

RAC Pause Takes its Toll as PRGX Contractor Calls it Quits

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The winds of change are blowing.

With all due respect to late British Prime Minister Harold Macmillan, who was addressing the South African Parliament in 1960 when he delivered that line, his speech brings to mind the recent changes to the Recovery Audit (RAC) program – including last week’s announcement by the Centers for Medicare & Medicaid Services that it was putting the program on hold until Oct. 1, 2014.

Change has officially come to the RAC program, “whether we like it or not,” as Macmillan added in his famous address. And that change has contributed to PRGX Global, formerly known as PRGX Global-Schultz, a subcontractor to three RACs, cutting its ties with the program.

It was PRGX Global’s 2008 protest of the awarding of permanent RAC contracts that caused a two-year delay of the nationwide RAC rollout. The program eventually rolled out nationally in 2010.

Up until this week’s announcement that it was throwing in the towel, PRGX had hoped to elevate its status from a subcontractor to a primary RAC contractor; the company was among those known to have submitted an RFP in hopes of doing just that. The re-procurement process is still underway, and the awarding of contracts is expected to occur sometime this year, with the new RAC contract period extending from 2014 to 2018.

The announcement that PRGX’s Medicare RAC business unit was pulling the plug came during a conference call with Wall Street analysts and investors earlier this week. During the conference call, the company explained that its revenue from RAC business had declined by 61 percent due to limitations of what Medicare claims can be audited, according to Emily Evans of Obsidian Research, who was on the call.

In her memo to investors, Evans wrote that due to significant changes in the Medicare RAC program – including the moratorium on RACs auditing short stays tied to inpatient claims on the basis of improper setting – RAC revenue has fallen dramatically. Short-stay inpatient claims have been what she described as a previously “significant source of Medicare RAC revenue,” according to Form 8-K filings from two other publicly held corporations, Performant and HMS Holdings.

“All of the RAC auditors show a significant decline,” Evans wrote. “We would anticipate that this trend continued into the first quarter (of 2014).”

What current RAC is likely to step up in the absence of PRGX? There are a number of contenders, or so it would appear.

“I would look at the contractors that have multiple Medicaid RAC contracts,” said J. Paul Spencer, the director of regulatory and coding compliance at Providence Health System in Washington, D.C. “HMS is at the front of the line, followed by

CGI.”

Spencer speculated that huge healthcare vendor OptumInsight and then perhaps other smaller players such as Myers & Stauffer, Goold Health Systems (GHS), and Cognosante might also be possible bidders.

As for Connolly Healthcare, the RAC for region C, Spencer is convinced that it seems to have staying power – and he doesn’t expect them to exit, noting that they were one of the original demonstration contractors.

A Troubled Past

PRG Shultz had been the RAC contractor in California during the demonstration. Not having made the cut to be a permanent RAC — the contract was awarded to HealthDataInsights — PRG Shultz lodged a complaint with the Government Accountability Office (GAO) along with its subcontractor, Viant Health Payment Solutions of Naperville, Ill. On Election Day, Nov. 4, 2008, CMS announced the formal protest and the GAO initiated an automatic 100-day stay.

Not without controversy, PRG-Shultz was the subject of two amicus briefs filed with the U.S. Court of Appeals for the Ninth District in August 2010 by the law firm of Hooper, Lundy & Bookman, P.C., (HLB). The first was filed on behalf of the Federation of American Hospitals (FAH), the American Hospital Association (AHA), and the American Health Care Association. A second brief was filed on behalf of the California Hospital Association. Both briefs were filed in appeal of a federal district court ruling involving Palomar Medical Center in Escondido, Calif. and the U.S. Department of Health and Human Services.

According to statements in the second brief, of the 852 claims for inpatient rehabilitation services denied by PRG-Shultz, 794 were overturned at the ALJ level, according to an HLB blog posting.

“PRG’s review of IRF claims was so questionable that CMS mandated a pause pending a validation review,” the brief read. “An outside contractor reviewed a sample and determined that 40 percent of PRG’s denials were incorrect. CMS then required PRG to re-review the IRF claims it previously denied. PRG reversed 1,454 of its 5,237 denials.”

“PRGX almost singlehandedly took down the inpatient therapy industry during the demonstration project in California,” recalled Nancy Beckley, president and CEO of Nancy Beckely and Associates. “The California Hospital Association and the American Medicare Rehab Providers Association took to Congress and the airwaves with their protests, and in fact the RAC demo was halted in (California) prematurely because of this – and, as result, substantive changes were made in the permanent program.”

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