



Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTrac Survey, January - March 2010

June 30, 2010

Executive Summary

- AHA created *RACTrac*—a free, web-based survey—in response to a lack of data and information provided by the Centers for Medicare & Medicaid Services (CMS) on the impact of the Recovery Audit Contractor (RAC) program on America's hospitals
- *RACTrac* collects RAC activity data from hospitals on a quarterly basis
- CMS administers the RAC program and there are four RAC regions nationwide
 - RAC Region C encompasses 40% of hospitals in the United States
 - First quarter 2010 participation in *RACTrac* was generally consistent with hospital representation in each of the four RAC regions



Executive Summary

- RACs conduct *automated reviews* of Medicare payments to health care providers—using computer software to detect improper payments. RACs also conduct *complex reviews* of provider payments—using human review of medical records and other medical documentation to identify improper payments to providers
- More than two thirds of the 653 hospitals responding to RACTrac experienced RAC activity in the first quarter of 2010
 - The majority of hospitals reporting RAC activity were general medical and surgical hospitals
 - Different types and sizes of hospitals were subject to RAC review
 - Region C had the highest number of hospitals reporting RAC activity
 - Region B had the most activity among hospital respondents, with three-fourths of responding hospitals reporting RAC activity



Executive Summary (cont.)

- RACs are primarily engaging in complex reviews
 - Outpatient coding and billing were often the target for automated reviews, while inpatient coding was a common target for complex reviews
 - Medical record requests drove the majority of RAC activity for responding hospitals during the first quarter of 2010
 - Region C had the highest number of medical records requested in the first quarter of 2010 among reporting hospitals, over 4,500, and an average of 30 per reporting hospital
 - *RACTrac* respondents reported complex reviews of medical records totaling over \$117 million in Medicare payments nationwide, \$72 million for Region C alone



Executive Summary (cont.)

- \$2.47 million in denied claims were reported for the 437 hospital respondents experiencing RAC activity in the first quarter of 2010
 - 87% of denied payments resulted from complex denials
 - Region C had the highest number of hospitals reporting denied claims, both complex and automated denials
 - Two thirds of hospitals reporting automated denials experienced denials for outpatient coding and billing errors, while nearly all hospitals reporting complex denials experienced denials for inpatient coding errors
 - The average dollar value of an automated denial was \$709 and the average dollar value of a complex denial was \$6,542
 - *A note on RAC Appeals*—many hospitals are in the early stages of RAC activity, reporting limited RAC appeals experience in the first quarter of 2010. See future *RACTrac* reports for more information on RAC appeals



Executive Summary (cont.)

- 84% of responding hospitals report that their RAC impacted their organization in the first quarter of 2010—whether they experienced RAC reviews or not
 - 49% of responding hospitals reported increased administrative costs
 - Managing the RAC process is spread across many types of hospital staff creating significant administrative burden
 - Clerical and other types of staff, including RAC coordinators, spent the most time responding to RAC activity
 - Hospitals are using both internal and external resources to prepare and manage RAC activity
 - 17% of hospitals using external resources reported spending an average of \$91,636 to hire an external utilization management consultant



Methodology

- **AHA Survey, *RACTrac: Ongoing Monitoring of RAC Impact on Hospitals***
 - Data is collected on a quarterly basis
 - Survey questions are designed to assess hospitals' activity and administrative burden in response to the RAC program
 - Respondents use AHA's online survey application, *RACTrac* (accessed at www.aharactrac.com), to submit their data regarding the impact of the RAC program
 - Survey registration information was sent to all hospital CEOs via email



Methodology (cont.)

- **AHA Survey, RACTrac: Ongoing Monitoring of RAC Impact on Hospitals**
 - 2010 first quarter data were collected from April 1 through April 22, 2010
 - 653 responses were received: 437 reporting activity, 216 reporting no activity
 - Respondents included general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals and other types of hospitals.
 - 90% were non-teaching hospitals
 - 31% of hospitals were rural
 - 57% of hospitals had a bed size of less than 200



