

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, Maryland 21244-1850



Dear State Health Official:

This letter is to provide you with information on the corrective action process for reducing improper payments in Medicaid and the State Children's Health Insurance Program (SCHIP) as identified under the Payment Error Rate Measurement (PERM) program. CMS developed the PERM program to comply with the Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300, Nov. 26, 2002), which requires measurement of programs at risk for significant improper payments. The IPIA also requires a report on what actions will be taken to reduce improper payments. The Office of Management and Budget identified Medicaid and the SCHIP as programs at risk for significant improper payments. Since States administer Medicaid and SCHIP and make payments for services rendered under these programs, it is necessary that States participate in the PERM measurement and take corrective actions to reduce improper payments.

CMS issued a proposed rule implementing PERM on August 24, 2004 (69 FR 52620), and interim final rules on October 5, 2005 (70 FR 58260) and August 28, 2006 (71 FR 50150). Our rules for PERM error rate calculation for both Medicaid and SCHIP are set out at 42 C.F.R., Part 431, subpart Q (42 C.F.R. section 431.950 et seq.).

The corrective action process involves analyzing findings from the PERM measurement, identifying root causes of errors and developing corrective actions designed to reduce major error causes, trends in errors or other factors for purposes of reducing improper payments. We have enclosed a description of the essential steps to be taken for an effective corrective action process, a timeline that illustrates by example when States should submit corrective action plans to CMS, and instructions for developing a corrective action plan.

We appreciate the cooperation that States have afforded us in the implementation of the PERM program. We look forward to our continued partnership in the forthcoming years as we work to ensure the integrity of the Medicaid and SCHIP programs.

Sincerely,

Timothy B. Hill  
Director  
Office of Financial Management

Dennis G. Smith  
Director  
Center for Medicaid and State Operations



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Enclosures (3)

cc:

CMS Regional Administrators

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## **Enclosure 1: The Essential Steps for an Effective Corrective Action Process**

### **The Corrective Action Panel**

The corrective action process is the means by which States take administrative actions to reduce errors which cause misspent Medicaid and SCHIP dollars. The key to a successful corrective action process is the participation and commitment of top management who can coordinate efforts across the agency and insure the participation of major department heads in the process. The top management would typically include managers responsible for policy and program development, field operations, research and statistics, finance, data processing, human resources (for staff development) and the legal department. These managers would make up the corrective action panel. Leadership of the panel should rest with the State Medicaid or SCHIP Director.

The corrective action panel would develop error reduction goals and make all major decisions on planning, implementation and evaluation of corrective actions. The panel would communicate error reduction goals at the State and local level and would be accessible to staff responsible for error reduction.

### **The Corrective Action Process**

An effective corrective action process can have a great impact on the reduction and elimination of errors. It involves the 5 phases listed below.

1. **Data Analysis** – review clusters of errors, general error causes, characteristics, frequency of errors and consider improper payments associated with errors. Data analysis should sort the errors by:
  - Type – general classification (e.g., FFS, managed care, eligibility).
  - Element – specific type of classification (e.g., no documentation errors, duplicate claims, ineligible cases due to excess income).
  - Nature – cause of error (e.g., providers not submitting medical records, lack of systems edits, unreported changes in income that caused ineligibility).
2. **Program Analysis** – review the findings of the data analysis to determine the specific programmatic causes to which errors are attributed and to identify root error causes (e.g., *why* providers are not complying with medical records requests). The States may need to analyze the agency's operational policies and procedures and identify those policies and/or procedures that are more prone to contribute to errors, e.g., policies are unclear, lack of operational oversight at the local level.
3. **Corrective Action Planning** –based on the data and program analysis, determine the corrective actions to be implemented.
4. **Implementation** – develop an implementation schedule for each corrective action initiative. The implementation schedule should identify major tasks, key personnel responsible for each activity, and a timeline for each action including target implementation dates, milestones, and monitoring. Implement the corrective actions.
5. **Evaluation** – evaluate the effectiveness of the corrective action by assessing improvements in operations and/or less incidence of errors.

Subsequent corrective action plans would include updates on previous actions including:

- Effectiveness of implemented corrective actions using concrete data;
- Discontinued or ineffective actions, and/or actions not implemented and what actions were used as replacements;
- Findings on short-term corrective actions; and
- A status of the long-term corrective actions.

