

Statement of Mr. Romil Bahl
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Presented to a Hearing of the Subcommittee on Federal
Financial Management, Government Information and
International Security

Committee on Homeland Security and Governmental Affairs

U.S. Senate

July 15, 2010

Chairman Carper, Senator McCain and distinguished members of the Subcommittee, my name is Romil Bahl, and I am President and CEO of PRGX Global.

PRGX Global is pleased to appear before this Subcommittee again to provide our views on tackling the problem of improper federal payments. PRGX is the global leader in Recovery Audit. In fact, we are the pioneer of the Recovery Audit industry and continue to break new ground every year. In addition, we at PRGX have been working in the federal space for a long time.

I first want to congratulate and commend the Committee on the passage of the much anticipated Improper Payments Elimination and Recovery Act of 2010. This legislation represents a major step toward ensuring accountability for federal expenditures.

Our nation is struggling with ever-increasing deficits and shortages of funds to finance vital federal programs. Perhaps at no time in our history has the imperative been so great to ensure that every taxpayer dollar is spent wisely. We are gratified by this Committee's efforts over the years to aggressively pursue recovery of misspent funds.

PRGX has created a new category of services named "Profit Discovery." Our services, which comprise a series of cost-saving value propositions for our customers, build on our world-class capabilities in *Audit, Analytics, and Advice*. Our services are key elements of successful financial management in large private enterprises and government agencies across the country. With a presence in over 30 countries, we are a trusted partner to CFOs around the world. PRGX is not just

about recovering improper payments that have already been made. Our services include business analytics and advisory services to identify and help plug the gaps and address issues across an organization's financial management processes and systems, so that future improper payments can be reduced and risk be effectively managed. That is what we do, and we do it well. We provide these services to over 70 percent of the world's largest retailers¹, and to a large number of the Fortune 500 companies in the United States —companies that have recognized the value of our expertise. In fact, over the years, we have discovered billions of dollars in improper payments. Over the last five years alone, we have averaged a billion dollars of recoveries for our clients each year.

PRGX has one of the longest track records in recovery auditing for the federal government. We have worked with numerous federal agencies, including the Departments of Interior, Health and Human Services, Justice, Agriculture, Transportation, Defense, and the General Services administration. Based on our government recovery auditing experience we have found that there are four key factors to a successful recovery audit: these are having an effective program champion, a broad scope, strong motivation, and a capable recovery audit partner.

The first factor, program championship, is critical. A champion is someone who truly owns the program and works with the audit team, department heads and agency contacts to ensure that the program is implemented and executed to maximize the identification of erroneous payments. This champion acts as the advisor to all groups, and is instrumental to the internal appeals process when valid overpayments are not pursued by the agency. Under the leadership of Ms. Deborah Taylor (Office of Financial Management), George Mills (Director-Provider Compliance Group), and Connie Leonard (Director-Division of Recovery

Audit Operations), the Centers of Medicare and Medicaid Services (CMS), has played this role effectively for the Medicare Recovery Audit Contractor (RAC) Program. This has not always been our experience with other agencies.

The second factor is a broad scope. All erroneous payment recovery audits have different characteristics and are set up based on the goals and initiatives of the agency. We have found that there are typically two different objectives within the individual agencies. The first is to have a broad scope recovery audit that tests and identifies potential process weaknesses and erroneous payments within all contracts and payables systems. We call this a “Full Scope” recovery audit. The second is to have a recovery audit that is strictly limited to data analysis of the payables system information, without any access to the overriding contracting information, also referred to as a “Disbursement Recovery Audit”. Our experience has shown that when the recovery audit allows for complete access to contractual records, the likelihood of strong recoveries and actionable process improvement recommendations increases significantly. To tie back to the current CMS situation, part of our belief in the future success of the RAC Program is premised on the breadth of the scope that the Division of Recovery Audit Operations is implementing over the coming period.

