

Medicaid Claims Payment System: Background and Status

Background

In October 2013, the Alaska Medicaid program deployed a new Enterprise system developed by Xerox Corporation to replace its 25-year-old claims processing system. These systems are known as Medicaid Management Information Systems (MMIS).

There were significant and widespread performance problems with the new system; large numbers of claims were either suspended or denied in error, causing providers to experience serious difficulties getting paid.

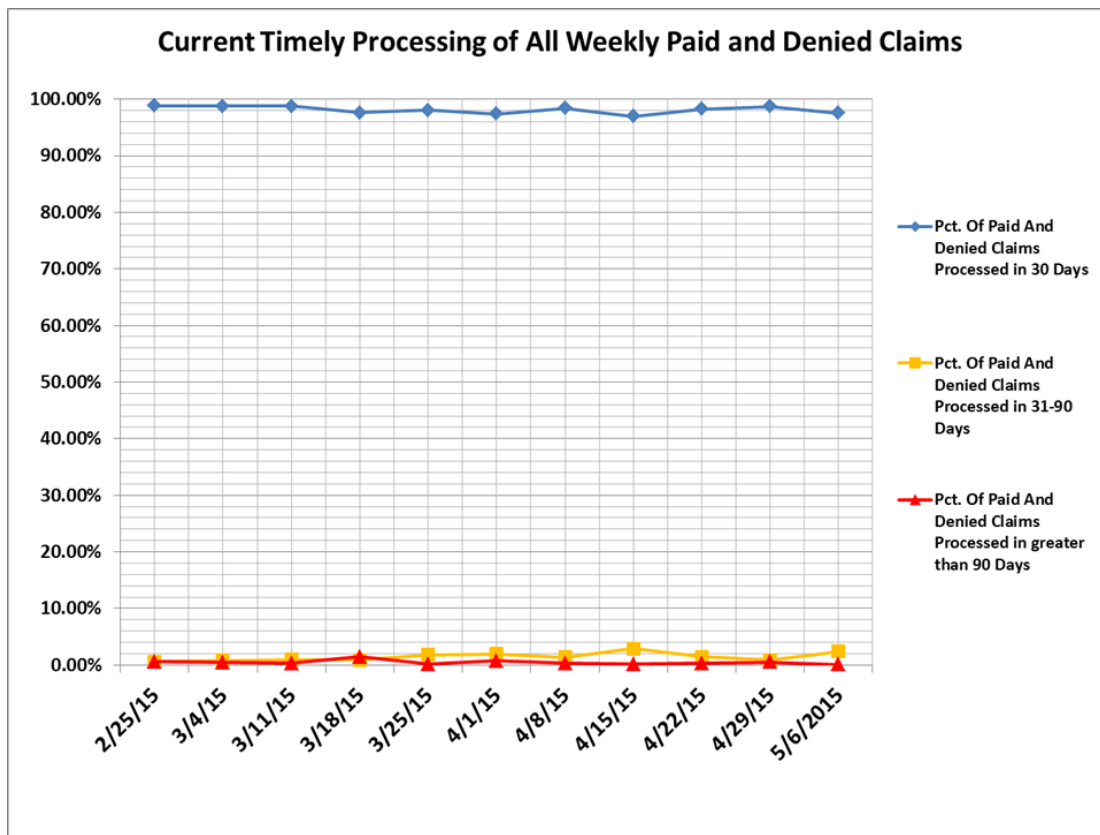
While Xerox worked to fix the system, the State issued advance payments to providers on request to provide financial stability. To date, the State has made over \$165 million in advance payments. Of that, the State has recouped \$70 million as of May 1, 2015.

Please see page 4 of this report for a timeline of relevant events.

