Medicare RAC Prepayment Audits Can Stop Improper Payments

Private health insurance payers generally have all submitted claims reviewed for billing accuracy by an outside contractor both before and after they are paid – ensuring funds are spent efficiently and effectively. The Medicare program however, only allows Recovery Audit Contractors (RACs) to review fewer than 20 Medicare claim types (down from 800 claim types initially) and a mere 0.5 percent of Medicare provider claims only after they have been paid.

Due to such minimal oversight to ensure Medicare billing accuracy, the program loses more than $40 billion each year to preventable billing errors.

Medicare Tests Prepayment Auditing

In September 2012, the Centers for Medicare & Medicaid Services (CMS) began allowing RACs to review a subset of claims before they were paid as part of the RAC Prepayment Review Demonstration. The demonstration was conducted in seven states with high incidences of improper payments and fraud (California, Florida, Illinois, Louisiana, Michigan, New York, and Texas), as well as four states with high numbers of short hospital stays (Missouri, North Carolina, Ohio, and Pennsylvania).

During the demonstration, RACs reviewed claims before they were paid to verify the provider had complied with CMS coverage and billing rules. If the RAC review found the claim was billed correctly, then the claim was paid. If the claim was not billed correctly, then it was denied. The RAC received its percentage contingency fee on the amount of the claim it prevented from being improperly paid.

RACs successfully completed review of claims within 30 days of receiving the documentation. As a result, claims were paid in a timely manner, ensuring that providers were not inconvenienced by the auditing.

Among the claims audited during the demonstration were short-stay inpatient hospital claims and certain MS-DRGs selected for review based on CERT data. Outpatient therapy claims were added to the Prepayment Review Demonstration beginning in April 2013 to comply with the requirements of the American Taxpayer Relief Act (ATRA) of 2012.

It’s important to differentiate the successful Medicare RAC Prepayment Review Demonstration from the unsuccessful Medicare Orthotic and Prosthetic Prepayment Demonstration conducted by DME MACs that delayed payment to providers.

The RACs were required to complete prepayment claim review within 30 days of receiving the documentation. As a result, claims reviewed through the RAC prepayment demonstration were paid in a very timely manner.

Despite the demonstration, planned as a three-year program, it was paused by CMS before the two-year mark and never restarted. The edits that flagged claims for review and triggered the ADR letter to providers were stopped in February 2014. The demonstration remained on hold until its conclusion in August 2015. Due to the hold, there were no claims reviewed as part of this demonstration in FY 2015.

RAC Prepayment Reviews Deemed Very Successful

During the 11-state Prepayment Review Demonstration of a small subset of claim types, RACs prevented $192.8 million in improper payments.

Unfortunately, some system limitations constrained the prepayment review process. CMS chose to leverage the MACs to implement the edits used to hold claims for complex review, because the MAC is responsible for the payment or denial of the claim depending on the RAC’s review decision. However, this process did not allow for the RACs to choose the claims for prepayment review based on their own data analysis and consistent with their internal review strategies.

As a result, the RACs did not know which claims were selected for review until they received notification from the MAC. Typically, the RACs’ ability to review claims data and develop their own data analysis helps them target claims that may require additional review. It has been recommended that in the future, RACs should be authorized to select which claims should be reviewed based on their proven analytics.
Despite Success, RAC Prepayment Reviews Remain On the Shelf

While the prepayment demonstration achieved its goals of preventing significant improper payments while minimizing the impact on the provider community, it was paused in 2014 and never restarted.

For the past two years, the GAO has consistently urged CMS to ask for the legislative authority to implement a permanent Medicare prepayment review program to prevent improper payments from leaving the program in the first place.

The GAO initially made this recommendation back in April, 2016 in a report to the Chairman of the Senate Finance Committee entitled, “Claim Review Programs Could Be Improved with Additional Prepayment Reviews and Better Data.” In addition to sharing that prepayment reviews are more cost effective, the GAO stated:

“Although CMS considered the Prepayment Review Demonstration a success, and having the RAs conduct prepayment reviews would align with CMS’s strategy to pay claims properly the first time, the agency has not requested legislative authority to allow the RAs to do so. Accordingly, CMS may be missing an opportunity to better protect Medicare funds and agency resources.”

Then while testifying in 2017 before the House Budget Committee regarding the current scale of government improper payments, the U.S. Comptroller General Gene Dodaro reiterated 2016 recommendations that CMS should implement a permanent Recovery Audit Contractor Prepayment Review Program. The Comptroller General said:

“We recommended that CMS seek legislative authority to allow RAs to conduct prepayment claim reviews. HHS did not concur with this recommendation, stating that CMS has implemented other programs as part of its efforts to move away from the “pay and chase” process of recovering overpayments. We continue to believe that seeking authority to allow RAs to conduct prepayment reviews is consistent with CMS’s strategy to pay claims properly the first time.”

To date, CMS has thus far declined to implement prepayment reviews.

With Medicare Part A facing insolvency in 12 short years, it’s time to prevent the program from wasting more than $40 billion each year due to improper billing. Congress can take active steps to authorize a permanent RAC prepayment review program under the current RAC contracts to allow claims to be reviewed for accuracy before they are paid and ensure that American tax dollars are spend more efficiently and effectively.

Congress, It’s Time to Mandate Medicare RAC Prepayment Reviews to Wipe Out Improper Payments.

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