The third factor is motivation. Most agencies/contracting officers are focused on the execution of current business to ensure the government operates effectively and efficiently. Since erroneous payment audits occur on prior years’ payments, we have found that many times the motivation to bring up these past issues with the supplier is not as critical as moving forward with today’s business needs, especially when the recoveries do not benefit the agency or worse yet, result in budget reductions in future years. Our most successful recovery audits are driven

by agencies motivated by both the direct economic benefits received from recoveries and by closing the very ‘gaps’ that caused the improper payments in the first place. This Subcommittee is to be congratulated for taking strong steps to ensure that lack of motivation is not a reason for poor audit results, but it bears keeping motivation in mind as a key ‘lever’ to help drive optimal recoveries in the future.

The fourth factor, selecting a capable recovery audit partner, is an easily overlooked dimension in price-sensitive procurement processes. The fact is that increasing the recovery rate by just 0.01% on annual Medicare and Medicaid spend levels would yield an additional \$90 million in savings. Especially because these services are priced on a contingent basis, the taxpayer is benefitted by ensuring that the best and most sophisticated recovery audit techniques are applied to recovery opportunities.

In doing our work, we abide by a number of key principles: integrity, confidentiality, security, and value for our clients. Also, we are sensitive to the providers and other vendors with whom we work. Indeed, one of our key metrics is ‘provider abrasion’ or ‘vendor abrasion.’ It is part of our commitment to our clients, including CMS, that we are fair in all our dealings with the hospitals, physician groups and all other providers as we audit on behalf of the taxpayer.

In approaching recovery audits, we follow several process guidelines:

- *“Make sure the juice is worth the squeeze.”* We invest heavily in systems and people, ahead of realizing revenue; therefore, we need to ensure that

returns are commensurate with the upfront investments.

- *“Turn over the big rocks before the pebbles.”* We do not want to spend dollars chasing dimes and neither should the American taxpayer. Paying for results on a contingency fee basis places an incentive on finding the largest errors and the largest recoveries. In the Medicare RAC demonstration program PRGX corrected \$330 million in improper payments, a rate of 0.37 percent of the total Medicare spend audited by PRGX.
- *“Getting it right the first time.”* We go to great lengths to make sure that our claim adjudications are accurate. The Medicare appeals process is laborious and expensive and we have every incentive to get it right each time. In the Medicare RAC demonstration program, PRGX was “best in class” with an appeal overturn rate of only 4.4%.²

Mr. Chairman, contingency audits represent a major investment by the private sector to successfully execute a public-private partnership. For example, PRGX alone has invested millions of dollars of our corporate assets into the national Medicare RAC program and we have not yet realized any meaningful revenue from this effort. We make these investments with the belief that the United States government, including CMS, is committed to working with us as true partners to carry this program forward and to maximize the return to the American taxpayer. Therefore, it is comforting that Congress is squarely behind the effort as well.

The Improper Payments Elimination and Recovery Act of 2010 is a big step toward ensuring that all government audits are successful and yield high returns to the agencies and the taxpayers.

- You recognized and acted on removing a great impediment by allowing recovery audit contractors to work directly with providers to expedite identification and recovery of funds.
- Recovery audit takes some effort on part of the agencies. Therefore, it has to be worth their while. You recognized this and acted on giving the agencies incentives to move aggressively on recoveries by allowing them to keep a portion of the funds they collect. You further strengthened federal accountability by directing these proceeds to financial management improvement efforts and to agency Inspectors General. We now have the right incentives in place to jump start agency efforts to work with recovery auditors.
- You recognized and acted on giving agencies the authority to conduct pilot programs to explore innovative means of identifying and recovering these overpayments.
- You recognized and acted on ensuring that the agency had a champion responsible for ensuring compliance with improper payments controls.
- And, you recognized and acted on giving the Office of Management and Budget (OMB) the ability to direct agency funds to ensure compliance with sound principles of improper payment stewardship

Moreover, you have greatly expanded the federal recovery audit program's potential. Before the recent legislation, the universe for recovery audits was limited to direct payments to vendors (approximately \$500 billion) and Medicare Parts A and B (approximately \$300 billion). Now, with the Improper Payments Elimination and Recovery Act of 2010 and the Patient Protection and Accountability Act of 2010, the universe is greatly expanded. Our estimate is that these two key pieces of legislation will more than double the universe of annual

auditable federal spending. This includes Medicare Parts C and D, which we assume will be opened up to true “RAC-style” audits via appropriate procurement processes, and Medicaid “RAC-style” programs across the 50 states, along with an expansion of the definition of what is deemed an improper payment. Under these new laws, recovery auditing will expand into previously uncharted territory, including grants, loan guarantees, and insurance subsidies. We are excited to explore the potential under the new legislation for returning more funds to the taxpayer and ensuring related government expenditures are optimally leveraged for the good of the nation.