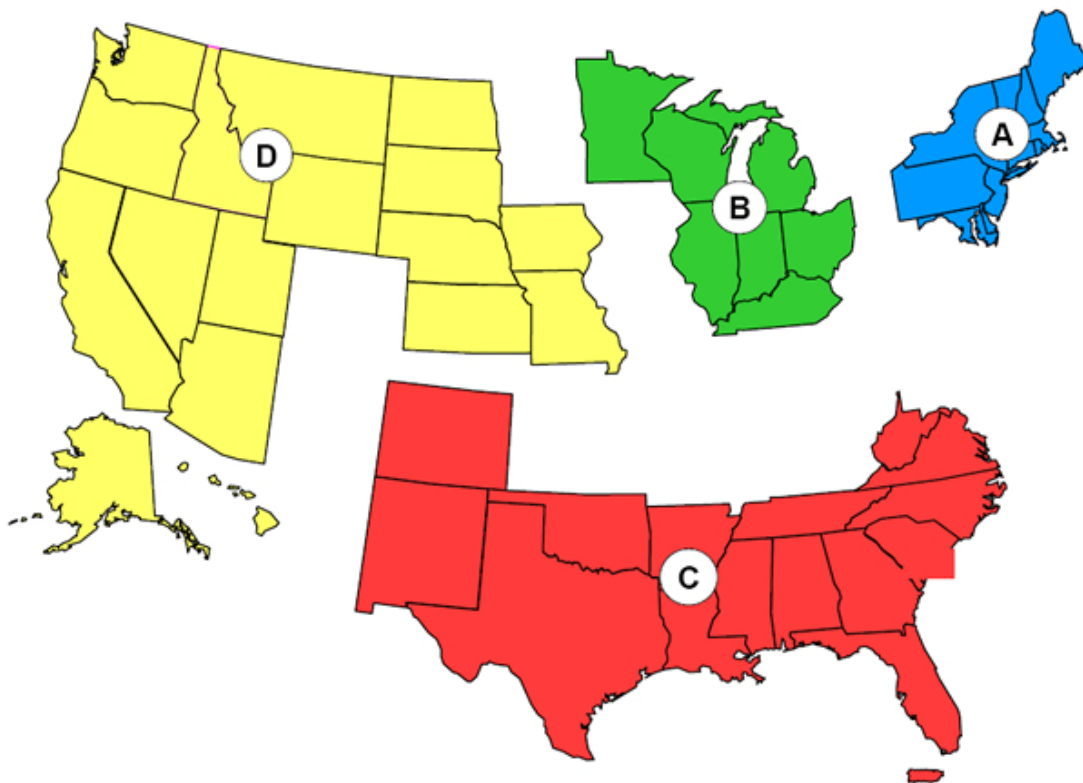


RACTrac Participation

There are four RAC regions nationwide. RAC Region C encompasses nearly 40% of all hospitals in the United States.

Distribution of Hospitals by RAC Region

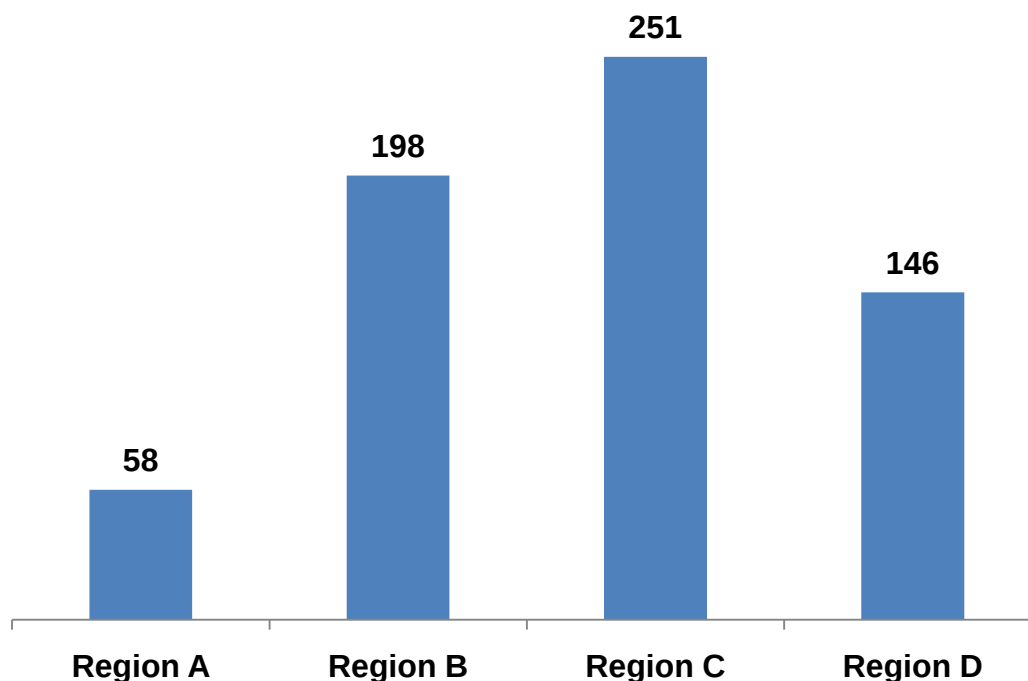
	Percent of Hospitals Nationwide
Region A	16%
Region B	19%
Region C	39%
Region D	26%



