DAVID Y. IGE
GOVERNOR

CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
Med-QUEST Division
Health Care Services Branch
P.O. Box 700190
Kapolei, Hawaii 96709-0190

June 29, 2021

MEMORANDUM

MEMO NO.
QI-2116
CCS-2106
FFS 21-06

TO: QUEST Integration (QI) Health Plans
            Community Care Services (CCS) Health Plan
            Hospital Providers
            Fee-For-Service Providers

FROM: Judy Mohr Peterson, PhD
            Med-QUEST Division Administrator

SUBJECT: IMPLEMENTATION OF ALL PATIENTS REFINED DIAGNOSIS RELATED GROUPS
            (APR DRG)

This memorandum informs Health Plans about a change that MQD intends to implement to the payment methodology for inpatient acute services for the Hawaii Medicaid program. Beginning with admission dates on January 1, 2022, inpatient acute services shall be paid using All Patient Refined Diagnosis Related Groups (APR DRGs).

MQD is in the process of obtaining appropriate Centers for Medicare & Medicaid Services (CMS) approval to implement to APR DRG as a directed payment. If approval is granted, MQD shall require all Health Plans to utilize a standard methodology, specified by MQD, for the purposes of APR DRG grouping and payment. This memo provides a high-level roadmap of key milestones during the implementation process, assuming CMS approval. Non-approval or a delay in approval by CMS may result in the non-implementation or delayed implementation of the program.

AN EQUAL OPPORTUNITY AGENCY

Background

APR DRGs are a patient classification system developed by 3M™and used by payers and providers to classify hospital inpatient stays into clinically meaningful diagnostic groups with similar average resource requirements. APR DRGs provide a mechanism for healthcare payers to make a single case rate payment for similar services provided in a hospital inpatient stay.

APR DRGs are the most widely used DRG software, or "grouper", by Medicaid agencies for determining payments for inpatient acute services. Due to APR DRGs' enhanced granularity (particularly for key Medicaid service lines) and widespread adoption of across states, Med-QUEST (MQD) will use the APR DRG grouper as the patient classification system for its new Medicaid inpatient prospective payment methodology.

Implementation Activities and Expected Timeframes

Submit and post Public Notice for State Plan Amendment (SPA) 21-0011 (by June 1, 2021) – The Hawaii Medicaid State Plan is an agreement between Hawaii MQD and CMS that defines how the State administers its Medicaid program. It also documents what services are to be delivered to beneficiaries, including how much is paid for these services. Whenever there are changes or new items to be added to the Hawaii Medicaid State Plan, a SPA must be submitted to the CMS for approval. Therefore, APR DRG implementation will require a SPA to be submitted by MQD for approval by CMS. This activity has already begun.

Execute MQD and 3M™ APR DRG contract (by July 15) – Access to the proprietary coding software behind the APR DRGs is required to correctly price inpatient claims. MQD is in the process of finalizing a contract with 3M™ to gain access to their software. The contract will cover MQD's use of the APR DRG grouping tool for all hospital claims and encounters submitted to MQD. However, use of the 3M™ APR DRG software by the Health Plans and hospitals are not covered in the agreement. Health Plans and hospitals will need to establish their own agreements with 3M™ for use of the APR DRG software.

Concurrent with the SPA approval and APR DRG contract review process, MQD will provide the health plans and hospitals with APR DRG processing requirements and training activities for SPA compliance as follows:

- *Train Health plans and hospitals on the Hawai`i DRG Calculator tool (after APR DRG contract execution).* This Excel-based tool calculates the allowed amount under the FFS APR DRG payment methodology for a single inpatient claim, based on user inputs. Note this tool requires the APR DRG patient classification as an input, and does not "group" the claim (users must obtain the claim APR DRG separately using 3M™ software). MQD will provide an overview and necessary training on the appropriate use of this tool, and it is anticipated that this tool will be used as a check on processing rule changes.

- *Publish APR DRG processing rules (by July 15)* – Key processing rules are needed to ensure a shared understanding of how to process inpatient claims using APR DRGs. In general terms, some of these rules are to include:
  - Criteria for claims and encounters that will be processed through the APR DRG system.
  - Definition of processing algorithms when recipient eligibility or enrollment changes.
  - Definition of processing algorithms when recipients are transferred from one facility to another.

- *Publish APR DRG Certification Standards for Health Plans (by August 15)* – It is important that Health Plans and MQD consistently apply the same processing rules for APR DRG. The Certification Standards will ensure that processing rules are applied uniformly across the different organizations. A standard test data set, test cases and acceptable output criteria will be provided by MQD as part of the Certification process.

- *Create and Publish an APR DRG webpage on the MQD website (by September 1)* – The new APR DRG webpage will consolidate all APR DRG resources, tools, and other relevant information for ease of access and use by Health Plans and hospitals.

- *Complete APR DRG Certification Standards for Health Plans (by December 1)* – Health Plans will be required to meet the Certification Standards.

- *Implement claims and encounters data quality processing system modifications* – An ongoing parallel effort to improve data quality will, when appropriate, dovetail with the implementation of the APR DRG system. MQD will communicate all upcoming changes to Health Plans at our regular Encounter Data Monthly Meetings. In addition, MQD will release memos and updates to our manuals when appropriate. Efforts to improve claims and encounters data quality may include:
  - New and/or updated edits that check claims and encounters data quality.
  - Updated claims and encounters submission guidance.

The dates presented in this memo are tentative and may change. MQD has had multiple discussions with Health Plans and hospitals to review the APR DRG process and next steps and has distributed answers to FAQs for the Health Plans' and hospitals' reference. Additional information and updates will be provided as MQD proceeds with the implementation of APR DRGs.

Please contact Mr. Eric Nouchi at enouchi@dhs.hawaii.gov with any questions or concerns.