Again, we applaud you and look forward to participating with federal agencies under this new framework.

The administration has also embraced recovery audits as a means to fight waste and abuse of federal funds. This emphasis is evidenced by the following and should help jump start efforts across the government:

- The Executive Order issued in November of 2009 underscored the President’s commitment to controlling this problem.
- The March White House memorandum to agencies promoted recovery audits.
- The March 10th speech in St. Louis by the President reaffirmed his commitment to use contingency auditors to fight healthcare waste.
- OMB’s push toward improvements in reporting are honing in on the true extent of the improper payments problem in government.
- And, most recently, the “Do Not Pay List” initiative launched a few weeks ago is another big step towards preventing improper payments in the first place.

This commitment and emphasis by the President and OMB coupled with the legislation will provide the needed impetus to the government and the private sector to make the recovery audit process work successfully.

The United States of America has a great healthcare system. Thousands of dedicated healthcare workers give their best each and every day to ensure the best possible care. Recovery auditors are part of this great healthcare system. By identifying waste and improper payments, we can help CMS and other government agencies direct the savings to improved services. Given the huge amount of money spent on healthcare, even what appears to be a small error rate amounts to billions of wasted taxpayer dollars. These errors occur because of complexities that are magnified by the large number of providers and transactions. Just like in our private sector business, we are committed to working with CMS and the provider community to not only optimize current recoveries, but also reduce future improper payments. The vast majority of our clients look to us not just to recover improper payments, but also to identify the root causes of the issues that create these erroneous payments in the first place and indeed, help to fix these root cause issues and process gaps. The next competitive era in the recovery audit industry is to partner strategically with our clients to ensure we leave behind a vastly simpler procurement and financial environment.

The business strategy that we have adopted to compete in this new era of recovery audit is exactly what we believe is required also by our government – not only in healthcare, but across a broader array of government agencies.

The Improper Payments Elimination and Recovery Act of 2010 embraces and codifies many of the elements that made the Medicare RAC demonstration program successful and ensures that the CMS national RAC program lives up to the promise of the demonstration program. These elements include allowing the proceeds from recoveries to accrue to the Medicare Trust Fund and establishing a champion in the agency for attacking improper payments.

The contracted recovery audit is one weapon in the arsenal available to agencies to combat waste. CMS has artfully integrated recovery audits into its waste and fraud prevention programs. This is also the way it should be done in other federal agencies. In private-sector corporations, recovery audits are an accepted part of doing business. These audits hum along in the background of the normal business operations of corporations and dovetail nicely with efforts to provide oversight and accountability of operational programs.

We are proud to participate in the national Medicare RAC program. As an auditor in three of the four recovery audit regions, we have a broad perspective of the processes and errors. CMS has been wise to methodically step through the roll-out to enhance provider understanding and acceptance of the process. This approach ensures that our efforts cause minimal disruption to the important work of providing quality health care in the United States.

Further, CMS has been open to process enhancements and suggestions to make the program better. Our regular operational reviews provide the capability to present, adjust and proceed in a manner that adheres to principles of maximum recoveries and minimum disruption.

The healthcare reform legislation has expanded the successful Part A and Part B Medicare RAC program to Part C, Part D, and Medicaid. We are excited about this expansion, and we look forward to competing for this business. In fact, President Obama has publicly stated that he is committed to ensuring that contingency auditors are used as a means to ferret out waste in these programs. While the rules for the expansion to Medicare Parts C and D and Medicaid will not be fully known until CMS and the states issue their solicitations and launch the formal procurement processes, we believe that the application of proven recovery audit processes to these other areas of Medicare and Medicaid will yield great returns.