Participation in *RAC*Trac was generally consistent with hospital representation in each of the RAC regions.

Hospitals Participating in the *RAC*Trac Survey by RAC Region, 1st Quarter, 2010

	Percent of Hospitals Nationwide	Percent of Participating Hospitals by Region
Region A	16%	9%
Region B	19%	30%
Region C	39%	38%
Region D	26%	22%



Source: AHA. (May 2010). *RAC*Trac Survey

AHA analysis of survey data collected from 653 hospitals: 437 reporting activity, 216 reporting no activity from January to March 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

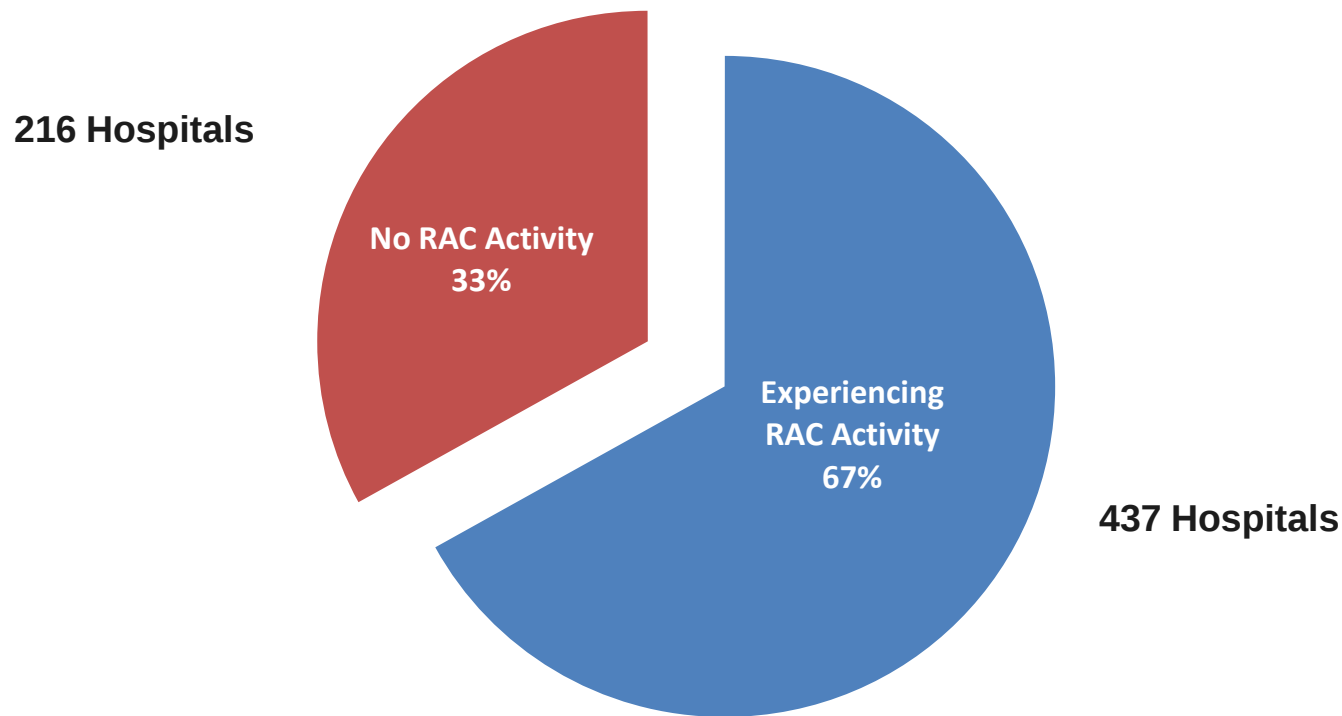




RAC Activity

More than two thirds of responding hospitals are experiencing RAC activity.

