

Medicaid Fraud Prevention and Detection

Member and Provider Services

September 2012



Minnesota Department of **Human Services**

Legislative Report

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I. Legislation

Laws of Minnesota 2011, 1st Spec. Sess., chapter 9, article 6, section 93.

MEDICAID FRAUD PREVENTION AND DETECTION.

Subdivision 1. **Request for proposals.** By December 31, 2011, the commissioner of human services shall issue a request for proposals to prevent and detect Medicaid fraud and mispayment. The request for proposals shall require the vendor to provide data analytics capabilities, including, but not limited to, predictive modeling techniques and other forms of advanced analytics, technical assistance, claims review, and medical record and documentation investigations, to detect and investigate improper payments both before and after payments are made.

Subd. 2. **Proof of concept phase.** The selected vendor, at no cost to the state, shall be required to apply its analytics and investigations on a subset of data provided by the commissioner to demonstrate the direct recoveries of the solution.

Subd. 3. **Data confidentiality.** Data provided by the commissioner to the vendor under this section must maintain the confidentiality of the information.

Subd. 4. **Full implementation phase.** The request for proposal must require the commissioner to implement the recommendations provided by the vendor if the work done under the requirements of subdivision 2 provides recoveries directly related to the investigations to the state. After full implementation, the vendor shall be paid from recoveries directly attributable to the work done by the vendor, according to the terms and performance measures negotiated in the contract.

Subd. 5. **Selection of vendor.** The commissioner of human services shall select a vendor from the responses to the request for proposal by January 31, 2012.

Subd. 6. **Progress report.** The commissioner shall provide a report describing the progress made under this section to the governor and the chairs and ranking minority members of the legislative committees with jurisdiction over the Department of Human Services by June 15, 2012. The report shall provide a dynamic scoring analysis of the work described in the report.

II. Introduction

In July 2011, Governor Mark Dayton signed into law a bill requiring the Commissioner of Human Services to issue a request for proposal (RFP) to prevent and detect Medicaid fraud and mispayment by December 31, 2011.¹ The RFP was to require the selected vendor to provide data analytics capabilities, including predictive modeling techniques and other forms of advanced analytics, technical assistance, claims review, and medical record and documentation investigations, for the purpose of pre- and post-payment detection and investigation of improper payments. The Department of Human Services (DHS) was to select a vendor by January 31, 2012.

As proof of concept, the selected vendor would, at no cost to the state, apply its analytics and investigations on a subset of data provided by DHS to demonstrate the direct recoveries of the solution. DHS was to implement the recommendation provided by the vendor if the work done under the proof of concept demonstrated recoveries directly related to the investigation. DHS was to compensate the vendor from recoveries directly attributable to the work done by the vendor.

Also in July 2011, the governor signed into law the State Government Finance Omnibus Bill, which contained several provisions calling for the use of data analytics in tax compliance, state building efficiency, fleet management services, strategic sourcing.² These two bills aligned with a project already in progress at the Department of Administration to create a data analytics master contract program.

This report was prepared jointly by DHS Financial Fraud and Abuse Investigation Division and the DHS Member and Provider Services Division. The purpose of this report is to describe the progress made by DHS in implementing the project to detect and investigate improper payments, in accordance with Laws of Minnesota 2011, 1st Spec. Sess., chapter 9, article 6, section 93, subd. 6.

¹Laws of Minnesota 2011, 1st Spec. Sess., chapter 9, article 6, section 93.

² See Laws of Minnesota 2011, 1st Spec. Sess., chapter 10.

III. Implementation of Data Analytics Projects

On April 11, 2011, the Department of Administration issued an RFP to establish an enterprise data analytics master contract program. DHS staff, as well as representatives from eight other state agencies, participated as steering team members to oversee the RFP process. DHS would utilize the master contract program to implement its data analytics project and to meet the requirement to issue an RFP and contract with a vendor. On June 27, 2011, 29 proposals were received in response to the RFP. Evaluations of the proposals were delayed due to the 2011 state government shutdown. Evaluations were completed in September 2011 and twenty-two vendors were invited to negotiate contracts. Final data analytics master contracts were executed in November 2011.³

With data analytics master contracts in place, DHS initiated two projects for a vendor to provide data analytics capabilities to detect and investigate improper payments by issuing two separate Statements of Work (SOW). First, the Recovery Audit Contractor (RAC) SOW seeks to detect and identify improper payments after payment of claims; and, second, the Prepayment Edits Assessment Project SOW addresses detecting and identifying improper payments prior to payment. The projects are outlined below.