PRGX's Medicaid recovery audit experience incorporates many of the lessons we learned in the Medicare RAC demonstration program and the improvements made in the national Medicare RAC program. We have been working with state agencies for several years now to build and implement recovery audit programs and know first-hand that these programs work and deliver results that meet, and in some cases exceed, those of the Medicare RAC demonstration. In the Medicare RAC demonstration, the recovery rate was 0.3% of the total dollar value of claims reviewed. Applied to Medicaid, this would yield \$1.35 billion annually in recoveries. Medicaid error rate data and our own experience suggest that Medicaid recovery rates may be even higher. Further, we have evolved and refined our audit techniques to deliver a substantially improved audit, with a Medicaid appeal overturn rate that is far lower than our "best in class" appeal overturn rate from the Medicare RAC demonstration.

Recommendations for the national Medicaid expansion include the following:

1. The creation of a set of CMS Medicaid recovery audit guidelines to get each state's recovery audit program up and running quickly. These guidelines should include tried and tested 'exclusion and suppression' methodologies for determining the universe of claims a RAC is authorized to audit. The guidelines should use the knowledge gained from the Medicare RAC demonstration and the national RAC program to include methods of automating and reducing the workload of claim processing after an overpayment has been identified. This will likely have a major impact on the actual recoveries. The guidelines should provide concrete suggestions for appeals processes that states can use in the state roll-outs.
2. Audit types and concepts that have been approved for the national Medicare RAC program should be used to fast track the Medicaid RAC programs in the states. Providers are already familiar with these audit types and concepts. This will minimize provider confusion and substantially lower the duplication of effort and cost.

Error rates for Medicare Part C and Part D published by OMB suggest great potential for recoveries. And with ever increasing demands on funding for Medicare Advantage and Prescription Drug Plans, we are anxious to begin helping CMS identify and recover funds here as well.

Recommendations for the expansion of Recovery Audits to Medicare Part C and Part D include the following:

Our recommendations for the expansion of the CMS RAC program to Medicare Part C and Part D plans are based on the primary principle of maximizing return to the taxpayers and bending the healthcare cost curve going forward. We understand that Part C and Part D plans are administered by private enterprises that bear the actuarial risk, and as such any CMS program to expand recovery audit here should have incentives for the private enterprise similar to those that have been created for government agencies by S.1508.

1. To “*make the juice worth the squeeze*” the program must focus on auditing the transactions between the Medicare Advantage and Prescription Drug plans and the provider. That is where the complexity lies, that is where the majority of errors occur, and therefore, that is where taxpayer returns will be optimized.
2. The recovered funds in any fiscal year should accrue to the Part C and Part D plans, providing the incentive for them to make the program successful.
3. Both the plans and the recovery auditors should be required to report the total recoveries for each fiscal year. CMS could then use the “adjusted costs” (i.e., actual payment to a participating plan in a fiscal year minus recovered dollars for that year) to calculate the premium growth per member in the subsequent years, thereby effectively bending the cost curve.

4. CMS should provide a set of guidelines, similar to that which I described for Medicaid above, for the contingency recovery audits of all Medicare Part C and Part D plans.
5. CMS has a wealth of experience from the demonstration and national Medicare RAC programs and has worked with the largest and most capable vendors in healthcare recovery auditing. CMS should provide a list of approved recovery audit contractors that the plans can work with to roll out their recovery audit programs.

Mr. Chairman, we share your commitment to addressing the issue of improper payments in the federal government. Recent emphasis by the executive and legislative branches on this problem encourages solutions that are viable from both business and public policy perspectives. This process embraces best practices where both the private sector and dedicated public servants can combine their efforts on behalf of the American people. We are privileged to be a part of it.

I would now be happy to answer any questions you may have, and thank you again.

¹ Deloitte "Global Powers of Retailing 2009" and PRGX analysis

² The Medicare Recovery Audit Contractor (RAC) Program: Update of the Evaluation of the 3-year Demonstration – June 2010 (Published by CMS)