COMMONWEALTH of VIRGINIA
Department of Medical Assistance Services

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November 1, 2014

MEMORANDUM

TO: The Honorable Charles J. Colgan
Co-Chairman, Senate Finance Committee

The Honorable Walter A. Stosch
Co-Chairman, Senate Finance Committee

The Honorable S. Chris Jones
Chairman, House Appropriations Committee

FROM: Cynthia B. Jones Cynthia Jones
Director, Virginia Department of Medical Assistance Services

SUBJECT: Report on the Cost Recovery Activities

The 2015-16 Appropriations Act, Item 301 P states:

The Department of Medical Assistance Services shall have the authority to pay contingency fee contractors, engaged in cost recovery activities, from the recoveries that are generated by those activities. All recoveries from these contractors shall be deposited to a special fund. After payment of the contingency fee any prior year recoveries shall be transferred to the Virginia Health Care Fund. The Director, Department of Medical Assistance Services, shall report to the Chairmen of the House Appropriations and Senate Finance Committees the increase in recoveries associated with this program as well as the areas of audit targeted by contractors by November 1 each year.

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

CBJ/

Enclosure

pc: The Honorable William A. Hazel, Jr., MD, Secretary of Health and Human Resources

Department of Medical Assistance Services
Annual Report to the General Assembly

Report on Contingency Fee-Based Recovery Audit Contractors (RACs)

November 2014

Report Mandate

The 2015-16 Appropriations Act, Item 301 P states:

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Background

Recovery Audit Contractor (RAC) is a term used to describe auditing firms who review medical claims for over- and under-payments and are paid a contingency fee based on actual recoveries resulting from their audits. Starting in 2005, the federal government began to utilize RACs to audit Medicare claims, expanding the program nationwide in 2010. The success of the Medicare RACs resulted in the inclusion of Section 6411 of the Patient Protection and Affordable Care Act, H.R. 3590 (PPACA), which expands the current RAC program to Medicaid, requiring states to enter into a contract with a Medicaid RAC.

RAC Activities in Virginia

Virginia's FY 2011-2012 budget bill (Item 297 VVVV) authorized the Virginia Department of Medical Assistance Services (DMAS) to employ RAC auditors and pay them a contingency fee based on the recoveries generated by their audit activities. DMAS issued an RFP in March 2012 for proposals from qualified and innovative health care auditing firms to provide RAC services for Virginia's Medicaid program. On July 10, 2012, DMAS awarded this contract to Health Management Systems (HMS) for the three-year period from September 1, 2012 to August 30, 2015. This contract also provides the opportunity for three additional one-year renewals after the initial contract period. The RAC contract is just one of seven audit contractors utilized by DMAS, but the only one that works on this contingency model.

Under this contract, DMAS pays HMS a contingency fee of 9.3% of the actual amounts recovered as a result of their RAC audit activities. In addition, in accordance with federal

law, DMAS will also pay HMS the same 9.3% contingency fee for underpayments identified during their audit activities. While HMS identifies overpayments through auditing, recovery of overpayments is conducted by DMAS. While federal law permits extrapolation of overpayments identified through RAC audits*, DMAS chose not to extrapolate due to concerns about ensuring a statistically-valid sample and provider relations.

Federal regulations require States to coordinate the audit activities of their RACs with other State auditing activities to ensure that the RAC does not audit claims that have already been audited or that are currently being audited by another entity. In order to coordinate RAC activities with other audits conducted by DMAS staff and contractors, DMAS makes the final determination on the types of audits and providers on which HMS RAC activities will focus.

RAC Second Year Audit Activities

Since the initiation of the RAC contract in September 2012, HMS has evaluated and analyzed DMAS historic data on processed claims to identify potential areas of audit. In their review of claims data, HMS confirmed that DMAS edits and processes performed better than claims processing systems they encountered in other states.

As of June 30, 2014, HMS has audited and completed three DMAS-approved audit proposals. DMAS has approved additional audit proposals, which are currently being reviewed by DMAS to ensure that the claims have not already been subject to a previous DMAS audit. The three completed RAC audits are as follows: (1) Pulmonary Diagnostic Procedures and Evaluation & Management Services; (2) New Patient Visits; and (3) Billing of Miscellaneous Durable Medical Equipment (DME) Codes. These audits are discussed in detail below.

1) Pulmonary Diagnostic Procedures and Evaluation & Management (E&M) Services – This audit examined claims for pulmonary diagnostic procedures to identify physicians who had improperly billed for E&M services on the same day. HMS reviewed 4,206 paid claims in DMAS data for which E&M services had been billed. Final overpayment letters for all of these claims were issued to 387 providers. The total overpayment identified was $269,096.55. The total recoupment amount to date is $166,104.05.

2) New Patient Visits – This audit examined claims for new patient visits, which are billed at a higher rate than regular office visits. According to American Medical Association guidelines, a patient can only be considered a new patient once every three years. HMS reviewed 462 paid claims in DMAS data for which New Patient services had been billed. Final overpayment letters for all of these claims were

* Extrapolation is a process used to apply the results of an audit performed on a sample of claims to the universe of claims submitted by a provider. For example, if through an audit, payment for ten percent of the sampled claims were found to be made in error, DMAS would recover ten percent of all claims submitted by that provider during the audited period, not just ten percent of the sampled claims.

issued to 178 providers. The total overpayment identified was $40,011.13. The total recoupment to date is $38,239.52.

3) Billing of Miscellaneous Durable Medical Equipment (DME) Codes – This audit examined claims for DME services/supplies/items that utilized a generic miscellaneous code rather than the category-specific codes that DMAS has directed providers to use. HMS reviewed 362 paid claims in DMAS data for which DME miscellaneous codes were billed. Final overpayment letters for all of these claims were issued to 10 providers. The total overpayment identified was $423,660.13. The total recoupment to date is $17,043.00. After the appeals process is complete, the scenario may be expanded.

Summary

As of the end of the SFY 2014, DMAS has received $221,386.57 in payments from providers based on audits conducted under the RAC contract. In addition, DMAS has allowed $349,176.65 in provider adjustments for rebilling of erroneous claims. As noted in the authorizing budget language, these funds will be deposited into a special fund, out of which the contingency fee payments will be made to the RAC. During the third year of this contract, DMAS and HMS will work together to approve and move forward with pending audit proposals, and HMS will continue to identify new areas in which to focus audits.