Percent of Responding Hospitals Experiencing RAC Activity, through 1st Quarter 2010

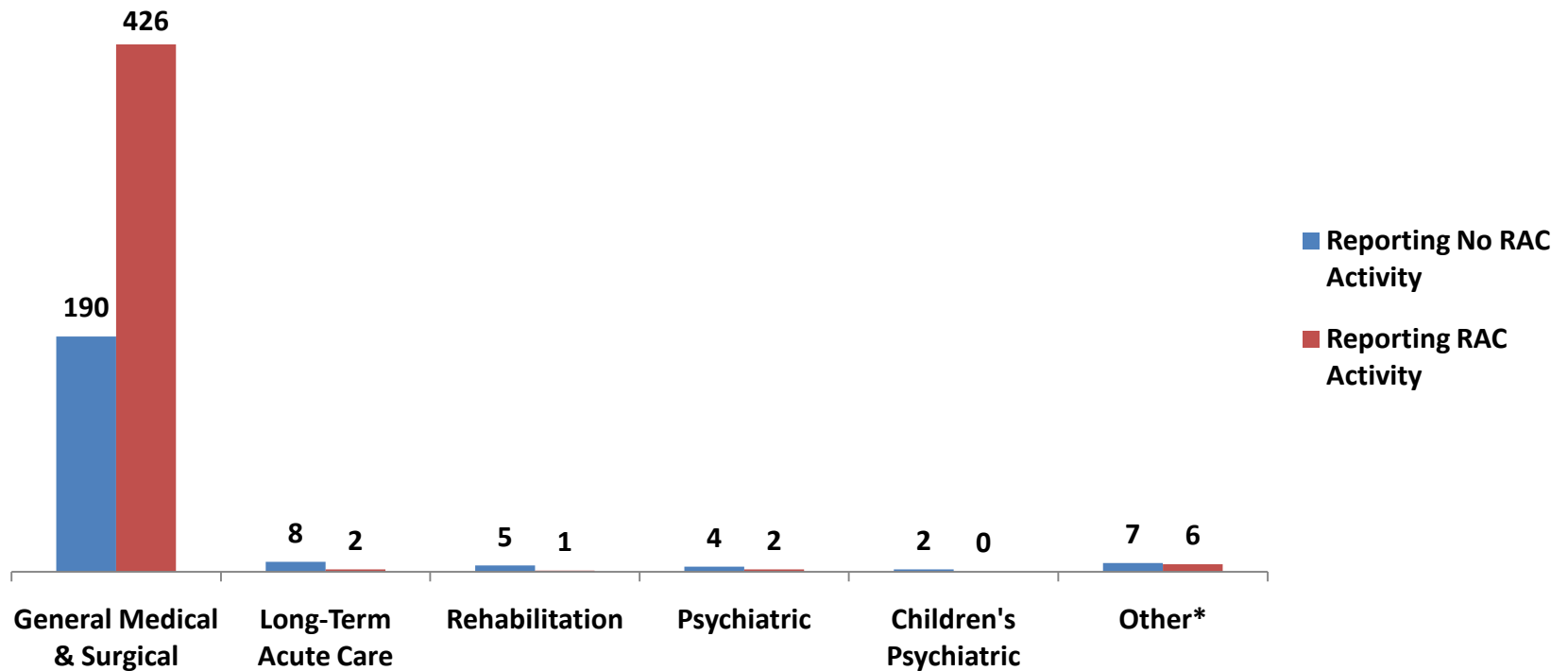


Source: AHA. (May 2010). RACTrac Survey

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The majority of hospitals reporting RAC activity were general medical and surgical hospitals.

