



# Medicaid RAC Program

ISSUE BRIEF | Senate Bill 25-314

## Background

Under federal law, states must contract with a contingency-fee-based vendor to review provider claims. The purpose of the review is to reduce improper Medicaid payments. A June 2024 [report](#) by the Colorado Office of the State Auditor identified significant operational and oversight issues with Colorado's Recovery Audit Contractor (RAC) (RAC) program, including potential misuse of the General Fund. Additionally, the report found numerous failures that have led to excessive administrative burden, unwarranted recoupments, and considerable litigation activity. SB 25-314 aims to address these concerns and ensure audits are warranted, effective, and efficient.

## What You Need to Know

SB 25-314 strengthens the integrity of Medicaid audits in Colorado while ensuring fairness and transparency for health care providers. The bill sets detailed standards for audit procedures, limits audit burdens, and mandates provider protections and contractor accountability. It aims to create a more predictable, equitable, and transparent audit environment. Key directives and provisions in the law:

- **Audit Types and Procedures**
  - **Automated Audits:** Focus on coding accuracy without requiring medical record review.
  - **Complex Audits:** Require a detailed medical record review by qualified professionals.
  - The bill sets annual audit volume caps and outlines procedural requirements for each audit type.
- **Audit Timeframe Limitations**
  - RAC audits are limited to three years following the end of the timely filing period (i.e., four years after the original claim date), unless otherwise required by federal law.
- **Preliminary Findings**
  - RAC vendors must issue detailed preliminary findings that include audit outcomes, the rationale behind decisions, and any overpayment estimates.
- **Exit Conferences**
  - For complex audits, providers have 30 days from the receipt of findings to request an exit conference to clarify and contest issues before initiating informal reconsideration.
- **Informal Reconsideration**
  - This step is mandatory before providers can file a formal appeal. It provides a forum for dialogue with clinical reviewers and submission of supporting records.
- **Appeals and Overpayment Recovery**
  - HCPF is prohibited from collecting overpayments until all appeal rights are exhausted.
  - If HCPF fails to issue a notice of adverse action within 120 days of an informal reconsideration meeting, the state forfeits its share of the potential recovery.

# SB25-314: Recovery Audit Contractor Program

- **Contractor Compensation**
  - RAC vendors are paid solely based on successfully recovered overpayments.
  - Contingency fees are capped at 16%, and HCPF may explore tiered fee structures that align with federal Medicaid requirements.
- **Transparency and Oversight**
  - HCPF must publicly post RAC contracts, scopes of work, and oversight responsibilities.
  - The department must publish quarterly reports with audit statistics, findings, and provider error rates.
  - Regular stakeholder engagement and provider training sessions are required to improve understanding and audit readiness.
- **Audit Accuracy and Compliance**
  - HCPF is responsible for ensuring audit integrity, reviewing vendor performance, and overseeing contract compliance.

## Timeline

**Effective date:** Aug. 6, 2025

## Additional Resources

- [SB 25-314 Final Bill Text](#)
- [SB 25-314 Fiscal Note](#)