

MEMORANDUM

To: Health Connector Board of Directors
Cc: Louis Gutierrez, Executive Director
From: Michael Norton, Senior Manager of External Affairs & Carrier Relations
Sam Osoro, Senior Financial Analyst
Edward DeAngelo, General Counsel
Date: April 3, 2015
Re: Request for Proposals (RFP) Recommendation for a Risk Adjustment Data Validation Auditor

EXECUTIVE SUMMARY

At the January 15, 2015, Health Connector Board Meeting, Health Connector staff provided an update on the state's risk adjustment program, required by the Affordable Care Act (ACA). In advance of that meeting, the Board memorandum dated January 9, 2015, summarized work completed to date, as well as upcoming milestones. One of those key milestones was for the Health Connector to finalize a Request for Proposals (RFP) and select a vendor as a Risk Adjustment Data Validation (RADV) auditor.

RADV is the process by which the Health Connector will validate certain claims and demographic data used to administer the risk adjustment program. The Health Connector has now completed that procurement, and is recommending that the Health Connector enter into a contract with FTI Consulting, Inc. to perform RADV services for an initial term from April 13, 2015 to December 31, 2016 in an amount not to exceed \$1,600,000.

BACKGROUND

The federal Department of Health and Human Services (HHS) is required to conduct annual RADV audits to ensure risk adjusted payment integrity and accuracy where it operates risk adjustment on behalf of a state. The HHS method entails two levels of review, one arranged and paid for by issuers (the initial validation audit), and a second level of review conducted by HHS through a vendor serving as its Secondary Validation Auditor.

In accordance with 45 CFR § 153.350, as a state operating its own risk adjustment program, Massachusetts is similarly required to provide for a RADV program, but may leverage an approach that is different from HHS.

In the 2014 Massachusetts Notice of Benefit and Payment Parameters (State Payment Notice), in which the Health Connector outlined its risk adjustment methodology and procedures for the 2014 plan year, the Health Connector outlined three potential approaches for RADV. The first approach was a statistically driven approach to screen data followed by targeted and random audits; the second was an approach that closely resembles the HHS RADV approach with two levels of validation as referenced above; and the third approach a single level of validation. Based on market feedback and a review of

responses related to the RADV RFP, we propose to adopt the third approach to reduce administrative complexity and minimize costs and market disruption.

RADV AUDITOR SCOPE OF WORK

The information below outlines the scope of work defined by the Health Connector for a RADV auditor:

1. The RADV auditor will be responsible for developing processes and mechanisms for securely transferring data between an issuer, the RADV team, and the Health Connector in a manner that conforms to all applicable laws, regulations and related requirements. This data includes enrollment documentation and medical records for any sample of plan members who will be audited.
2. The RADV auditor will be responsible for developing a training program to administer to all data validation contractor staff, inclusive of Massachusetts issuers' staff designated to provide information pertaining to the audit, prior to working on the data validation project.
3. The RADV auditor will perform data validation activities, overseen by the Health Connector, including auditing a sample of members from each of the 16 issuers. This will involve validating enrollee demographic status through enrollment records review and enrollee health status through medical records review, as well as documenting any risk adjustment errors based on discrepancies uncovered in the audit process.
4. The Health Connector will be maintaining certain records related to the risk adjustment program. The RADV auditor will identify and supply final work product for record retention through a HIPAA and other regulatory-compliant data transmission protocol to the Health Connector.

RADV AUDITOR PROCUREMENT

Required Qualifications for RADV Auditor

The Health Connector's RADV RFP required responders to meet several important qualifications in order to be eligible to perform as the Health Connector's RADV auditor. Specifically, responders must (1) not exhibit any financial, personal or otherwise apparent conflict of interest vis a vis the issuers to be audited; (2) have experience performing data validation and training for projects of similar size and scope; (3) have expertise in data validation auditing, risk adjustment, medical diagnosis coding and risk score validation; and (4) commit to employing medical coders certified in ICD 9-CM and ICD 10-CM coding to conduct the reviews of enrollee health status.

The Health Connector issued the RADV RFP in November 2014. A cross-functional team from the Health Connector's finance, policy, operations and legal departments formed a Procurement Management Team (PMT) which also leveraged two external subject matter experts from Milliman, the Health Connector's risk adjustment technical consultant. The PMT received and reviewed a bid from one bidder, FTI Consulting (FTI).

Procurement Management Team Review

Based on its response, FTI showed a strong understanding of the scope of work and relayed their extensive experience in prior RADV assignments. Although risk adjustment under the ACA is a new program nationally, FTI has had extensive experience in the RADV auditing process, including experience with Medicare Advantage, Medicare and Part D Medicaid. FTI has been involved in different stages of the RADV process including implementation, consulting and operations. Its experience allows for the further development of the risk adjustment program, such as improved coding, improved documentation and finalization of the regulatory process.

In addition, FTI has a strong team with varied types of subject matter expertise among their staff. FTI has designated expert RADV coders with additional specialists focused on regulations, fraud, claims, statistics and accounting. Even though the expert staff members are based throughout the nation, they have experience working together and have the ability to travel to Massachusetts when needed.