Number of Hospitals Reporting RAC Activity by Hospital Type, through 1st Quarter 2010

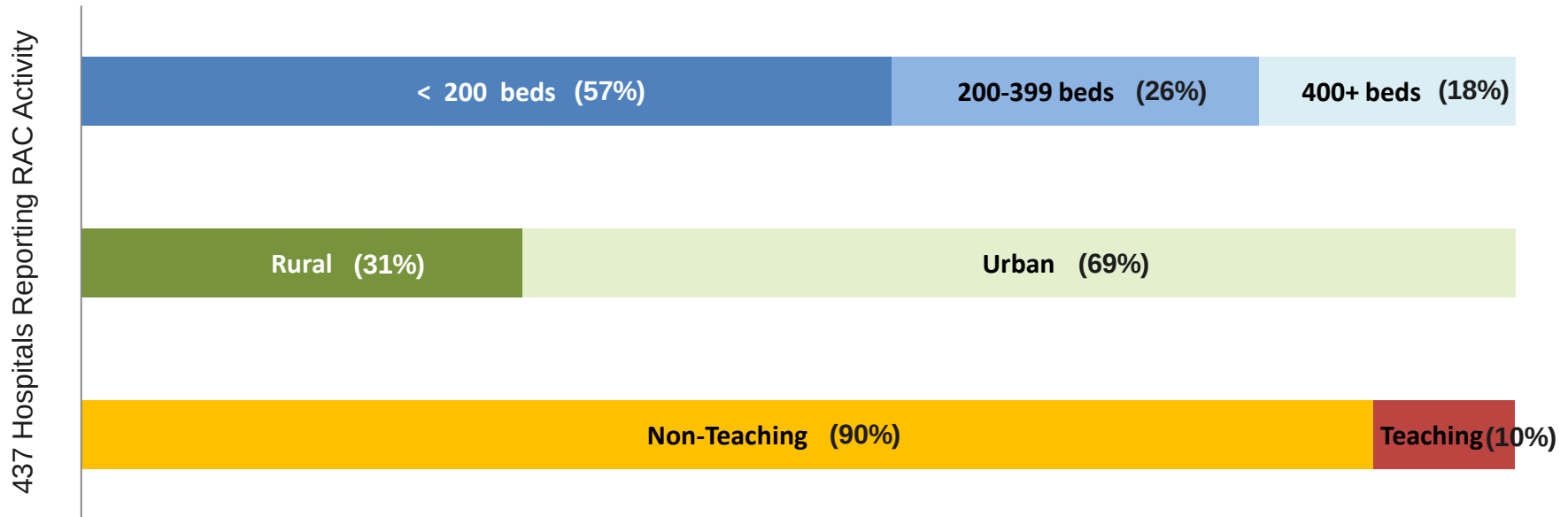


Source: AHA. (May 2010). RACTrac Survey

AHA analysis of survey data collected from 653 hospitals: 437 reporting activity, 216 reporting no activity from January to March 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals. * Other includes: Cancer, Chronic Disease, Health Care Management, Alcohol and Other Chemical Dep., Children's General, Heart, Obstetrics & Gynecology and Orthopedic hospitals.

Different types and sizes of hospitals reported that they were subject to RAC review.

