

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
San Francisco Regional Office
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San Francisco, CA 94103-6706



Division of Medicaid & Children's Health Operations

October 7, 2014

Pilar Williams
Deputy Director, Health Care Financing
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

Dear Ms. Williams:

Over the last several months, my staff have been working in good faith with DHCS staff to resolve California's deferred claims for school based Medicaid administrative activities (SMAA). This letter supersedes our October 23, 2013 agreement with DHCS for establishing a methodology to resolve SMAA and also amends the prior approved methodologies for school based administrative claiming for State Fiscal Year (SPY) 2012/2013 and SPY 2013/2014. Additionally, we are approving interim claiming for costs incurred in SPY 2014/2015 prior to the implementation of the state's recently approved administrative claiming plan to begin January 1, 2015.

DHCS is agreeing to meet all of the stipulations outlined in this letter as there is no further room for negotiation or extensions to be granted. Failure to meet the timelines for processing and adjusting the deferrals and compliance with implementation of the new claiming plan will result in the claims being disallowed. DHCS will need to acknowledge agreement of the terms and conditions of this letter in writing to CMS before October 14, 2014.

Deferral Resolution – In lieu of the process described in our October 23, 2013 letter to DHCS, the following methodology will be applied to all unresolved deferred invoices based upon the original claimed amount documented on each claiming unit's quarterly invoice. Other than the one exception noted below, this process incorporates DHCS' September 25, 2014 request that all interim payments for invoices in excess of \$50,000 be set at 40% of the originally claimed amount.

- Invoices under \$25,000 – CMS will immediately release these deferrals and not require backcasting.
- Invoices between \$25,001 - \$50,000 – Claiming units will have a choice between the following two options that must be selected prior to DHCS making any payments:
 1. Accept an interim payment of 75% and agree to backcast, or
 2. Accept a settlement amount of either 75% of the claimed amount or a flat \$25,000, whichever is higher.

- Invoices over \$50,000 – With the exception of the Turlock Unified School District (USD), CMS will approve an interim payment of 40% of the claimed amount and require backcasting. CMS will approve an interim payment of 25% for Turlock USD and require backcasting. This reduced percentage is based upon CMS' review of the Turlock USD claims and the revised invoices resubmitted by the claiming unit.

For any claiming units with deferred invoices that no longer participate in the program, DHCS will apply a percentage (100/70/35) depending on the size of the deferred invoice as payment in full for the deferred invoices. These percentages reflect full payment for the invoices less than \$25,000 and a 5% reduction from the interim rate that would have otherwise been paid for invoices over \$25,000. Any claiming unit that is currently no longer participating can re-enter the SMAA program at January 1, 2015 under the new claiming plan.

DHCS must process all deferred invoices and report all necessary adjustments no later than the **March 31, 2015 CMS-64 submission**. These adjustments must include the complete elimination of all SMAA placeholders in order for the deferrals to be fully resolved. Any deferred claims not adjusted by this date will be disallowed and no additional extensions will be granted.

Interim Claiming for SFY 2012/2013 and SFY 2013/2014 - DHCS will revise its process for making interim payments for these fiscal years and apply flat percentages to the original claimed invoice amounts in lieu of the previously required reasonableness test. These flat percentages are only for the purpose of establishing an interim payment to the claiming unit since backcasting will be required for all interim payments that cover costs incurred after June 30, 2012.

- Invoices under \$25,000 – Interim payment of 90%
- Invoices between \$25,001 and \$50,000 – Interim payment of 75%
- Invoices over \$50,000 – Interim payment of 40%

Interim Claiming for SFY 2014/2015 – CMS is approving interim claiming for any quarters in SFY 2014/2015 occurring prior to the agreed upon implementation date of the revised claiming plan as referenced above in this letter. DHCS can claim interim payments for these quarters at 100% of each claiming unit's approved interim payment for the same quarter in SFY 2013/2014. DHCS is not required to conduct an additional time study using the previously approved method. Backcasting will be required for all interim payments for SFY 2014/2015.

Backcasting Methodology - DHCS must submit a proposed backcasting methodology to CMS no later than January 31, 2015 that will cover all school based administrative payments claimed for costs incurred after June 30, 2012 and also any deferred invoices subject to backcasting as outlined in this proposal. DHCS will be required to collect 4 quarters of RMTS of statewide data before the backcasting methodology can be implemented. The backcasting proposal must include the following elements:

- A detailed schedule of all deferred invoices subject to backcasting that also documents the interim payments made for each deferred invoice,
- A clear timeline with definitive dates for the completion of the reconciliations for the deferred invoices and all quarters subject to backcasting,

- The backcasting methodology applicable to the deferred invoices must include both the removal of any positions not on the approved position list (unless exceptions for specific, individual positions have been granted under the RMTS process) and the removal of any vendor fees in excess of 15% of the total allowable costs on the adjusted invoice(s) for the fiscal period.

CMS will require DHCS to return any overpayments identified through this process in accordance with the timeline agreed to with the approved backcasting methodology. DHCS will be required to return all overpayments identified through this process regardless of whether or not those funds were recovered from the claiming unit that submitted the invoice.

Approved Implementation Plan and Training Materials – DHCS must make revisions to Section 6 of its approved Implementation Plan to clarify the process for granting any exceptions to the approved participant list. Exceptions will only be permitted if clear documentation exists to demonstrate why including these additional staff meets the requirements of 42 CFR 433.15 (b)(7), that the exception will result in costs that are necessary for the proper and efficient administration of the Medicaid state plan. DHCS must also amend the reporting requirements under the approved Implementation Plan to submit a quarterly report to CMS, beginning December 31, 2014, which details any exceptions it has granted to the approved participant list under the new claiming plan. This ongoing report should contain a listing for each claiming unit that indicates the number and types of positions for each exception granted. DHCS will also agree to make the support for these decisions available upon request by CMS.

Grant Award – CMS will agree to release the deferred funds, in accordance with this agreement through the issuance of a supplemental grant award no later than November 30, 2014.

This approval letter does not relieve the state of its responsibility to comply with changes in federal law or regulations, and for the state to ensure that claims for federal funding are consistent with all applicable requirements.

We appreciate the work and time your staff has devoted to developing the plan and resolving these deferrals.

Please direct any questions concerning this matter to Brian Burdullis at (916) 498-6523 or at his email address: Brian.Burdullis@cms.hhs.gov.

Sincerely,

/s/

Hye Sun Lee
Acting Associate Regional Administrator
Division of Medicaid & Children's Health Operations

cc: Toby Douglas, Director, DHCS, Suite 6017