FTI's approach to the engagement will be based on developing a sound structure that meets all the necessary requirements for a RADV audit for benefit year 2014. This structure will work to improve the coding and data submission of each issuer in the Massachusetts merged market for future years.

The table below illustrates the quality of the bidder's responses against the Health Connector's review criteria.

Criteria	Weight	Score
Understanding of the overall tasks and objectives	5	4
Staffing plan/availability of resources	10	8
Approach to completing the services	5	3.5
Design of Data Transfer Processes and Mechanisms	5	3.5
Design Training for the RADV Contractor's Audit Staff	5	4
Performing Data Validation	25	22.5
Statistical Analyses	5	3.5
Assisting in Mock RADV Appeals	5	4
Team composition and scalability in relation to the selected scope of work	10	8
Expertise in relation to the selected scope of work	5	4
Experience with audit activities related to the whole or part of the RADV scope of work	10	8
Proposed Cost of the Proposal	5	4
Overall value to the Health Connector	5	4
Overall Total Procurement Score	100	81

After an oral presentation and the submission of a Best and Final Offer (BAFO), FTI reduced the initial cost estimate from \$2,175,928 to an amount not to exceed \$1,600,000. This reduction was based on a reduced scope of work, specifically removing assistance with a mock RADV appeal and the reduction in sample size per issuer from 200 to 150, and also reflects roughly a ten percent discount.

Given that the first year of RADV will be focused on implementation and the development of procedures and expectations for future years, and that the results of the RADV process for benefit years 2014 and 2015 will not result in the re-calculation of transfer payments, the Health Connector believes that the revised scope of work will be sufficient. The Health Connector also believes that reducing the sample size from 200 members to 150 members will provide statistically valid results while providing cost savings. Throughout the process, the Health Connector will continually monitor and evaluate these results with our RADV vendor to ensure statistical validity. The statement of work described in this memorandum will go into effect April 13, 2015 and end on February 29, 2016. The contract runs through December 31, 2016 and the Health Connector, at its option, may extend the contract for up to three one-year periods on the same terms and conditions.

Work Phase	Data Analyst	Coding Prof.	Statistician	SME	Project Mgmt.	Total Staff	Price Estimate
Develop operational processes required for a single-level RADV program	80	25	20	120	40	285	\$131,800
Conduct validation of enrollment and medical diagnosis data for issuers' enrollee samples created by the Health Connector	1,280	1,072	80	640	208	3,280	\$1,225,600*
Provide issuer-specific reports to the Health Connector on error rates on the samples and extrapolated results at the issuer level	160	40	80	80	160	520	\$219,200*
Provide support to the Health Connector in its communications with issuers on processes and results	40	40	20	40	120	260	\$114,800
Assist the Health Connector to develop RADV appeals processes	40	20	10	80	20	170	\$80,000
Total (not to exceed):	1,600	1,197	210	960	548	4,515	\$1,600,000

*Fifty percent of these costs are expected to be supported by issuers subject to risk adjustment through a RADV User Fee, described further in the following section.

RADV USER FEE

Federal HHS charges issuers a risk adjustment user fee where it conducts risk adjustment on behalf of a state. For benefit year 2016, the user fee will be \$1.75 per enrollee, per year with \$0.96 dedicated to support the costs of RADV at the federal level.

In the 2014 State Payment Notice, the Health Connector included the option of implementing a user fee on issuers as part of the single-level approach implementation. On January 16, 2015, at the monthly Risk Adjustment All Carrier Meeting, the Health Connector proposed an estimated user fee of \$0.54 per

unique, enrolled member for the 2014 benefit year RADV audit. This amount was calculated to cover an estimated 50 percent of the costs of the data validation audits, error extrapolation and reporting. Upon execution of the RADV contract, Health Connector staff will revisit the methodology to finalize the user fee allocation methodology in a manner that supports 50% of the eligible costs outlined in the prior section. At that point, Health Connector staff will engage issuers to finalize the user fee and it is of note that to date, issuers have been generally supportive of the fee given their shared responsibility for RADV.

In future years, the user fee may fluctuate. This may occur if there are new issuers, increasing the total number of enrollees in the audit sample, or if the RADV methodology requires a larger sample size per issuer in order to achieve a desired level of accuracy. If the fee changes in the coming years, the Health Connector will follow a similar approach in determining the user fee by obtaining a quote from the RADV auditor, proposing an allocation of costs to the issuers, and seeking the market's support of the methodology.

BOARD RECOMMENDATION

Health Connector staff recommends FTI Consulting Inc. to perform Massachusetts's Risk Adjustment Data Validation audit. FTI Consulting's response to the RFP evidenced a strong understanding of the required scope of work, a demonstration of considerable experience as RADV auditors and a thorough understanding of the Massachusetts risk adjustment program. The initial term of the contract will cover the development of RADV processes, training and conducting of RADV for the 2014 benefit year, for an amount not to exceed \$1,600,000. The statement of work described in this memorandum will go into effect April 13, 2015 and end on February 29, 2016. The underlying contract runs through December 31, 2016 and the Health Connector, at its option, may extend the contract for up to three one-year periods on the same terms and conditions.