December 20, 2010

Medicare Advantage Risk Adjustment Data Validation (RADV)
Notice of Payment Error Calculation Methodology for Part C Organizations
Selected for Contract-Level RADV Audits
Request for Comment

Introduction

Section 1853(a)(3) of the Social Security Act requires that the Centers for Medicare & Medicaid Services (CMS) risk adjust payments to Medicare Advantage (MA) organizations. In general, the current risk adjustment methodology relies on enrollee diagnoses, as specified by the International Classification of Disease, Ninth Revision Clinical Modification guidelines (ICD-9-CM) to prospectively adjust capitation payments for a given enrollee based on the health status of the enrollee. Diagnosis codes are used to determine beneficiary risk scores, which in turn determine the risk adjusted reimbursement. MA enrollee risk scores are based on risk adjustment diagnoses that were present on Medicare Fee for Service (FFS) claims and/or submitted to CMS by MA organizations.

CMS annually selects MA organizations for RADV audits. Contract-specific MA organization RADV audits measure individual MA organization-level payment error-rates related to risk adjustment data for payment recovery. RADV audits confirm the presence of risk adjustment conditions based on supporting medical record documentation. As stated in the preamble of the new regulation on Risk Adjustment Data Validation –Dispute and Appeal Procedures at 42 CFR 422.311, CMS intends to provide an annual notice of the RADV payment error calculation methodology with the opportunity for MA organizations to comment on the methodology. This paper describes the sampling and error calculation methodology that CMS utilizes when conducting RADV audits. This sampling and error calculation methodology is used to calculate a payment error estimate and payment recovery amount for each MA contract selected for an audit.

Sampling

Once an MA contract has been selected for a RADV audit, CMS applies criteria for selecting the MA contract's enrollees.

Enrollee Selection

Enrollees are sampled from each selected MA contract for the purpose of estimating payment error related to risk adjustment. The enrollee sample for a RADV contract-level audit will be selected from the cohort of eligible Medicare beneficiaries who were enrolled in the contract (H-number, E-number, or R-number) in January of the payment year— based on monthly member enrollment files. The enrollees who are eligible for RADV sampling are those who were also:

1. Continuously enrolled in the same MA contract for all 12 months of the data collection year;
2. Non-End Stage Renal Disease (non-ESRD) status in or prior to the payment year;

3. Non-hospice between January of the data collection year and January of the payment year, and had less than 12 months of hospice during the payment year;

4. In Medicare Part B coverage for all twelve months during the data collection period (i.e., defined as full risk enrollees for risk adjusted payment); and had

5. At least one risk adjustment diagnosis (ICD-9-CM code) submitted during the data collection period that led to at least one CMS-HCC assignment. These HCCs were present for risk adjusted payments, based on plan-submitted risk adjustment data, and are referred to as the validation HCCs for the sampled enrollees.

CMS will select up to 201 enrollees for medical record review from each contract selected for an audit.

Sample Stratification

Enrollee-based stratification will be used in the process of sampling enrollees. In order to derive the strata, the eligible enrollees, in each contract, will be ranked from lowest to highest based on their community risk score. The enrollees will then be divided into three equal groups based on the total number of eligible enrollees, where the first group will include the third of enrollees with the highest risk scores and the third group will include the third of enrollees with the lowest risk scores. The remaining enrollees will be in the middle stratum. In the case of 201 sampled enrollees, sixty-seven (67) enrollees will be randomly sampled from each group or stratum. The corresponding stratum-based enrollee weights will be computed as the number of RADV-eligible enrollees in the population grouping (or stratum) divided by the number of enrollees selected from that grouping for the sample (or N_h / n_h), where *h* represents the corresponding stratum. For example, if a contract has 3,000 enrollees, the enrollees would be ranked by risk score, then divided into three equal groups of 1,000 enrollees each (to represent high, medium, and low strata). An equal number of enrollees will be selected from each group. The weight for each enrollee will equal 14.925 (i.e., 1,000/67). The enrollee sampling weights will be used as multipliers to scale-up (or extrapolate) the sample payment error findings to the population which it represents.

Payment Error Calculation

Enrollee-level Payment Error Calculation

The risk scores for each sampled enrollee will be corrected based on the HCCs that are supported by RADV medical record review findings for the enrollee. The RADV (or corrected) risk scores and payments will be calculated for each sampled enrollee. Enrollee-level payment errors will be defined as the difference between the original payment and the corrected payment (i.e., payment error = (original payment minus corrected payment)). The payment error for each enrollee will be either positive-- representing a net overpayment, or negative-- representing a net underpayment. A payment error will be calculated for each sampled enrollee based on the number of months the person was enrolled in the MA selected contract (and was not ESRD or hospice) during the payment year.

Payment Error Extrapolation Calculation

To derive the estimated payment error for each MA contract, the total payment error for each sampled enrollee will be multiplied by the enrollee's sampling weight (computed during the sampling phase as N_h/n_h for each stratum). The weighted enrollee payment errors will be summed across all enrollees in the sample to determine an estimated payment error for the MA contract. The payment recovery amount for each audited MA contract will be determined by the lower bound of the 99% confidence interval around the payment error estimate. The following is an example formula for computing a 99% confidence interval around the payment error estimate for one contract, assuming a sampling method containing three enrollee strata groupings.

The 99% confidence interval lower bound is computed as the estimated payment error (PE) minus (2.575 multiplied by the standard error) or (PE – (2.575 * SE)), whereby the standard error can be reproduced as follows:

1. Derive the variance, v_h, (standard deviation squared) of the unweighted enrollee payment errors across the sample enrollees within each of the three strata (*h*).

2. Calculate the variance of the estimated total (V_T), where N represents the number of enrollees in the RADV-eligible population of the h^{th} (1^{st}, 2^{nd}, 3^{rd}) stratum:

$$v_{\hat{T}} = \sum_{h=1}^{3} \frac{N_h^2}{67} v_h$$

3. The standard error is $se_{\hat{T}} = \sqrt{v_{\hat{T}}}$

Request for Comment

CMS is pleased to invite public comment on this document. CMS will review all timely comments and may revise or modify the RADV sampling and payment error calculation methodology based on the comments received. Once all comments have been reviewed and considered, CMS will post a final version of the RADV sampling and payment error calculation methodology at https://www.cms.gov/HealthPlansGenInfo/.

Comments must be submitted in writing by Friday, January 21, 2011 to the following email address:

RADV@cms.hhs.gov

Please specify "Comment on RADV sampling and error calculation methodology" in the subject line of your email.