GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 190 (First Edition)

SHORT TITLE: Medicaid Improper Claims Software/Funds.

SPONSOR(S): Representatives Blust, Stam, and Dollar

FISCAL IMPACT

Yes (X**)** **No ( )** **No Estimate Available ( )**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
REVENUES	**$5,000,000**	**$5,000,000**	**NA**	**NA**	**NA**

EXPENDITURES *(Savings in expenditures are projected – see below)*

POSITIONS (cumulative):

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Health and Human Services, Division of Medical Assistance

EFFECTIVE DATE: July 1, 2009

BILL SUMMARY:

H 190. MEDICAID IMPROPER CLAIMS SOFTWARE/FUNDS. Filed 2/17/09.

Directs the Department of Health and Human Services, Division of Medical Assistance, to develop and implement a process to purchase technologically advanced software and services to improve the identification and rejection of improper Medicaid payments before the payment is made to the provider. Effective July 1, 2009, appropriates $5 million for 2009-10 and $5 million for 2010-11 from the General Fund to DHHS, Division of Medical Assistance, to purchase the technologically advanced software and services. Requires DHHS to report, no later than October 1, 2009, to the House of Representatives and the Senate Appropriations Subcommittees on Health and Human Services and the Fiscal Research Division on its progress in identifying appropriate software, the implementation date, and other relevant information regarding the sufficiency of the appropriation and the anticipated savings from the implementation of the software.

Source: Bill Digest H.B. 190 (02/17/0200)

ASSUMPTIONS AND METHODOLOGY: The Program Integrity Unit of the Division of Medical Assistance (DMA) handles Medicaid cost avoidance, pre-payment review, recovery and third party liability (TPL).

Cost Avoidance

Cost avoidance is the denial or rejection of claims by the fiscal agent once liable third parties who are legally responsible for paying the medical claims of Medicaid recipients have been established. This happens prior to claims payment. A large amount of Medicare costs are avoided because North Carolina participates in the Medi-Medi program that automatically checks to see if a Medicaid recipient is also a Medicare recipient to ensure that Medicaid is the payor of last resort.

Pre-payment Review

Pre-payment review is done on a manual basis for providers who have had a history of irregular claims. Claims are reviewed prior to payment. DMA also has a health care data analyst on staff who will review in house the 6,000 enrolled providers' claims and extrapolate the amount of suspect fraud and pre-payment review. There are also edits in the claims processing system that will automatically kick out irregularly billed claims prior to payment.

Recovery

Recovery is seeking reimbursement from third parties (third party liability - TPL) once it is discovered that there are third parties liable for payment of claims. This is done post-payment through data matches, code edits, and systematic programs. Data matches are done with commercial insurance carriers in North Carolina, the Defense Enrollment Eligibility Reporting System (DEERS), the Medicare Enrollment Database (EDB), the Child Support Enforcement Agency (CSE), and the DMV Accident Report Files. Systemic programs capture estate recovery information for Medicaid recipients who have died.

DMA's current contract with their TPL vendor expires this year. DMA is issuing an RFP for a new TPL vendor this fiscal year, or the costs associated with an RFP process would be included in this fiscal note. The RFP will include requirements that the software be able to access national insurance databases prior to claims payment to ensure that the charges are cost avoided even if the insurance information has not been reported.

Estimated Cost

House Bill 190 directs DMA to develop and implement a process to purchase technologically advanced software and services to further improve the identification and rejection of improper Medicaid payments before payment is made to the provider. A national vendor operating Medicaid-related data-mining programs and software and licensed in 42 states estimates the cost of similar software capabilities to be $10 million for the biennium, including initial start-up costs and the ongoing maintenance for the two-year period. Functions would include:

- Initial data analysis and implementation;
- MMIS integration;
- Hardware and infrastructure;
- Software licensing;
- Additional data analyst and investigative resources;
- Professional services and consulting; and
- Staff training.

Ongoing operating costs and maintenance of the software beyond the biennium would have to be included in any contract as a result of the RFP process. This would include funds for ongoing training, operating costs and costs associated with the ongoing validation and improvement of the detection models. Because they are subject to a negotiated bid process, these costs are not included at this time. Estimates for this level of maintenance range from a flat $500,000 (for contractor with a licensure agreement with the State) to specified percentages of the total cost-avoided savings (for contractors with a contingency model clause).

Anticipated Savings

The amount of improper payments paid by North Carolina Medicaid is unknown. However, the Centers for Medicare and Medicaid Services, the federal body that oversees the Medicaid program, recently issued its first full-year Medicaid improper payment rate estimate as 10.5% for all Medicaid payments in FY 2007.[1] This rate was used to estimate the impact on the North Carolina Medicaid program.

To calculate estimated improper payments and potential savings due to recovery:

1. Using the current FY 2008-09 certified budget of $9,946,173,728 for Medical Assistance payments (Budget code 14445, fund 1310), the amount attributed to improper payments applying the CMS rate (10.5%) totals $1,044,348,241.

2. The federal share of the 10.5% of the estimated improper payments equals 64.6%, or $674,648,964. The State share totals 35.4%, or $369,699,277.

[1] Centers for Medicare and Medicaid Services, online: http://www.cms.hhs.gov/apps/media/press/release.asp?Counter=3368&intNumPerPage=10&checkDate=&checkKey=&srchType=1&numDays=3500&srchOpt=0&srchData=&keywordType=All&chkNewsType=1%2C+2%2C+3%2C+4%2C+5&intPage=&showAll=&pYear=&year=&desc=&cboOrder=date. See also Government Accountability Office, "High Risk Series: An Update"and "Improper Payments: Status of Agencies' Efforts to Address Improper Payment and Recovery Audit Requirements," online: http://www.gao.gov/ .

3. State savings, if the increased technology were to cost avoid 10% of the total improper payments, amounts to $36,969,928.

Estimated Savings from Improved Medicaid Improper Payment Technology

FY 2008-09 Certified Budget	Medical Assistance Payments	GAO 10.5% improper payment rate	10% Avoidance through increased technology
	$ 9,946,173,728	$1,044,348,241	$ 104,434,824
Federal Share (64.6%)		$ 674,648,964	$ 67,464,896
State Share (35.4%)		$ 369,699,277	**$ 36,969,928**

It is difficult to estimate the amount of improper payments the State is not already recouping or cost-avoiding. Similarly, it is difficult to estimate future savings, as any improper or fraudulent billing and improper payments would likely decline with the use of the advanced technology and software. However, the improper payment rate is expected to decrease annually as more aggressive efforts such as the increased technology required by this bill is implemented. For example, CMS reported that due to its "aggressive efforts to reduce payment errors, the Medicare Fee for Service (FFS) rate has declined from about 14 percent in 1996 to the 2008 rate of 3.6 percent. CMS expects the error rates for Medicare Advantage, Medicaid and SCHIP to decline similarly through program maturation and the agency's use of tools that include statistical sampling, medical reviews and error rate reduction plans."

Given the calculations above, a $10 million investment could potentially cost avoid $37 million, for a net savings of $27 million to North Carolina the first year of implementation.

SOURCES OF DATA: DHHS, Division of Medical Assistance; Center for Medicare and Medicaid Services; General Accountability Office

TECHNICAL CONSIDERATIONS: None

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