**Enclosure 2: Timeline for Submitting a Corrective Action Plan to CMS**

**PERM Corrective Action Plan (CAP) Timeline**  
**Example using FY 2007 States**

<b>Fiscal Year</b>	<b><u>FY 2007</u></b> (Oct 2006 Sept 2007)	<b><u>FY 2008</u></b> (Oct 2007 Sept 2008)	<b><u>FY 2009</u></b> (Oct. 2008 Sept. 2009)	<b><u>FY 2010</u></b> (Oct 2009 Sept. 2010)	<b><u>FY 2011</u></b> (Oct 2010 Sept 2011)	<b><u>FY 2012</u></b> (Oct 2011 Sept 2012)	<b><u>FY 2013</u></b> (Oct 2012 Sept 2013)
<b>Review Year</b>	<b>Review #1</b> first review in 3-year rotation.			<b>Review #2</b> second review in 3- year rotation.			<b>Review #3</b> third review in 3- year rotation.
<b>PERM reviews, error rates and State corrective action plans.</b>	Conduct FY 2007 reviews.	1. States notified of FY 2007 State-specific error rates - Sept. 25, 2008.  2. CMS reports national FY 2007 program error rates to the Department for FY 2008 PAR.  3. States begin FY 2007 corrective action analysis.	1. December 1, 2008 States submit and implement FY 2007 CAPs.	Conduct FY 2010 reviews.	1. States notified of FY 2010 State-specific error rates - Sept. 25, 2011.  2. CMS reports national FY 2010 program error rates to the Department for FY 2011 PAR.  3. States begin FY 2010 corrective action analysis	1. December 1, 2011 States submit and implement FY 2010 CAPs.	Conduct FY 2013 reviews.
<b>Summary of Activities</b>	Measure 17 States	Calculate FY 2007 error rates	FY 2007 CAPs in effect	FY 2007 CAPs in effect; Measure States again	FY 2007 CAPS in effect; Calculate FY 2010 error rates	New FY 2010 CAPs in effect; updates FY 2007 CAPs.	FY 2013 CAPs in effect

**Summary of Chart**

- FY 2007 CAP implemented in FY 2009; FY 2010 CAP implemented FY 2012.
- Each CAP is in effect for 3 fiscal years and is updated by the subsequent CAP, e.g., FY 2007 CAP in effect from December 2008 – December 2011, FY 2010 CAP in effect from December 2011 – December 2014.

**Corrective Action Plan (CAP) due dates**

- CAPs submitted to CMS and implemented by December 1 for the previous fiscal year error rate.

### **Enclosure 3: Instructions for Developing the Payment Error Rate Measurement (PERM) Corrective Action Plan (CAP)**

The corrective action plan will provide a summary (at-a-glance) of the State's measurement under PERM and resulting planned corrective actions. Attached to the summary sheet is the detailed description of the data analysis, program analysis, corrective action planning, implementation and evaluation. CMS is providing States the following instructions and formats for developing a corrective action plan.

#### **I. Instructions for Developing a Corrective Action Plan Summary**

The Corrective Action Plan summary provides an overview of the major causes of errors in each component of Medicaid and SCHIP as identified by the State, and a summary of planned corrective actions for purposes of reducing improper payments.

**Line A:** Enter the name of the State submitting this report.

Enter the Federal fiscal year in which the State is being measured in the PERM program. This should also be the same year for which the corrective action plan addresses.

**Line B:** Enter the date that the plan is submitted to CMS (e.g., October 31, 2008).

**Line C:** Enter the name, phone number and e-mail address of the State person assigned as the contact person for the corrective action plan.

**Line D:** Enter the State's payment error rate for the Medicaid program as reported by CMS.

**Line 1:** Enter the State's Medicaid fee-for-service error rate as reported by CMS.

**Line 2:** Enter the State's Medicaid managed care error rate as reported by CMS.

**Line 3:** Enter the State's eligibility payment error rate as reported by the State.

**Line E:** Enter the State's payment error rate for the State Children's Health Insurance Program (SCHIP) as reported by CMS.

**Line 1:** Enter the State's SCHIP fee-for-service error rate as reported by CMS.

**Line 2:** Enter the State's SCHIP managed care error rate as reported by CMS.

**Line 3:** Enter the State's eligibility payment error rate as reported by the State.

**LINE F:** Provide a summary of major causes of errors found in each component (fee-for-service, managed care and eligibility) of the State's Medicaid and SCHIP programs. Include a general description of the State's planned corrective actions designed to address major error causes. "Major causes of errors" are those that contributed to the majority of payment errors in dollar amount and/or percentage. Examples of a general description of the corrective actions are provider education, systems edits, staff training.

