Transmittal Notice
REGION IV

DIRECTOR'S OFFICE

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DATE: December 30, 1991

PROGRAM IDENTIFIER: MCD-135-91

TO: All Title XIX Agencies and Welfare Agencies in AL, GA, KY, MS, SC, TN

SUBJECT: Providing EPSDT Services in Least Costly Environment

We have received the following clarification concerning the use of cost effectiveness as one of the criteria in deciding where to cover medically necessary services that are needed to correct illnesses and conditions that are discovered by an EPSDT screen. Specifically, can the State decide to provide services to a child in an institutional setting because it is less costly than providing the same services in the child's home.

As we discuss below, a State may determine to provide medically necessary services in the most economic mode, as long as the determination process does not delay the delivery of the needed service and as long as the determination does not, in essence, limit the recipient's right to a free choice of providers. Section 1902(a)(30)(A) of the Social Security Act indicates that a State plan must "provide such methods and procedures relating to the utilization of, and payment for, care and services available under the plan... as may be necessary to safeguard against unnecessary utilization of care and services and to assure that payments are consistent with efficiency, economy and quality of care."

Among methods a State may employ "to safeguard against unnecessary utilization of care and services" is a system of prior approval of selected types of costly health care. The goal of prior authorization. is to assure that the care and services proposed to be provided are actually needed, that all equally effective, less expensive alternatives have been given consideration, and that the proposed services and materials conform to commonly accepted standards.

The use of prior authorization must not, however, delay the delivery of the needed service nor may it limit the recipient's right to free choice of providers. Payments to providers must be

sufficient to enlist enough providers so that services are available to recipients at least to the extent that the same service is available to the general population.

While OBRA 89 significantly enhanced EPSDT services by requiring all medically necessary health care, diagnostic and treatment services be provided to EPSDT recipients, it did not take away the State's flexibility in using medical necessity or utilization controls to manage the State's available resources. The State should define medical necessity on an individual basis and must be able to support its decision with documentation of the case. The State must have some standards in the EPSDT context to ensure that the utilization controls do not delay delivery of needed services nor limit free choice. However, if the State determines that it is less costly to provide medically necessary services in an institution, rather than at home, the State may restrict services to that setting.

If you have any questions regarding this information, please contact William R. Lyons, Associate Regional Administrator at (404) 331-2418, Mal Williams at (404) 331-5889, Cathy Kasriel at (404) 331-5028, or Andriette Johnson at (404) 331-5888.

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for George R. Holland
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