

Schedule 13

Funding Request for the FY 2015-16 Budget Cycle

Department of Health Care Policy and Financing

PB Request Number SBA-13

Request Titles

S-13 Predictive Analytics FTE

BA-13 Predictive Analytics FTE

Dept. Approval By:	Josh Block 	<input checked="" type="checkbox"/>	Supplemental FY 2014-15
		<input type="checkbox"/>	Change Request FY 2015-16
		<input type="checkbox"/>	Base Reduction FY 2015-16
OSPB Approval By:		<input checked="" type="checkbox"/>	Budget Amendment FY 2015-16

Line Item Information	Fund	FY 2014-15	FY 2015-16		FY 2016-17	
		Appropriation	Supplemental Request	Base Request	Governor's Revised Request	Budget Amendment
	Total	\$29,388,533	\$23,536	\$28,860,022	\$99,740	\$100,383
	FTE	360.4	0.2	360.6	1.0	1.0
Total of All Line Items	GF	\$10,379,246	\$2,355	\$10,012,398	\$9,975	\$10,040
	CF	\$2,738,766	\$0	\$2,808,738	\$0	\$0
	RF	\$1,909,429	\$0	\$1,944,172	\$0	\$0
	FF	\$14,361,092	\$21,181	\$14,094,714	\$89,765	\$90,343

Line Item Information	Fund	FY 2014-15	FY 2015-16		FY 2016-17	
		Appropriation	Supplemental Request	Base Request	Governor's Revised Request	Budget Amendment
	Total	\$26,043,374	\$22,575	\$26,913,985	\$94,087	\$94,730
	CF	\$2,676,189	\$0	\$2,746,161	\$0	\$0
	FF	\$12,679,416	\$20,317	\$13,118,575	\$84,678	\$85,256
01. Executive Director's Office - Personal Services	FTE	360.4	0.2	360.6	1.0	1.0
	GF	\$8,802,250	\$2,258	\$9,128,987	\$9,409	\$9,474
	RF	\$1,885,519	\$0	\$1,920,262	\$0	\$0
	Total	\$3,345,159	\$961	\$1,946,037	\$5,653	\$5,653
	CF	\$62,577	\$0	\$62,577	\$0	\$0
01. Executive Director's Office - Operating Expenses	FF	\$1,681,676	\$864	\$976,139	\$5,087	\$5,087
	GF	\$1,576,996	\$97	\$883,411	\$566	\$566
	RF	\$23,910	\$0	\$23,910	\$0	\$0

Letternote Text Revision Required?	Yes	No	X	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number: FF: Title XIX				
Reappropriated Funds Source, by Department and Line Item Name: N/A				
Approval by OIT?	Yes	No	Not Required:	X
Schedule 13s from Affected Departments: N/A				
Other Information: N/A				



Cost and FTE

- The Department requests \$23,536 total funds, \$2,355 General Fund in FY 2014-15, \$99,740 total funds, \$9,975 General Fund in FY 2015-16 and \$100,383 total funds, \$10,040 General Fund in FY 2016-17 in order to hire 1.0 FTE to coordinate and operationalize the planning stages of the Department's initiative to address Medicaid fraud, waste and abuse by moving from a retrospective identification and collection model to a prospective prepayment review model.

Current Program

- The Department has a Program Integrity section that focuses on making recoveries of improper Medicaid payments made to providers.
- The Department currently uses a retrospective pay and chase model for identifying fraud, waste, and abuse.
- In a pay and chase model, the Department attempts to recoup payments made to providers based on red flags from internal staff analysis or tips from outside sources. This recoupment happens after payments have been sent to providers, which makes identifying improper payments a difficult task.

Problem or Opportunity

- In May 2013, the Governor signed into law SB 13-137, "Concerning System Improvements to Prevent Fraud in the Medicaid Program" with the intent to improve program integrity in the State's Medicaid program and create efficiency and cost savings through a shift from the current model of a retrospective 'pay and chase' review model to a prospective prepayment review model.
- Recoveries are only made when improper or fraudulent activity is identified and with the volume of payments made this method proves to be labor intensive and doesn't offer a good return.
- The Department has the opportunity to move away from the current post-payment model for identifying improper Medicaid payments and adapt a prospective prepayment review model.
- Further, the Department does not currently have the internal resources with necessary subject matter expertise to develop and implement a plan to get the prospective payment review off of the ground.