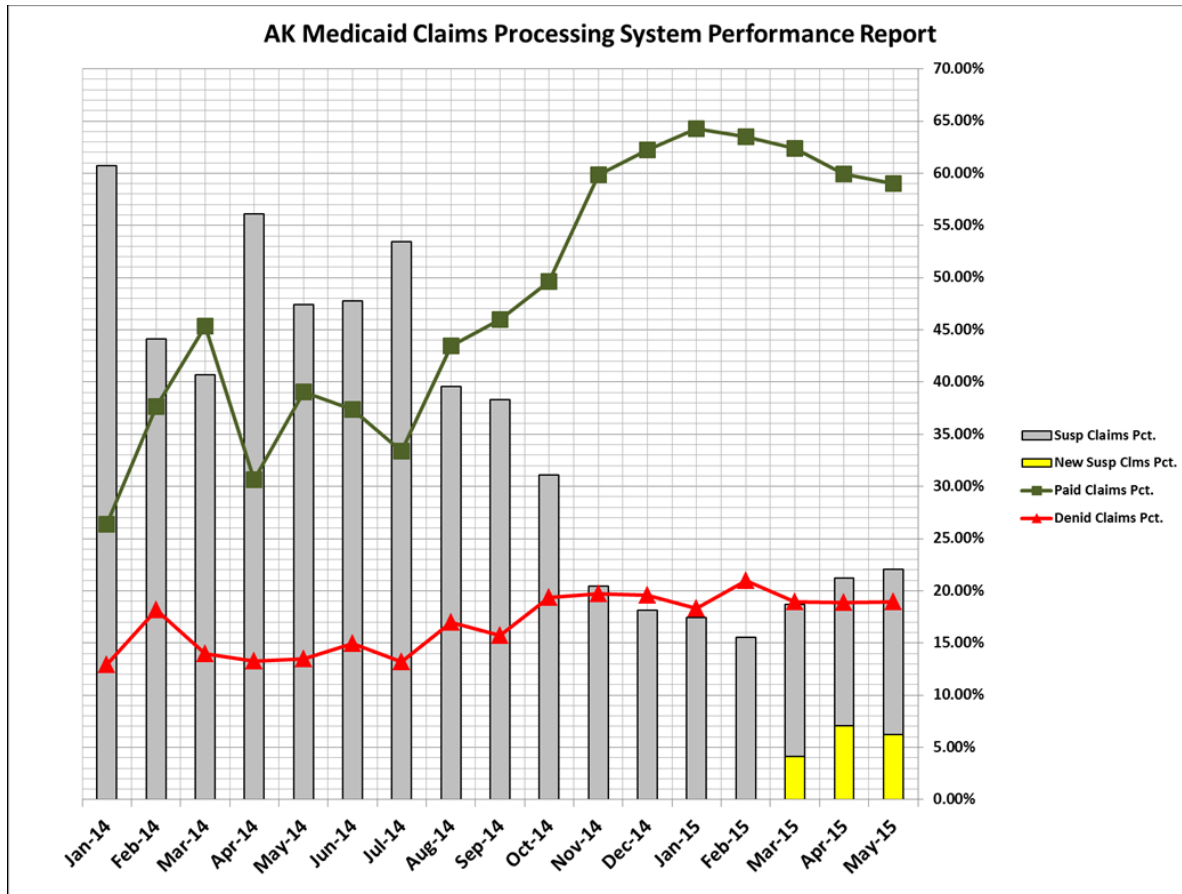
Status of claims processing

Since December 2014, Xerox has made significant improvement. The system is now processing more than 90 percent of *new claims* without suspension; i.e., claims are paid or denied the first time they are submitted. This is better performance than the old legacy system.

The system is also meeting and exceeding timeliness standards. The chart below shows timeliness of paid and denied claims since February 25, 2015.



The chart below shows the disposition of claims from January 2014 through May 2015. “Suspended claims” includes both old claims that are continuing to suspend, and new claims, which are suspending at a much lower rate. The State began tracking old and new claims separately in March. *Please see page 3 for definitions.*



Of the 9 percent of new claims that are suspending, many are suspending correctly. A certain percentage of claims should suspend, because certain types of claims require manual review:

- **School-based services** are set to suspend pending payment of the school district’s state match. The claim is paid once payment is received.
- **Durable medical equipment** claims are set to suspend for manual review of the invoices to verify amounts due.
- Claims that require **medical necessity justification** suspend until payment is authorized.
- Claims that were first **billed to insurance** suspend until any insurance payments are reviewed.

Payment Process and Definitions

When a provider submits a claim to MMIS, the claim can be *paid*, *denied*, or *suspended*.

Paid: The claim is paid.

Denied: The claim is not paid. To be reconsidered, it must be resubmitted or reprocessed.

Suspended: The claim is not paid or denied, but is flagged for further review. It is automatically reprocessed each time claims are run, until it goes into paid or denied status.

Each of these outcomes can occur *correctly* or *in error*.

Timeliness:

- **Timely Claims Filing:** Providers have up to 12 months from the date of service to bill, so it is possible to pay a claim timely more than a year after a service has been provided.
- **Timely Claims Processing:** To be considered timely-processed, 90 percent of most claims must be paid or denied within 30 days of the date of receipt. Ninety-nine percent of most claims must be paid or denied within 90 days of the date of receipt.

Backlog

Xerox is working through a backlog of incorrectly suspended claims that developed when the system was deployed in October 2013.

The State advanced payments to providers so as not to penalize providers for a faulty system. Xerox has now worked through the bulk of the backlog of suspended claims. The State currently makes about 5 advance payments a month due to system-related delays system. The remaining backlog involves reprocessing previously submitted claims that were paid or denied in error. The State anticipates this reprocessing will be completed by the end of the calendar year.

Readiness for Expansion

The State's Medicaid payment system currently processes claims for more than 150,000 beneficiaries. Expansion is expected to add 20,000 beneficiaries in the first year, an increase of 13 percent. Actual claims are anticipated to increase at a lower rate, because the expansion population is expected to use fewer services per person than those individuals currently covered by Medicaid. This is because the expansion population is comprised of non-disabled adults without dependents. Those currently covered are the disabled, children, and adults with dependents including pregnant women.

The Walker administration is proposing to expand Medicaid effective August 1, 2015. Given the progress that has been made over the past six months with the Medicaid payment system, its current level of function, and ongoing system improvements, the State and Xerox believe the payment system will be able to handle the additional claims generated by Medicaid expansion without adversely impacting providers.

Timeline

October 2013 – Xerox deploys new Medicaid claims payment system with widespread performance problems. State suspends payments for MMIS Enterprise work.

August 2014 – State finds Xerox in breach of contract due to performance problems.

September 2014 – Mediation between State and Xerox fails; State requests hearing before an administrative law judge on liquidated damages. State suspends payment for Xerox fiscal agent operations.

October 2014 – Xerox agrees to corrective action plan with March 2015 deadline for resolving all major defects. Plan stipulates that Xerox will not be paid until it satisfactorily meets the terms of the corrective action plan.

December 2014 – Governor Walker sworn in; appoints Commissioner Valerie Davidson; Governor meets personally with top Xerox officials.

February 2015 – Administrative hearing on liquidated damages. Decision pending; next hearing scheduled for August 2015.

March 2015 – Xerox makes significant progress but does not meet March deadline and remains under corrective action plan. Of 17,000 defects identified, fewer than 100 remain. Ninety percent of new claims are processing correctly.

May 2015 – As of May 1, the system is suspending claims at a lower rate than at any time since the system was deployed, at a rate of 9 percent. Following Xerox's deployment of fixes in April, 74 defects remain, with 3 rated critical.