KAREN KIMSEY
DIRECTOR

804-786-7933
www.dmas.virginia.gov

MEMORANDUM

November 5, 2019

TO: The Honorable Thomas K. Norment, Jr.
            Co-Chairman, Senate Finance Committee

            The Honorable Emmett W. Hanger, Jr.
            Co-Chairman, Senate Finance Committee

            The Honorable S. Chris Jones
            Chairman, House Appropriations Committee

FROM: Karen Kimsey *KK*
            Director, Virginia Department of Medical Assistance Services

SUBJECT: Report on the Cost Recovery Activities

The 2019 Appropriation Act, Item 303 O 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.

KK/

Enclosure

pc: The Honorable Daniel Carey, MD, Secretary of Health and Human Resources

VIRGINIA'S MEDICAID PROGRAM
DMAS

600 EAST BROAD STREET
SUITE 1300
RICHMOND, VA 23219
800-343-0634 (TDD)

Improving the health and well-being of Virginians through access to high-quality health care coverage

Report Mandate:

2019 Appropriation Act, Item 303 O 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.

Background

Recovery Audit Contractor (RAC) is a term used to describe auditing firms who review medical claims and are paid a contingency fee based on actual recoveries resulting from their audits. Section 6411 of the Patient Protection and Affordable Care Act, (PPACA), expanded the RAC program to Medicaid, and required states to enter into a contract with a Medicaid RAC. Virginia's 2010 Appropriation Act (Item 297 VVVV) and all subsequent appropriations 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.

Actions Taken To Date

Nationally the Medicaid RAC program has had limited success. RAC contractors in Virginia and other states have a narrow volume of overpayment opportunities that can be identified through data analysis without intensive medical record review. For Virginia Medicaid, the completed migration to 90% managed care in SFY 2018 has greatly narrowed the fee for service claims base to carved out state specific waiver programs. Also noted, because the contingency fee on the RAC contract cannot exceed 12 percent of collected overpayments, audits that require medical record review are generally cost-prohibitive for vendors.

A successful RAC project will require novel approaches to detect and recover improper payments. The Centers for Medicare and Medicaid Services (CMS) granted DMAS an exception to the federal requirement to maintain a RAC while DMAS procures another vendor for these activities. In SFY2019, DMAS issued a Request for Information (RFI) to gain industry knowledge. Three vendor responses all confirmed limited success without state structure changes in the program.

DMAS's mission is to improve the health and well-being of Virginians through access to high-quality health care coverage.

DMAS administers Virginia's Medicaid and CHIP programs. Through the Medallion 4.0 and Commonwealth Coordinated Care (CCC) Plus managed care programs, more than 1 million Virginians access primary and specialty health services, inpatient care, behavioral health, and addiction and recovery treatment services. In addition, Medicaid long-term services and supports enable thousands of Virginians to remain in their homes or to access residential and nursing home care.

Medicaid members historically have included children, pregnant women, parents and caretakers, older adults, and individuals with disabilities. In 2019, Virginia expanded the Medicaid eligibility rules to make health care coverage available to close to 400,000 newly eligible, low-income adults.

Medicaid and CHIP (known in Virginia as Family Access to Medical Insurance Security, or FAMIS) are jointly funded by Virginia and the federal government under Title XIX and Title XXI of the Social Security Act. Virginia generally receives a dollar-for-dollar federal spending match in the Medicaid program. Medicaid expansion qualifies the Commonwealth for a federal funding match of no less than 90 percent for newly eligible adults, generating cost savings that benefit the overall state budget.

Vendors proposed the use of longer look back periods as well as the use of extrapolation. Vendors also stated a successful RAC vendor would have access to all claim/service types across both Fee for Service and Manage Care programs. DMAS has determined that a RAC auditor is not a fiscally viable option for Virginia Medicaid.

In SFY2020, Virginia Medicaid will follow fellow states like South Carolina and Vermont, by submitting a state plan amendment seeking an exception to establishing a recovery audit contractor based on our severely limited claims in non-managed care programs.

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