Consequences of Problem

- The current system results in a loss of dollars that won't be recouped through a pay and chase model because of the difficulty identifying them manually after they have gone out the door.
- The Department does not have the resources available to transition to a prepayment model and is therefore stuck with trying to recoup dollars from fraudulent activity through the pay and chase method.

Proposed Solution

- The Department requests to hire 1.0 FTE at a General Professional V classification to develop the use of advanced data analytics and predictive modeling needed to transition from the current model to a prospective payment review model of fraud, waste, and abuse detection.
- This solution would allow the Department to develop a strategy to operationalize a predictive analytics contract in FY 2017-18.



COLORADO

Department of Health Care Policy & Financing

FY 2014-15 and FY 2015-16 Funding Request | January 2, 2015

John W. Hickenlooper
Governor

Susan E. Birch
Executive Director

Department Priority: S-13, BA-13
Request Detail: Predictive Analytics FTE Request

Summary of Incremental Funding Change for FY 2014-15	Total Funds	General Fund
Predictive Analytics FTE Request	\$23,536	\$2,355

Summary of Incremental Funding Change for FY 2015-16	Total Funds	General Fund
Predictive Analytics FTE Request	\$99,740	\$9,975

Problem or Opportunity:

In May 2013, the Governor signed into law SB 13-137, “Concerning System Improvements to Prevent Fraud in the Medicaid Program” with the intent to improve program integrity in the State’s Medicaid program and create efficiency and cost savings through a shift from a retrospective ‘pay and chase’ review model to a prospective prepayment review model. The prepayment review model would allow the Department to identify potential fraud, waste, and abuse after claim adjudication, but before payments are made to providers. However, SB 13-137 did not provide any resources for the Department, and after investigating prepayment review models, it is clear that the Department does not have the resources necessary to implement this bill. Due to the complexity of new modeling and the length of time necessary to plan, implement, and operationalize a prepayment model, the Department needs a dedicated employee to begin establishing the implementation parameters of a predictive analytics contract.

The Department currently operates a ‘pay and chase’ post-payment review model for identifying fraud, waste, and abuse. The ‘pay and chase’ model attempts to recoup payments that have already been made to providers when subsequent information indicates that there is an unallowable payment or an overpayment. The Department constantly evaluates policies and procedures for dealing with fraud within the Medicaid program, but based on the current constraints on internal resources, the post-payment model has been the only viable option for the Department.

Although, the post-payment review model allows for the Department to recoup some payments that were made improperly, this method is not nearly as effective as a prepayment review model. A prepayment model allows for review to be conducted after adjudication but prior to the payment being sent. This model uses advanced analytical software that automatically reviews the claims prior to payment in order to find

potentially fraudulent patterns. In the current environment, the Department makes payments to providers without first evaluating the claims for potential fraudulent activity. Once payments are made, the Department relies on its analysts in the program integrity section to try and identify improper payments and fraud schemes. With the volume of payments that are made to providers on a consistent basis, this method puts the Department at a significant disadvantage when trying to recoup the improper or fraudulent payments.

As a result of SB 13-137, the Department is in the beginning stages of executing a strategy to improve program integrity in the State's Medicaid program. In June 2013, the Department initiated a request for information (RFI) regarding the improvement of Medicaid fraud, waste, and abuse detection. Several responses were received with varying degrees of expertise. What the Department took from the RFI was that there are several services and technologies available that could enable the Department to reduce improper payments, resulting in substantial savings to the state. In order to better understand how varying technologies can best serve the state, the Department hosted a vendor fair that allowed several vendors to show how their technologies would contribute to reducing fraud, waste and abuse within the Medicaid program. As a result of the fair, the Department realized this project will take considerable time to plan and operationalize and therefore, needs to bring on an employee as soon as possible to get started. According to the Centers for Medicare and Medicaid Services (CMS), approximately 2.5% of all Medicaid payments nationally are attributed to fraud. Finding a better solution to the current processes in place is imperative and the Department places a high degree of importance on this issue.

Proposed Solution:

The Department requests to hire 1.0 FTE at a General Professional V classification to develop the use of advanced data analytics and predictive modeling needed to transition from the current model to a prospective payment review model of fraud, waste, and abuse detection. This position would require an understanding of data analytics and of the Department's benefit policies in order to translate the policies into effective analytical modeling. The position would design the strategy for applying technology which can be purchased to achieve greater identification of inappropriate payments and aberrant patterns utilizing several data sources including Medicaid Management Information Systems (MMIS) claims.