RAC Activity by Type of Hospital, through 1st Quarter 2010

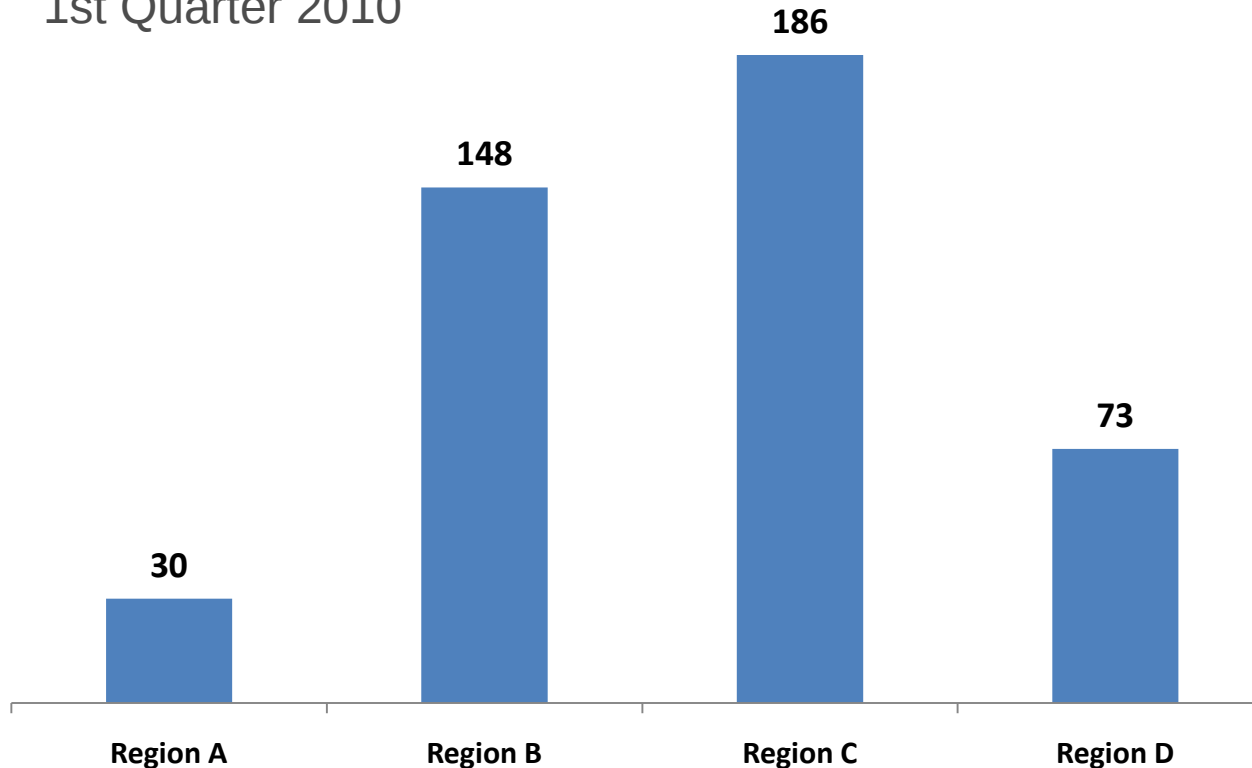


Source: AHA. (May 2010). *RACTrac Survey*

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RAC Region C had the highest number of hospitals reporting RAC activity...

Number of Responding Hospitals Reporting RAC Activity by Region, through 1st Quarter 2010



States By RAC Region

Region A: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont

Region B: Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin

Region C: Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia, Puerto Rico, and U.S. Virgin Islands

Region D: Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, North Dakota, Nebraska, Nevada, Oregon, South Dakota, Utah, Washington, Wyoming, Guam, American Samoa, and Northern Marianas

