estimate	(\$901,300)	(\$450,650)	(\$450,650)	50%
D	Total	(\$294,483)	(\$266,779)	(\$27,704)	

Row	Description	Total Funds	General Fund	Federal Funds	FFP
A	FTE and Operating Expenses	\$128,668	\$64,334	\$64,334	50%
B	MMIS Operations Cost for NCCI	\$668,750	\$167,188	\$501,562	75%
C	Medical Services Premiums Savings Estimate	(\$901,300)	(\$450,650)	(\$450,650)	50%
D	Total	(\$103,882)	(\$219,128)	\$115,246	

Cash Funds Projections:

Not applicable.

Assumptions for Calculations:

In collaboration with the fiscal agent, Affiliated Computer Services (ACS), the Department estimates the interim solution would be implemented using system development pool hours and expects it to be operational by December 2010.

The Department's fiscal agent will purchase the full solution from a third party vendor for an estimated one-time cost of \$292,913 total funds (Table 1, Row D) in FY 2010-11 and ongoing operations costs of \$668,750 total funds (Table 2, Row B) beginning FY 2011-

12. However, in the future, if the Medicaid caseload count exceeds 700,000 per fiscal year, then the vendor may renegotiate the annual operations cost. The full solution is expected to be operational by July 1, 2011.

The Department assumes the Centers for Medicare and Medicaid Services would grant 90% FFP for NCCI implementation and 75% FFP for ongoing maintenance costs as indicated in the State Medicaid Director letter of September 1, 2010. As permitted by CMS guidance, the Department's Advanced Planning Document would request an extension for operational readiness of the full solution. In the mean time, the edits not implemented as part of the interim solution would be deactivated; however permission to deactivate edits are subject to CMS approval. If a sufficient number of edits are confirmed to have a direct conflict with State laws, regulations, administrative rules or payment policies, then it may affect the annual maintenance costs for the full solution. If the annual cost changes, then the Department would submit a budget request through the normal budget cycle to adjust its appropriation.

The Department does not have the internal resources to estimate the potential savings from implementing all 1.3 million NCCI edits which were made available by CMS. Therefore, the Department assumes the same amount of savings for both FY 2010-11 and FY 2011-12 as indicated in Senate Bill 10-167. With the increased operations cost in FY 2011-12, the Department estimates that savings resulting from the implementation of NCCI would be reduced from \$294,483 to \$103,882 total funds. See Tables 3 and 4 for calculation.

Impact on Other Government Agencies: Not applicable.

Cost Benefit Analysis:

FY 2011-12 Cost Benefit Analysis	Benefit	Cost
Request	The implementation and quarterly updates of the NCCI edits would help the Department control costs resulting from inappropriate coding on fee-for-service claims. Savings are estimated at \$901,300 total funds or \$450,650 General Fund on an annual basis.	Additional General Fund of \$47,650 in FY 2011-12.
Consequences if not funded	No additional General Fund expenditure for ongoing NCCI maintenance and operations costs.	The Department risks federal sanctions for noncompliance of a federal mandate and possible reduction of federal Title XIX funding for its MMIS. Additional loss of \$901,300 total funds or \$450,650 General Fund in savings to help offset expenditures in Medical Services Premiums.

Implementation Schedule:

Task	Month/Year
Submitted Advanced Planning Document to Request 90% FFP	November 2010
Fiscal Agent to Implement Interim Solution	December 2010
Begin Implementation of NCCI Full Solution	January 2011
NCCI Edits Become Operational	July 2011

Statutory and Federal Authority:

25.5-4-204 (3), C.R.S. (2010) *The executive director of the state department shall develop and implement an automated system through which medical assistance claims and payments and eligibility determinations or other related transactions may be processed. The system shall provide for the use of automated electronic technologies. The automated system may be implemented in phases if deemed necessary by the executive director. The automated system shall be implemented only after the executive*

director determines that: (b) Adequate financing is available to facilitate the implementation and maintenance of the system. Financing may include, but is not limited to, federal funds, appropriations from the general fund, provider transactions fees, or any other financing mechanisms which the state department may impose, and grants or contributions from public or private entities.

§1903 (a) of the Social Security Act [42 U.S.C. 1396b] (a) ...the Secretary...shall pay to each State which has a plan approved under this title...(3) an amount equal to –... (B) 75 per centum of so much of the sums expended during such quarter as are attributable to the operation of systems (whether such systems are operated directly by the State or by another person under a contract with the State)... which are approved by the Secretary....

42 C.F.R. § 433.112, (2010) FFP for design, development, installation or enhancement of mechanized claims processing and information retrieval systems. (a) FFP is available at the 90 percent rate in State expenditures for the design, development, installation, or enhancement of a mechanized claims processing and information retrieval system only if the APD is approved by CMS prior to the State's expenditure of funds for these purposes.

45 C.F.R § 95.611, (2010) Prior approval conditions. (a) (2) General acquisition requirements. A State shall obtain prior written approval from the Department as specified in paragraph (b) of this section, when the State plans to acquire ADP equipment or services with proposed FFP at the enhanced matching rate authorized by 45 CFR 205.35, 45 CFR part 307 or 42 CFR part 433, subpart C, regardless of the acquisition cost.

*Patient Protection and Affordable Care Act of 2010, Title VI – Transparency and Program Integrity, Subtitle F – Additional Medicaid Program Integrity Provisions, Section 6507 – Mandatory State Use of National Correct Coding Initiative affects the implementation of Colorado's Medicaid False Claims Act. Section 1903(r) of the Social Security Act (42 U.S.C. 1396b(r))is amended—
(1) (C) by adding at the end the following new clause:*

“(iv) effective for claims filed on or after October 1, 2010, incorporate compatible methodologies of the National Correct Coding Initiative administered by the Secretary (or any successor initiative to promote correct coding and to control improper coding leading to inappropriate payment) and such other methodologies of that Initiative (or such other national correct coding methodologies) as the Secretary identifies in accordance with paragraph (4);

Performance Measures:

This request will assist the Department in meeting its performance measure to contain health care costs. The implementation of the National Correct Coding Initiative would help control the improper coding that leads to inappropriate payment of fee-for-service claims.

- The Department will increase the number of individuals eligible and enrolled in its programs, improve health outcomes for all clients, and ensure that the health care the Department purchases are medically necessary, appropriate to the population, and cost-effective. Assure delivery of appropriate, high quality health care and expand and preserve health care services in the most cost-effective manner possible. Design programs that result in improved health status for clients served and improve health outcomes.