

## 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: March 4, 2016  
Re: Recommendation to Enter into a Work Order with FTI Consulting, Inc. as Risk Adjustment Data Validation Auditor for Benefit Year 2015

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### EXECUTIVE SUMMARY

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Upon completion of a competitive procurement, at the April 9, 2015 Health Connector Board Meeting, the Board approved entering into a contract with FTI Consulting, Inc. (FTI) as the Risk Adjustment Data Validation (RADV) auditor for the 2014 benefit year. A statement of work was executed with FTI to perform RADV services for an initial term from April 13, 2015 to December 31, 2015, in an amount not to exceed \$1,600,000.

Please note that the Health Connector suspended the 2014 benefit year RADV process as a result of the federal Department of Health and Human Services (HHS) suspending RADV for the 2014 benefit year for HHS-run risk adjustment programs. HHS will be moving forward with RADV for the 2015 benefit year. Prior to suspension of 2014 RADV, FTI developed the RADV Program Guide which will be leveraged for 2015 RADV, though work done to develop and draw RADV carrier samples will need to be completed for 2015 RADV as well.

The Health Connector is recommending that we enter into a work order with FTI Consulting, Inc. to perform RADV services for a second term from March 11, 2016 to February 28, 2017 in an amount not to exceed \$1,600,000.

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### BACKGROUND

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Federal 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.

For benefit year 2015, the Health Connector adopted a single level validation approach, which is outlined in the 2016 Massachusetts Notice of Benefit and Payment Parameters (State Payment Notice).

The single level validation approach was chosen in 2014 based on market feedback and a review of responses related to the 2014 RADV Request for Proposals, which suggested that this approach reduces administrative complexity and minimizes costs and market disruption.

## **RADV AUDITOR SCOPE OF WORK AND LEVEL OF EFFORT**

### **SCOPE OF WORK**

The scope of work for benefit year 2015 will mirror the initially proposed scope of work for benefit year 2014, with consideration of one notable addition – a process will be developed to validate enrollment using information independent of the enrollment information provided by the carriers to the Commonwealth’s Center for Health Information and Analysis (CHIA).

For the 2014 benefit year, given the delay by Federal HHS of the administration of RADV, the Health Connector only paid FTI \$354,004 out of the \$1,600,000 ceiling set forth in the original contract. Some work completed by FTI to develop the RADV process for the 2014 benefit year can be leveraged for the 2015 benefit year, such as the majority of the RADV Program Guide. However, work such as drawing RADV samples for each of the carriers will need to be repeated to draw new 2015 carrier samples. Some processes will need to be refined and reworked as a result of lessons learned from last year and feedback from the market. In addition, the development of the updated enrollment validation process, which FTI was instructed to forego for 2014 RADV, will be required for 2015.

The information below outlines the 2015 benefit year scope of work defined by the Health Connector for a RADV auditor:

1. Apply refinements to the operational processes for the single-level RADV program developed in 2015
2. Conduct validation of enrollment and medical diagnosis data for issuers' enrollee samples created by the Health Connector (note that this includes validating enrollment using a data source independent of data submitted to CHIA by the issuers)
3. Provide issuer-specific reports to the Health Connector on error rates on the samples and extrapolated results at the issuer level
4. Provide support to the Health Connector in its communications with carriers on processes and results
5. Assist the Health Connector to develop RADV appeals processes

### **LEVEL OF EFFORT**

The proposed level of effort by work phase is summarized in the table below:

Work Phase	Data Analyst	Coding Prof.	Statistician	SME	Project Mgmt.	Total Staff	Price Estimate
Develop operational processes required for a single-level RADV program	40	20	10	50	15	135	\$61,200
Conduct validation of enrollment and medical diagnosis data for issuers' enrollee samples created by the Health Connector	1,440	800	80	640	160	3,120	\$1,275,200*
Provide issuer-specific reports to the Health Connector on error rates on the samples and extrapolated results at the issuer level	160	40	80	120	80	480	\$180,800*
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	\$80,800
<b>Total (not to exceed):</b>	<b>1,720</b>	<b>920</b>	<b>200</b>	<b>930</b>	<b>395</b>	<b>4,165</b>	<b>\$1,600,000**</b>

\*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.

\*\*The not-to-exceed amount is less than the sum of the individual work area estimates, which provides a potential discount on fees by FTI. Additionally, remaining Level 2 Establishment grant funds may be available to offset some or all of the costs related to the RADV audit that are not otherwise offset by the User Fee.

#### RADV USER FEE

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. Having an issuer fee to offset a portion of RADV costs is in-line with the federal HHS approach. This amount will be calculated to cover an estimated 50 percent of the costs of the data validation audits, error extrapolation and reporting. Upon approval of RADV Work Order #3, Health Connector staff will finalize the user fee allocation methodology in a manner that supports 50% of the eligible costs (up to \$728,000), as outlined in the prior section. This amount will be allocated across the number of unique billable members in the merged market for the 2015 Benefit Year.

For the 2016 Benefit Year, which is the final year that the Commonwealth will administer the Risk Adjustment Program, the user fee may fluctuate. This may occur if there are new or fewer issuers, changing 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.

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**BOARD RECOMMENDATION**

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Health Connector staff recommend entering into a work order with FTI to perform the Data Validation Audit and related activities for the 2015 benefit year, for an amount not to exceed \$1,600,000 effective March 11, 2016 through February 28, 2017.