Cost Avoidance Definition:

The primary function of the Utah Office of Inspector General (UOIG) is to provide oversight to the Medicaid program. UOIG accomplishes its oversight responsibilities by conducting medical reviews, data mining, performing audits, and various types of investigations to identify overpayments or vulnerabilities in the Medicaid program. These actions often result in recoveries of inappropriately paid Medicaid funds. Since the inception of UOIG in 2011, these recovered dollars became the performance indicator legislative staff used to measure the success of the UOIG. However, recoveries are only one tool, of many, utilized by the UOIG to change billing behaviors and ensure the Medicaid program is operating as efficiently and effectively as possible.

When UOIG recovers funds, they account for them internally and then pass the funds to the Medicaid program in order to return the Federal and State portions appropriately. As the UOIG performs this action and identifies incorrect payments from a provider it most often causes a provider to change their billing behavior. The provider then bills correctly for the future services they render. The correct billing of future services is very important for the Medicaid program to remain efficient. UOIG refers to the change in behavior as the Sentinel Effect. The Inspector General Estimate recoveries will settle between three and five million dollars annually as billing behaviors continue to change. Avoiding future costs, that otherwise would have incurred without UOIG action, should be calculated along with recoveries to show UOIG's true performance.

UOIG uses many different actions, including recoveries that result in cost avoidance. For example, audits and policy reviews typically result in recommendations to Medicaid; recoveries may not be possible or necessary at that time. However, if Medicaid implements the recommendations made by UOIG, the UOIG should account for and report the calculated cost avoidance as a Return on Investment. Also, self-audits rely on providers reviewing their own records, at the direction of the UOIG, to identify billing issues that UOIG identified but the return is so low it is not cost effective to conduct a full medical record review. Self-audits accomplish behavior change through training of the provider. Self-audits result in initial recoveries and future billings are monitored by the UOIG to ensure the provider follows the policy. Both actions result in future cost avoidance for the Medicaid program.

The UOIG defines cost avoidance as any action that will avoid having to incur Medicaid costs in the future. It is important to note that while cost avoidance is not reflected in UOIG appropriated budget or financial statements, it is reported through other mechanisms such as the UOIG annual report.

General Methodology:

Once the UOIG identifies a procedure as having cost avoidance potential, it establishes a baseline. This baseline varies depending upon what the UOIG investigated and determines the cost avoidance methodology.

The UOIG calculates the baseline by determining how much the procedure or policy is costing the Medicaid program over a specific length of time. UOIG then compares the value with what

occurred during and after the UOIG action (what is being spent currently). The difference in payments pre and post UOIG action is the calculated cost avoidance.

Due to frequent changes in the Medicaid program, cost avoidance will currently only be projected a maximum of three years into the future.

Data to be Considered for Cost Avoidance:

The action taken by the UOIG determines what data is used to calculate cost avoidance. For example, audits typically use a State Fiscal Year as their scope, while self-audits use a six-month period. The UOIG uses three years of data, if available, when determining cost avoidance. If three years of data is not available, calculations are prorated based upon the data that is available. See Appendix and Table 1 below for an example of cost avoidance.

Specific Cost Avoidance Methodologies:

Audit Cost Avoidance Methodology Example

1. Identify vulnerable policy (various sources)
    a. Audit Vulnerability Matrix
    b. Referrals
2. Establish Baseline (before intervention)
    a. How much is the procedure costing presently?
        i. How much per month?
        ii. How much per year?
3. Initiate Intervention
    a. What is the audit scope?
    b. What is the audit purpose?
4. Recovery/Policy Recommendation
    a. What are the monetary recoveries if recommendations implemented?
5. Calculate Cost Avoidance
    a. Costs Prior to Intervention
    b. Costs Post Intervention
    c. Cost Avoidance
6. Project Cost Avoidance
    a. Typically, maximum three-year projection, since changes in Medicaid are frequent

Medical Review Cost Avoidance Methodology Example

1. Identify vulnerable medical procedure billings (various sources)
    a. Data Mining
    b. Referral
    c. National/Local Trends
    d. Best Practices
2. Establish Baseline (before intervention)
    a. How much is the procedure costing presently?
        i. How much per month?

        ii. How much per year?
3. Initiate Intervention
    a. Are the Medicaid dollars being spent appropriately?
    b. Are InterQual Criteria standards, CPT coding guidelines being used?
4. Recovery/Policy Recommendation
    a. How many procedures were billed correctly?
    b. What is the costs associated with the procedures billed incorrectly?
5. Calculate Cost Avoidance
    a. Costs Prior to Review
    b. Costs Post Review
    c. Cost Avoidance
6. Project Cost Avoidance
    a. Typically, maximum three-year projection, since changes in Medicaid are frequent