Once hired, the employee would develop the Department's specific needs as the framework for drafting a Request for Proposals (RFP). The position would be a critical contributor to the drafting of the RFP and the evaluation and selection of a contractor. The position would then be an integral part of the implementation of the purchased services through incorporation of the Department's business rules into appropriate modeling for discerning and/or predicting anomalies which would require investigation. The position would exercise strategic judgment and analysis to determine policies which would directly impact what would be reported from the system by establishing trigger levels. These policies would be monitored and adjusted as aberrant patterns shift due to reaction by fraudulent providers in response to prior investigations. The position would guide the detecting of problems or violations of Medicaid rules which may result in adjustments to benefits' policies, recovery of overpayments or investigation of possible fraud. This position requires a unique combination of skills in both statistical analysis and Medicaid rules and processes.

The Department evaluated the alternative of hiring a contractor to design and implement the transition between the two models, but believes that an FTE is the best option. The Department not only needs the

resource to plan and implement the new analytical modelling, but also to serve as the subject matter expert to manage the on-going operations. Rather than bringing in a contractor to plan and implement, then hire an employee to manage the on-going operations, the Department believes it would be best served by hiring the employee from the beginning. This allows the Department to build internal expertise which will aid in the management of the day-to-day operations once the predictive analytics contract begins.

If this proposal is not approved, the Department would continue to operate a post-payment review model because it does not have the appropriate internal resources to operate in any other manner. This would continue to result in lost dollars that the Department could otherwise have prevented from going out the door had it upgraded its process to a prepayment method.

Anticipated Outcomes:

This request would allow the Department to bring on the necessary resource to assist in shifting from the current post-payment review model to a prepayment review model. In order to complete the transition, the employee would deliver a completed RFP for a predictive analytics contract based on their expertise on Medicaid rules and processes as well as predictive analytical modeling. The employee would review vendor proposals and serve as an integral part of the selection committee. Once a vendor is selected, the employee would implement the purchased services and serve as the subject matter expert on tailoring the services to best meet the needs of the Department. As fraudulent payment schemes get more advanced, the employee would work to adapt the Departments predictive modeling criteria to ensure it is up-to-date and continues to stay ahead of the advancements in Medicaid provider fraud.

The Department does not expect to see savings relating to reducing fraud, waste, and abuse within the Medicaid program in the short-term as a result of the shift in models, but does expect that there would be the potential for significant long-term savings. The process of hiring an individual to assist with setting up the infrastructure to make the shift from the post payment to prepayment model would likely take time and therefore the Department does not expect to be able to attribute specific savings to the work the resource would be doing at this time. After executing the predictive analytics contract, if the Department is able to reduce improper Medicaid payments by even a fraction of a percent it would generate substantial savings to the State, which would more than pay for on-going operations.

This solution aligns with the FY 2014-15 Department Performance Plan by ensuring sound stewardship of financial resources. The fundamental strategy to combat fraud, waste, and abuse is to prevent money from being paid out in the first place, while continuing to pursue recoveries as necessary. This resource will help the Department ensure this strategy is carried out.

Assumptions and Calculations:

The Department assumes that a General Professional V classification would be necessary because the employee would need to have a unique level of expertise surrounding predictive data analytics along with experience and knowledge of the Departments benefit policies. This position would develop guidelines for design and implementation and guide the Department through all phases along with other duties as the contract is carried out in future years. The Department assumes that the FTE would have an expected start date of May 1, 2015, and that it would receive a 90% federal financial participation rate for the development

of the prepayment model as noted in a September 2012 presentation by CMS. On-going operations related to predictive modeling will receive a 75% federal financial participation rate.

For detailed calculations of the costs associated with the FTE, please see the appendix.

Supplemental, 1331 Supplemental or Budget Amendment Criteria:

This request is the result of new data resulting in substantial changes in funding needs. At the conclusion of the vendor fair hosted by the Department in February 2014, the Department realized the complexity of the complete implementation and the length of time required to have a fully operational predictive analytics contract in place by FY 2017-18. Therefore, it is imperative that the Department hires the employee prior to the start of FY 2015-16.