July 1, 2010

Testimony by Libby Alexander, Connolly Inc. before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Department of Homeland Security

Chairman Carper, Ranking Member McCain, and distinguished members of the Subcommittee.

Thank you for the opportunity to testify today on Preventing and Recovering Government Payment Errors. We appreciate your interest in recovery auditing, a best practice that is increasingly recognized as an invaluable tool for returning improper payments to the Government and for identifying ways to mitigate future errors.

My name is Libby Connolly Alexander and I am the Vice Chairman of Connolly, Inc. as well as CEO of Connolly Healthcare. Connolly currently serves as the Recovery Audit Contractor, or RAC, for the Centers for Medicare & Medicaid Services's Region C, the Southeast, and we were one of the three RACs during the RAC Demonstration program, serving in New York and Massachusetts. We have also performed recovery audit work for the Department of Health and Human Services, the Department of Education, and the Defense Logistics Agency.

Connolly was founded in 1979 and our sole focus since inception is the identification and recovery of improper payments. I personally have lived and breathed recovery auditing for the past 25 years. Our company serves some of the world's largest and best run organizations in the retail, non-retail, healthcare, and government arenas. We count 18 out of 20 of our country's top retailers as clients and 7 out of 8 of the top commercial healthcare payers. We entered the healthcare market in 1998 and have since grown to where we now serve commercial insurers, Blue Cross Blue Shield plans, Medicare Advantage plans, Medicaid Managed Care plans, and, of course, CMS. In all, we serve over 125 clients in virtually all industries from offices throughout the Unites States, Canada, and Europe and recover nearly \$1 billion annually. Our growth has been dramatic including tripling the number of employees in the past five years to over 700 today, a reflection of the widespread adoption of recovery audit as a best practice.

In the private sector today, recovery audits are performed by virtually all companies greater than \$500 million in sales. Most organizations have dedicated teams assigned to recovery auditing, and plan recovered dollars into annual budgets. Recovered dollars are "found money" and therefore go straight to the bottom line as profit. Beyond the monetary impact, recovery audits have the additional benefit of uncovering payment process inadequacies and lead to actionable recommendations to reduce or eliminate future overpayments.

In our thirty years of experience, we have seen our industry move from paper-based reviews of simple transaction processing – for example finding duplicate payments – into more and more complex contractual and policy interpretations that require skilled professionals using sophisticated technology tools to uncover errors.

The Federal government recognized the value of recovery audits nearly ten years ago with the passage of the National Defense Authorization Act for Fiscal 2002. Since that time, strides have been made with

the RAC Demonstration program being perhaps the best example of how successful a recovery audit can be. There are still many more opportunities to expand recovery audit efforts within Federal – and State – government. The current attention being paid to recovery audit by the Obama administration as well as by members of Congress including this committee, can only lead to new and improved efforts to recover improper payments. We certainly applaud last week's passage by the Senate of *The Improper Payments Elimination and Recovery Act* and wish for its speedy approval by the House and signing by the President.

Now, I would like to spend a minute to discuss some of the things a recovery audit can accomplish – whether that is for a for-profit company, an insurer, or a government agency.

First and foremost, a recovery audit will return dollars, dollars that can be used to fix problems, fund the recovery effort, and/or be returned to shareholders or taxpayers. Second, a recovery audit can correct current errors and lead to the prevention of future errors, anything from simple processing miscalculations, to more complex contractual and policy issues. An excellent illustration of this during the RAC Demonstration program was the discovery by Connolly that providers were incorrectly billing of a certain drug. This simple error resulted in nearly \$10 million in improper payments. With a revision made quickly by CMS to its guidelines, along with education of providers and system edits, the problem disappeared virtually overnight. The open sharing of information like this by the RACs with both CMS and providers will continue to provide recoveries and future savings. Third, by institutionalizing recovery audit, the message is sent to providers or vendors that billing is being scrutinized carefully. As a result, correct billing becomes a higher priority and fewer mistakes will be made.

I should point out that a recovery audit is not a panacea and will not make errors disappear. It can certainly keep the error rate from growing and can effectively reduce error rates, which should be a primary goal, but no recovery audit has ever been successful in completely eliminating improper payments in any large, complex payment environment.

I think everyone agrees that the RAC Demonstration program was successful in delivering significant dollars back to the Trust Fund and in helping to eliminate future errors. The project's recovery of nearly \$1 billion during the small, six-state demonstration program shows the potential of recovery audit. CMS and Congress are to be commended for initiating, implementing, and supporting the project. Recovery audit programs cannot be successful unless the client or agency wants – or better yet – is passionate about recovering the dollars identified. As we replicate and build upon that success with the national expansion of the RAC program, and extend RAC efforts to Medicare Part C, Part D, and Medicaid as called for under Section 6411 of the Patient Protection and Affordable Care Act and now the Improper Payments and Recovery Act, the country should realize recoveries of many billions of dollars annually.

