

# REGULATORY REVIEW CHECKLIST

To accompany Preliminary Determination Package

Agency Department of Medical Assistance Services

Regulation title Diagnosis Related Groups: Inpatient Hospital Payment System and Narrative for the Amount, Duration, and Scope of Services

Purpose of the regulation To revise permanent regulations which provide for inpatient hospital reimbursement methodology and the prior authorization of inpatient services.

## Summary of items attached:

- Item 1:** An explanation of the specific reason for the proposed regulation.
- Item 2:** A statement identifying the source of the agency legal authority to promulgate the contemplated regulations and a statement as to whether the contemplated regulation is mandated by state law or federal law or regulation, and, if mandated in whole or in part, a succinct statement of the source (including legal citation) and scope of the mandate. **(Be sure to attach a copy of all cited legal provisions).**
- Item 3:** A statement setting forth the reasoning by which the agency has concluded that the contemplated regulation is essential to protect the health, safety or welfare of citizens or for the efficient and economical performance of an important governmental function.
- Item 4:** A statement describing the process by which the agency has considered, or will consider, less burdensome and less intrusive alternatives for achieving the essential purpose, the alternatives considered or to be considered (to the extent known), and the reasoning by which the agency has rejected any of the alternatives considered.

/s/ Dennis G. Smith  
Signature of Agency Head

07/28/1999  
Date

VPS 8/2/1999  
Date forwarded to  
DPB & Secretary

PRELIMINARY JUSTIFICATION for REGULATORY ACTION  
UNDER EXECUTIVE ORDER TWENTYFIVE (98)

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I. IDENTIFICATION INFORMATION

Regulation Name: Inpatient Hospital Payment System and Narrative for the Amount, Duration, and Scope of Services

Issue Name: Diagnosis Related Groups: Payment System and Prior Authorization

VR Numbers: VR 460-02-4.1910:1, VR 460-03-4.1930, VR 460-02-1920; VR460-03-3.1100  
(12 VAC 30-70-200 et seq., 12 VAC 30-70-10 thru 12 VAC 30-70-150, 12 VAC 30-80-140; 12 VAC 30-50-100. )

Registrar's Filing Deadline: \_\_\_\_\_

II. LEGAL AUTHORITY

Agency Legal Authority: Code of Virginia §§32.1-324 and 32.1-325

Director Approval of Action: /s/ Dennis G. Smith 07/28/1999  
Dennis G. Smith Date

III. JUSTIFICATION

1. Statement of Reason for Regulation

This permanent regulation is required for the continued administration of expenditures for inpatient hospital services under the authority of the State Plan for Medical Assistance pursuant to Title XIX of the *Social Security Act*. The Department of Medical Assistance Services is currently administering these Diagnosis Related Groups (DRG) policies under transition rules designed to phase in a DRG payment system and hospital prior authorization system. The purpose of this requested regulatory action is to remove the portions of the rules concerned with the transition process in order to permit full

implementation of the DRG methodology in payments and to change prior authorization requirements from an admission and length of stay review process to only an admission review process consistent with a DRG payment system.

## 2. Federal/State Mandate and Scope

The legal authority of the Agency to administer the Medicaid Program is as stated above (II.). Because inpatient hospital services are federally required to be covered, DMAS must therefore have a payment methodology for such services. In concert with this payment methodology, a system of prior authorization of service utilization is necessary for the total implementation of this type of payment methodology.

## 3. Essential Nature of Regulation

These regulations are essential to protect the health of the thousands of Medicaid recipients who require inpatient hospital services each year. Without these regulations, DMAS will have no mechanism by which to continue to pay for this vital service. These regulations are also required for the efficient and economical performance of an important governmental function because they permit the Commonwealth to claim millions of Federal matching dollars for this service, known as the Federal Financial Participation.

## 4. Agency Consideration of Alternatives

DMAS consistently works with the affected industry to cooperatively develop this new payment methodology. The development of the DRG methodology, and all of the various technical elements that are the component parts of that methodology, was conducted by a joint task force made up of representatives of both the Virginia Hospital and Health Care Association (VHHA) and the Commonwealth.

## 5. Family Impact Assessment (Code of Virginia §2.1-7.2)

Without a regulation to provide for the payment for inpatient hospital services, DMAS could not secure federal funds and would therefore be required to pay hospitals with all General Funds. Not covering this service at all is not an option because inpatient hospital services is a federally mandated service in all Medicaid programs. Covering these services with all General Funds would place an enormous and inappropriate burden on the Commonwealth.