**State Fiscal Note for Bill**
**Number: 2013-H-5748**

**Date of State Budget Office Approval:**

**Date Requested:** Wednesday, April 03, 2013

**Date Due:** Saturday, April 13, 2013

<table>
<thead>
<tr>
<th>Impact on Expenditures</th>
<th>Impact on Revenues</th>
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</thead>
<tbody>
<tr>
<td>FY 2013 N/A</td>
<td>FY 2013</td>
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<tr>
<td>FY 2014 $134,000</td>
<td>FY 2014</td>
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<tr>
<td>FY 2015 $138,020</td>
<td>FY 2015</td>
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**Explanation by State Budget Office:**

This bill sets forth Chapter 42-14.7 of the General Laws, entitled the "Medicaid and Rite Care and Rite Share Fraud and Waste Reduction Act". The stated intent of this Act is to "implement modern pre-payment prevention and recovery solutions to combat waste attributed to fraud, waste and abuse within Medicaid and the Rite Care and Rite Share programs."

The bill mandates that program integrity efforts aimed toward cost containment within these programs (hereafter referred to collectively as 'Medical Assistance') be achieved through the implementation of technologically advanced systems of data verification and improper erroneous claims and payment prevention. With respect to these activities, the bill specifies that "predictive modeling and analytics technologies" be employed "in a pre-payment position."

**Comments on Sources of Funds:**

Medicaid expenditures are jointly financed by general revenues and federal funds according to the prevailing (blended) Federal Medical Assistance Percentage (FMAP), which is 51.48 percent and 50.40 in FY 2013 and FY 2014, respectively. The FY 2015 FMAP is assumed constant to that of FY 2014. Administrative expenditures of the Medical Assistance program are generally financed on a 50/50 state/federal matching basis, although certain Medicaid Management Information System (MMIS) expenditures qualify for an enhanced federal match of either 75 or 90 percent.

**Summary of Facts and Assumptions:**

It is assumed that the bill will take effect as of July 1, 2013. Therefore, no fiscal impact in FY 2013 is presumed. The various directives contained within this legislation, with attendant fiscal impact(s), are set forth below.

(1) **Data Verification of Providers (42-14.7-5)**

This section mandates that the "state shall implement provider data verification and provider screening technology solutions to check healthcare billing and provider rendering data against a continually maintained provider information database..." EOHHS currently maintains procedures for data verification and provider screening. These are primarily accomplished through the Medicaid Management Information System (MMIS). A provider web portal allows for provider screening and facilitates the following: compliance with 42 CFR 455 (the CMS Medicaid Program Integrity regulations, including CMS final rule 6028); electronic revalidation of enrollment data, ACA ownership disclosures, and attestations concerning criminal charges or convictions by federal, state or local entity. The MMIS also continually checks the

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current provider list against the Office of Inspector General’s web-site for providers excluded from participating in federal programs due to program-related fraud, patient abuse, and licensing board actions. As these practices are functionally identical to those prescribed in 42-14.7-5, the Executive Office does not anticipate any incremental fiscal impact stemming from the enactment of this section.

(2) Use of Predictive Modeling Technology (42-14.7-6)

As stated in Section 42-14.7-6, the state is to implement "predictive modeling and analytics technologies" to achieve the following purposes (quotes omitted):

(a) Identify and analyze those billing or utilization patterns that represent a high risk of fraudulent activity.
(b) Integration into the existing Medicaid and Rite Care and Rite Share claims workflow.
(c) Undertake and automate such analysis before payment is made to minimize disruptions to the workflow and speed claim resolution.
(d) Prioritize such identified transactions for additional review before payment is made based on likelihood of potential fraud, waste or abuse.
(e) Capture outcome information from adjudicated claims to allow for refinement and enhancement of the predictive analytics technologies based on historical data and algorithms within the system.
(f) Prevent the payment of claims for reimbursement that have been identified as potentially wasteful, fraudulent, or abusive until claims have been (automatically) verified as valid.

The MMIS system currently uses predictive modeling techniques to minimize erroneous and fraudulent billings. It is difficult to estimate the added expense of performing the new analyses as required by the bill, but it is assumed that EOHHS would require either 1.0 (additional) FTE or a private contractor to conduct the additional data analysis as described. The estimated annual cost of a consultancy to provide these services is approximately $134,000; it is assumed that the full cost of an alternative state FTE would be roughly equivalent.

(3) Section 42-14.7-7 of this Act, entitled “Cost of implementation to be offset by savings”, sets forth the requirement that any expenditures resulting from the adoption of the aforementioned technologies “shall be offset by savings generated by the reduction of fraud and waste within the state Medicaid, Rite Care and Rite Share programs”. However, the reported fiscal impact presupposes that any such budget neutrality, whether or not imposed through legislative fiat, is infeasible in the near-term.

Summary of Fiscal Impact:

With respect to Sections 42-14.7-5 and 42-14.7-6, the estimated fiscal impact stems solely from MMIS-related staff augmentation and/or contract service expansions to support predictive modeling technology. Thus, the incremental costs to the state would total $134,000 in FY 2014, the (assumed) first year of the program. Given the matching rates shown above, $67,000 would be derived from general revenues and $67,000 from federal funds. Year-over-year cost escalation is assumed at 3 percent. Thus, in FY 2015, the estimate totals $134,000 X 1.03 = $138,020, with $69,010 derived from general revenues and $69,010 from federal funds.

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House Fiscal Advisor Comments H 5748:

As presented, the Fiscal Note does not identify potential changes included in the Governor’s recommended budget for the predictive modeling initiative which will address the payment and recovery system for the Medicaid program. The Governor includes $2.0 million from all funds and $0.2 million from general revenues to implement the new system and also assumes savings from recoveries and pre-payment monitoring to address fraud, waste and abuse in the Medicaid program.