So what made the RAC Demonstration program successful and what can we do to improve upon it?

Connolly has eight recommendations that we feel will help the Federal program build upon the progress it has already made with respect to recovery auditing.

• **Establish goals.** In our thirty years of experience, a successful recovery audit program is achieved when there is strong alignment on metrics against which the success of the audit can

- be measured. These goals can be determined by examining agency-estimated error rates and the success of previous recovery audit programs such as outreach, transparency, and quality.
- **Executive sponsorship**. Since our earliest years of conducting recovery audits, we have consistently found that recovery audits are most successful when there is a champion at a high enough level to see that the program gets off the ground and continues to be successful.
- Provide proper funding and resources to ensure the "greatest financial benefit to the Government." Agencies need a comprehensive program for preventing and recovering improper payments, and resources for the audit on the agency side should be established *prior* to the start of an audit. This would include resources to assemble audit data and personnel to approve audit issues for recovery, to manage the collection process, and to handle provider/vendor relations. Over time these costs will be funded through the portion of recoveries that flow back to the agency, but there can be a considerable time period after an agency begins a recovery program before recoveries are realized and funds available to pay for it. To recover the most improper payments possible, funds and personnel should be committed upfront to get the program off the ground.
- Institutionalize recovery audit as a comprehensive program, not a standalone project. This is an important success factor for a recovery audit and the successful implementation of 6411 and the Improper Payments Elimination and Recovery Act. By itself a recovery audit program can recover some money for the taxpayers, which we can all feel good about. But the true value comes from being part of a comprehensive program where the agency supports the program and uses results to make continual improvements. Every agency's mission statement should contain a commitment to recapture improper payments. This should include supporting valid overpayment claims straight through the appeal process. Agencies should embrace the responsibility of seeing that overpayments are not overturned by subjective caprice when they are in fact supported by objective and sound policy. This will significantly increase the effectiveness and results of the recovery audit program, facilitate changes to prevent improper payments in the first place, and identify additional areas of recovery opportunity. Attention should also be paid to what can improve results.
- **Use the experts**. I'm sure this will sound self-serving, but you should let the *experts* in recovery auditing conduct the audit. The external recovery audit contractor has the people, the tools, the technology, the processes, the years of experience, and the independence to achieve the goals of a program. Agencies should focus on the activities necessary to support the execution of the recovery audit program in a timely fashion, and on improvements to prevent improper payments. We also encourage the use of recovery audit firms for guidance on the details and guidelines now being established for the rollout of recovery audit mandated by Section 6411. We have 30+ years experience to draw upon and can make the task much easier.
- Consider a program to recognize providers or vendors with high program integrity. The nature of contingency fee recovery auditing is to focus on those vendors or providers who are doing

things incorrectly, but I would suggest that we also recognize those who are at the other end of the spectrum. These are providers or vendors who have invested in their people and systems, abide by the rules, and as a result have high billing accuracy and do not see recovery auditing as a burden since they are doing things right in the first place. Recovery auditors have the information that points to the vendors and providers who are doing things right, and they should be recognized and their examples shared as best practices so that others can benefit.

- Prioritize other Government healthcare programs when expanding recovery auditing. This would include TRICARE and the Federal Employees Health Benefits Program. To our knowledge, these agencies have yet to implement RAC programs, yet would benefit significantly from them. Based on our experience with other healthcare payors in the private and the public sectors, these agencies have a similar profile to those with whom we have been successful in the past.
- Continue to foster green practices as it relates to recovery audit. We have made considerable progress moving from paper-based auditing to electronic auditing. Nevertheless, there is much still to be done to reduce the amount of paper documents needed to do our work. The biggest improvement opportunity is in medical records, which we receive, scan and then destroy by the box load. CMS has is currently supporting initiatives to simplify the process of transferring medical record electronically. In the meantime, we continue to encourage the use of HIPAA compliant DVD's or other electronic media.

In conclusion Mr. Chairman, recovery auditing for government is here to stay and is a valuable tool in the war against fraud, waste, and abuse. The focus of a recovery audit is on recovering misspent dollars and identifying opportunities for process improvement. If an effort is made to align resources and commitment behind that focus, and there is true collaboration between the contractor and the government, then we will continue to see the kind of success we encountered with the RAC Demonstration program.

Mr. Chairman and other members of the committee, thank you for this opportunity to provide insight into recovery auditing. I would be pleased to answer any questions.

¹ IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 -- S.1508, SEC.2.(h).(B).(ii)