

Recovery Audit Contract (RAC) for Health Care Payments in Kansas

RAC requirements

- ▶ § 6411 of the Patient Protection and Affordable Care Act (PPACA) expands the Recovery Audit Contractor (RAC) program from Medicare to include Medicaid, Medicare C & D. Under the requirements of the PPACA, states must be in a contract with a RAC by December 31, 2010. CMS relaxed the time schedule and allowed the states to enter a State Plan Amendment (SPA) by December 31, 2010 and be in a contract for RAC services by April 2011 (since extended).
- ▶ In the Fiscal Year 2011 Budget bill, the Kansas Legislature required KHPA to enter into a competitively bid RAC contract by October 1, 2010. The Kansas Legislature expanded the scope of the RAC program to include medical and pharmacy services provided outside of Medicaid and the SEHP.

Procurement of a RAC vendor

- ▶ KHPA designed the RFP to meet both the requirements of the appropriations bill and to meet federal RAC requirements.
- ▶ KHPA published its request for proposals (RFP) on September 22, 2010, and the RFP closed on October 25, 2010.
- ▶ Federal Medicaid RAC requirements had not yet been issued with KHPA released its RFP in September 2010. KHPA modeled the RAC requirements on Federal Medicare RAC audits, which excludes audits of beneficiary liability.
- ▶ The scope of the RFP includes any improper payment or overpayment not specifically excluded by KHPA. Section 4.3 of the RFP/contract reads as follows:

“The purpose of this contract will be to support KHPA in achieving the requirements set forth in both the PPACA, including regulations on the same issued by HHS or CMS, and the State of Kansas Fiscal Year 2011 budget bill. The identification of underpayments and overpayments for the RAC portion of this RFP (section 4.5.2) shall occur for all claims paid under the Medicaid and CHIP programs, for all medical services for which payment is made by any agency of the State of Kansas for waiver services operated under title XIX and XXI of the Social Security Act, and for any payment for services provided under Chapter 39, Article 7 of the Kansas Statutes Annotated which are provided using exclusively State of Kansas general fund and are commonly referred to as MediKan.” <http://www.khpa.ks.gov/healthwave/download/procurements/RAC-RFP-Specifications.pdf>

- ▶ The scope of the RFP was specifically written to meet the Medicaid RAC requirement, however the bidders were encouraged to propose and bid on potential recoveries outside of Medicaid, such as SEHP and other medical services.

- ▶ Types of audits excluded by KHPA in the RFP include date of service limitation, improper payments on which the beneficiary is liable, and improper payments that have already been reviewed).
 - ▶ A separate contract may be needed in order to investigate beneficiaries and recover funds for fraud or misrepresentation in the eligibility process.
 - ▶ The rate of return on audits and recoveries for beneficiary activities is expected to be significantly less than audits, recoveries, and other fraud control activities for providers, but there may also be a deterrent effect that improves the accuracy of information provided by applicants.
- ▶ Bidders were required to estimate the overpayment recoveries that they could recover under the contract with the possibility of damages if the recoveries did not amount to at least 90% of the bid amount on which the vendor selection was based. The vendor is to be paid only for overpayments that have actually been recovered and not overturned on appeal.

Selection of vendors and expected recoveries

- ▶ KHPA received three (3) bids. One bidder took exception to several necessary requirements. The other two were invited for a vendor conference which was held on November 19, 2010. The two bidders were Health Data Insights, Inc (HDI) and Health Management Services (HMS).
- ▶ HDI was awarded the contract on December 7, 2010. Implementation of the RAC contract is under way and recoveries are expected to begin before the end of the current State Fiscal Year.
- ▶ Both vendors proposed audit services for SEHP and for Medicaid. HMS proposed two projects that KHPA is and has been doing for several years (Medicare Buy-in and Health Insurance Premium Payment System (HIPPS)). HDI proposed working with outside agencies to look for future projects.
- ▶ The RAC vendor is only paid on a contingency fee basis for all recovered overpayments and repaid underpayments.
 - ▶ HDI bid an overpayment recovery of \$16.08 million over three years (including \$2.4 million for SEHP) at a contingency fee of 17%.
 - ▶ HMS bid an overpayment recovery of \$5 million over three years at a contingency fee of 18% and did not specify how much would be recovered for SEHP.
 - ▶ Actual recoveries may exceed bid amounts.