**Payment Error Rate Measurement (PERM)  
Corrective Action Summary**

**A. (State)** \_\_\_\_\_  
\_\_\_\_\_

**Fiscal Year:**

**B. (Date)** \_\_\_\_\_

**C. State Contact:** \_\_\_\_\_  
**Phone number:** \_\_\_\_\_  
**Email address:** \_\_\_\_\_

**D. Medicaid Error Rate:** \_\_\_\_\_  
**Fee-for-service rate:** \_\_\_\_\_  
**Managed care rate:** \_\_\_\_\_  
**Eligibility payment rate:** \_\_\_\_\_

**E. SCHIP Error Rate:** \_\_\_\_\_  
**Fee-for-service rate:** \_\_\_\_\_  
**Managed care rate:** \_\_\_\_\_  
**Eligibility payment rate:** \_\_\_\_\_

**F. Summary of Major Error Causes and Applicable Corrective Actions**

**Medicaid**

**Fee-for-service:**  
**Major Error Causes:** \_\_\_\_\_  
**Corrective Actions:** \_\_\_\_\_

**Managed care:**  
**Major Error Causes:** \_\_\_\_\_  
**Corrective Actions:** \_\_\_\_\_

**Eligibility:**  
**Major Error Causes:** \_\_\_\_\_  
**Corrective Actions:** \_\_\_\_\_

**SCHIP**

**Fee-for-service:**  
**Major Error Causes:** \_\_\_\_\_  
**Corrective Actions:** \_\_\_\_\_

**Managed care:**  
**Major Error Causes:** \_\_\_\_\_



## Corrective Actions:

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**Eligibility:**

**Major Error Causes:**

**Corrective Actions:**

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control numbers for this information collection are **0938-0974, 0938-0994, and 0938-1012**. The time required to complete this information collection is estimated to average 2,000 per response, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: CMS, 7500 Security Boulevard, Attn: PRA Reports Clearance Officer, Mail Stop C4-26-05, Baltimore, Maryland 21244-1850.

## **Instructions for Completing the Payment Error Rate Measurement (PERM) Medicaid and SCHIP Detailed Corrective Action Plan Form**

### **Line-by-Line Instructions - complete one form for each component of each program.**

**Line A:** Enter the name of the State submitting this report. Enter the Federal fiscal year in which the State is being measured in the PERM program. This should be the same year for which the corrective action plan addresses.

**Line B:** Enter the name, phone number and e-mail address of the State person assigned as the contact person for the corrective action plan.

**Line C:** Enter the program for which this corrective action plan addresses (i.e., Medicaid or SCHIP).

**Line D:** Enter the component for which this corrective action plan reflects (i.e., fee-for-service, managed care or other).

**Line E: Narrative Instructions** - for each component of each program, provide a discussion of the results of following elements.

**1. Data Analysis:** What clusters of errors, causes, characteristics, and frequency were identified through the data analysis? Describe the results of the data analysis by:

- Element – specific type of classification of errors
- Nature – cause of errors

**2. Program Analysis:** Describe the results of the program analysis including the specific error causes and root causes of errors (e.g., manuals are unclear or outdated).

**3. Corrective Actions:** Describe the corrective action initiatives to be implemented. Be sure to include:

- the target error causes;
- the corrective actions planned to address the error causes; and
- expected results.

**4. Implementation:** Describe the implementation schedule for each corrective action initiative. Be sure to include major and minor tasks. Provide a timeline for each action including target implementation dates, milestones, and monitoring.

**Payment Error Rate Measurement (PERM)  
Detailed Corrective Action Plan**

A. (State) \_\_\_\_\_ **Fiscal Year:** \_\_\_\_\_

**B. State Contact:** \_\_\_\_\_

**Phone number:** \_\_\_\_\_

**Email address:** \_\_\_\_\_

C. Program (Medicaid or SCHIP) \_\_\_\_\_

D. Component (fee-for-service, managed case, eligibility) \_\_\_\_\_

E. Narrative:

1. **Data Analysis:** (clusters of errors, causes, characteristics, and nature of each error)

Error Element:

Nature:

2. **Program Analysis:** Describe the results of the program analysis including specific programmatic causes and root causes to which errors were attributed.

Programmatic Causes:

Root Causes of Errors:

3. **Corrective Actions:** Identify the corrective actions planned for major error causes. For each corrective action planned, describe the expected results.

- target error causes;
- the corrective actions planned to address the error causes;
- expected results.

4. **Implementation:** Provide an implementation schedule for each corrective action. Provide a timeline including target dates, milestones and monitoring.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control numbers for this information collection are **0938-0974, 0938-0994, and 0938-1012**. The time required to complete this information collection is estimated to average 2,000 per response, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: CMS, 7500 Security Boulevard, Attn: PRA Reports Clearance Officer, Mail Stop C4-26-05, Baltimore, Maryland 21244-1850.