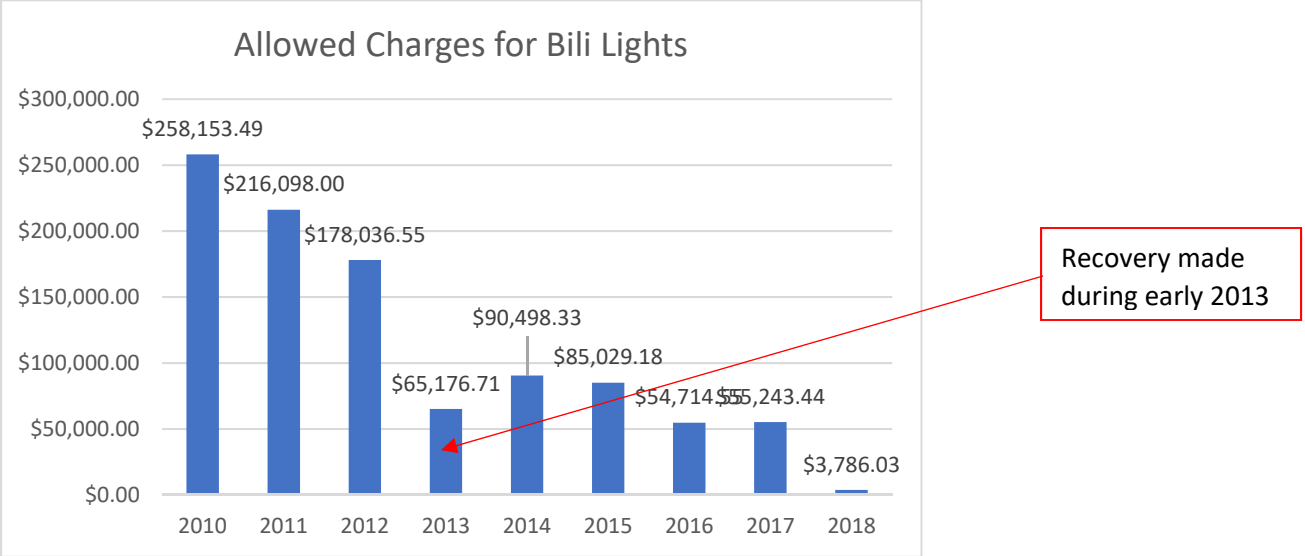
Policy Review Cost Avoidance Methodology Example

1. Identify vulnerable procedure (various sources)
    a. Data Mining
    b. Referral
    c. National/Local Trends
    d. PIC
    e. Medicaid Request
2. Establish Baseline (before intervention)
    a. How much is the procedure costing presently?
        i. How much per month?
        ii. How much per year?
3. Initiate Intervention
    a. What is Medicaid policy?
    b. Are the Providers following Medicaid policy?
4. Recovery/Policy Recommendation
    a. How many procedures were billed according to policy?
    b. What is the costs associated with the procedures billed incorrectly?
5. Calculate Cost Avoidance
    a. Costs Prior to Review
    b. Costs Post Review
    c. Cost Avoidance
6. Project Cost Avoidance
    a. Typically, maximum three-year projection, since changes in Medicaid are frequent

Appendix 1. Cost Avoidance Methodology Example (Bili Lights)

1. Identify vulnerable procedure
    a. Bili lights can be prescribed by a provider for up to seven days without a prior authorization. Any Bili lights needed longer than seven days must have a prior authorization.
2. Establish Baseline
    a. Three years of Bili lights were examined (2010 – 2012)
        i. $210,000 in charges Annually (Table 1)
        ii. $17,493 in charges per month

Table 1. Annual Allowed charges for Bili lights.



3. Initiate Intervention
    a. Records were requested along with prior authorization information and it was determined most of the Bili lights did not have prior authorizations that were being billed for more than seven consecutive days.
    b. $70,000 was recovered for improperly billed claims in 2013
    c. This procedure was monitored, and the clear majority of wasteful behavior stopped. Currently UOIG conducts any examination every six months any reviews any claims that are not following procedure. UOIG does recover funds, but very little since the original review in 2013.
4. Calculate Cost Avoidance

Action	**Amounts**
Prior to Intervention	~$217,000 per year
Post Intervention	~$80,200 per year
Recovery	~$70,000 (2010 – 2012)
Cost Avoidance	~$137,000 per year