A. Recovery Audit Contractor (RAC)

Start Date: March 30, 2012

On March 30, 2012, DHS issued the Recovery Audit Contractor (RAC) SOW. The purpose of the project is to identify and recoup overpayments and identify underpayments made to Medicaid providers via a comparison of paid claims from the MMIS to the health service records from providers to determine the accuracy of claims paid. Compensation to the vendor is on a contingency fee basis based on actual recoveries and paid only upon the recovery of the overpayment. The vendor will be responsible for providing all resources needed for the services it provides under this project including, staff, data mining, data analysis, hardware, software, and facilities to support all services performed.

This project ensures compliance with DHS' charge under the state legislation to detect and investigate improper payments after payments have been made, as well as with Section 6411 of the Federal Affordable Care Act which requires states to establish programs to contract with eligible Medicaid RACs to identify Medicaid underpayments and overpayments and to recoup overpayments. The RAC Contractor activity will supplement DHS' ongoing post-payment review activity, and is expected to increase the identification and recovery of improper

³ See Enterprise Data Analytics Master Contract Program Department of Administration Report to the Legislature, January 15, 2012

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payments. Details of provider notice, reconsiderations, appeal rights, and repayment options will mirror the processes currently used by DHS.

In May 2012, DHS selected a vendor. Negotiations for a work order began in June of 2012. DHS anticipates the work order will be in place in late October or early November.

B. Prepayment Edits Assessment Project

Start date: April 11, 2012

On April 11, 2012, DHS issued the Prepayment Edits Assessment Project SOW. The purpose of the project is to conduct a risk assessment of DHS's Medicaid Management Information System (MMIS) prepayment edits in an effort to reduce overpayments due to fraud, waste and abuse before payments are made, and to identify potential areas for investigation.

The MMIS, DHS' mechanized claims processing and information retrieval system, pays Minnesota Health Care Programs (MHCP) expenditures in excess of \$8.5 billion annually. DHS implements in excess of one million prepayment claims edits in the MMIS to deny or pend claims for possible overpayments. The purpose of this project is for the vendor to analyze the current edits and identify areas of service that need further edits to prevent overpayments before payment, and to identify potential overpayments due to fraud, waste, or abuse. The vendor will be compensated on a contingency fee basis with payments based solely on actual recoveries from the DHS Office of Inspector General's (OIG) investigation of any identified potential overpayments.

Vendors from the data analytics master contract program were to submit responses indicating the vendor met a specific set of requirements, outlined in the SOW.

The top two scoring vendors were then to move on to a Proof of Concept evaluation from which DHS would select a vendor to complete the project. DHS is currently in this Proof of Concept phase of the evaluation. At this phase of the project, DHS provides the vendors with systems logic for existing edits. The vendors then make a recommendation for an approach for a risk assessment of DHS prepayment edits, proposing additional prepayment edits, and identifying overpayments due to fraud waste and abuse. The vendors will also submit a final contingency fee cost proposal with this recommendation. At the end of the Proof of Concept phase of the evaluation, DHS may select a vendor to move forward to enter into a contract for the final phase of the project. This phase of the project was originally scheduled to take place in June 2012; however, it was delayed due to incomplete responses from vendors and the need for DHS to seek additional information from the vendors. DHS anticipates this phase will be complete by the end of October 2012.

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In the final phase of the project, the deliverables in the contract will include a report to DHS to demonstrate vendor's proof of concept by applying recommendations from the risk assessment to a subset of data provided by DHS to show that the recommendations are effective in reducing fraud, waste, and abuse. The report will also identify potential overpayments due to fraud, waste and abuse, which, if determined valid by DHS, will be referred to the DHS OIG for potential investigation and recoveries. DHS anticipates this final phase of the project will commence in November 2012.