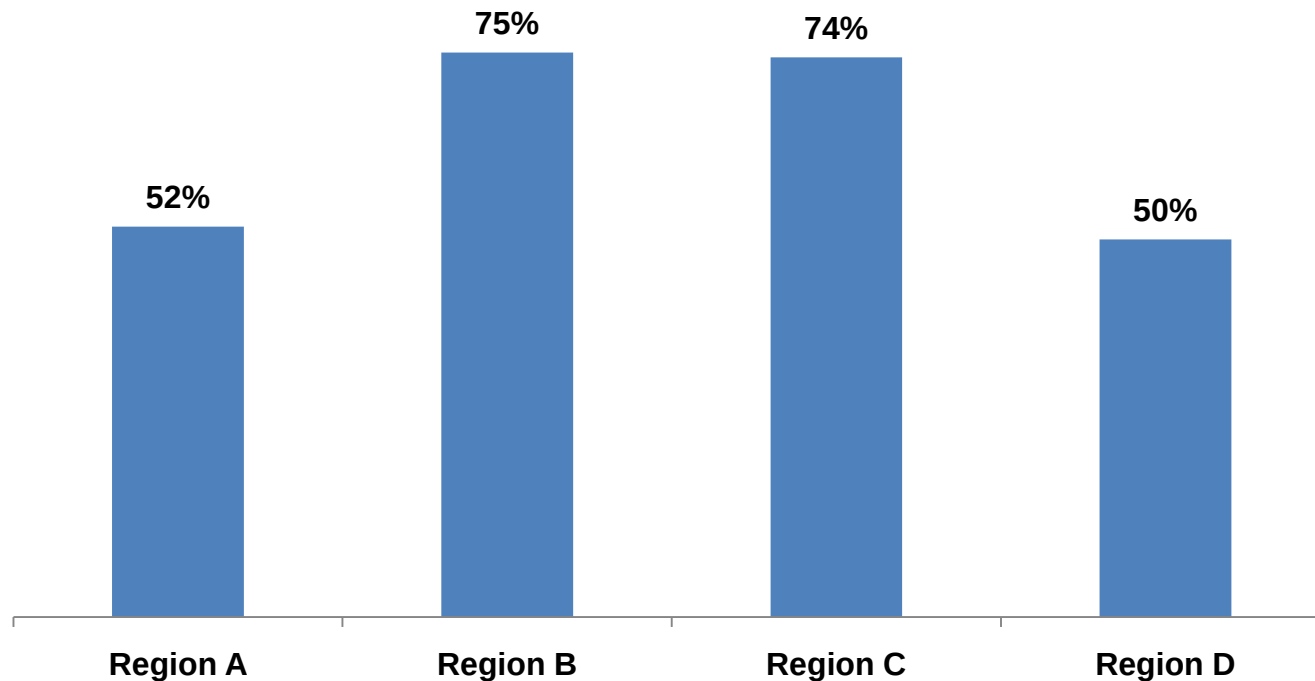


Source: AHA. (May 2010). RACTrac Survey

AHA analysis of survey data collected from 653 hospitals: 437 reporting activity, 216 reporting no activity from January to March 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

...but 75% of participating hospitals in RAC Region B reported RAC activity.

Percent of Participating Hospitals Reporting RAC Activity, by Region, 1st Quarter, 2010



Source: AHA. (May 2010). *RACTrac Survey*

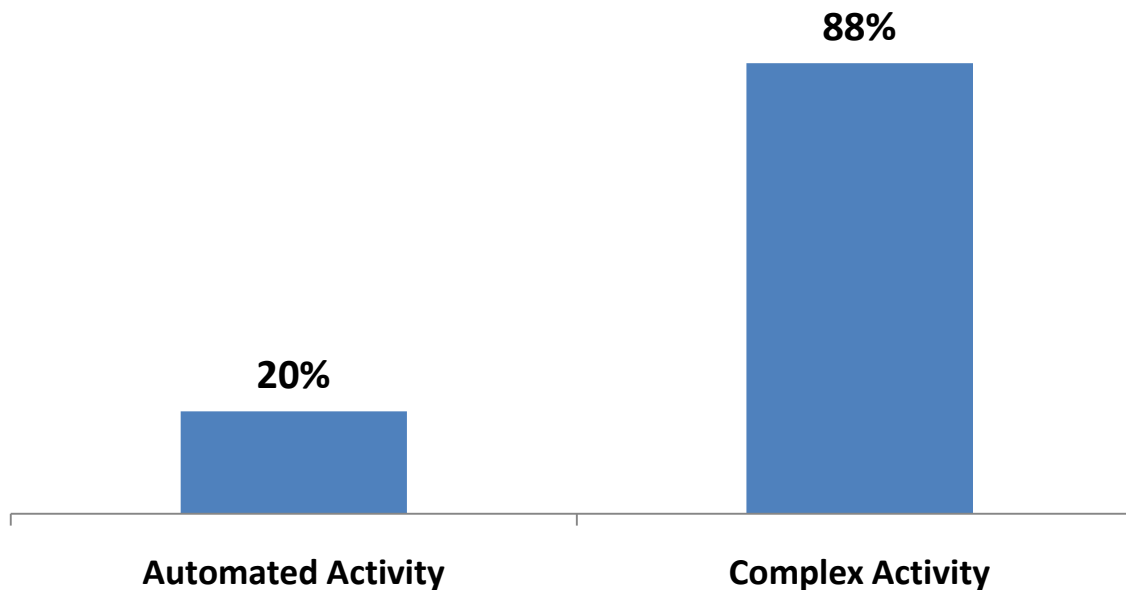
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RAC Reviews

RACs are primarily conducting complex reviews...

Percent of Responding Hospitals with RAC Activity Experiencing Automated and/or Complex RAC Review, through 1st Quarter 2010



Automated Activity: includes all automated reviews, which is a claim determination without a human review of the medical record. RACs use proprietary software that is designed to detect certain types of errors including but not limited to duplicate payments, billing or coding errors. The RAC notifies the provider via a demand letter when an overpayment has been identified through automated review.

Complex Activity: includes all complex reviews, which is a human review and determination of whether or not an improper payment has been identified once the medical record has been received. Upon that determination, a hospital will be notified via a review results letter if an improper payment was found and therefore the associated claim has been "denied".



Source: AHA. (May 2010). *RACTrac Survey*

AHA analysis of survey data collected from 653 hospitals: 437 reporting activity, 216 reporting no activity from January to March 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

...and the majority of RAC activity during the first quarter of 2010 was medical record requests.

Total Reported Automated Denials, Complex Denials and Complex Medical Records Requests, through 1st Quarter 2010



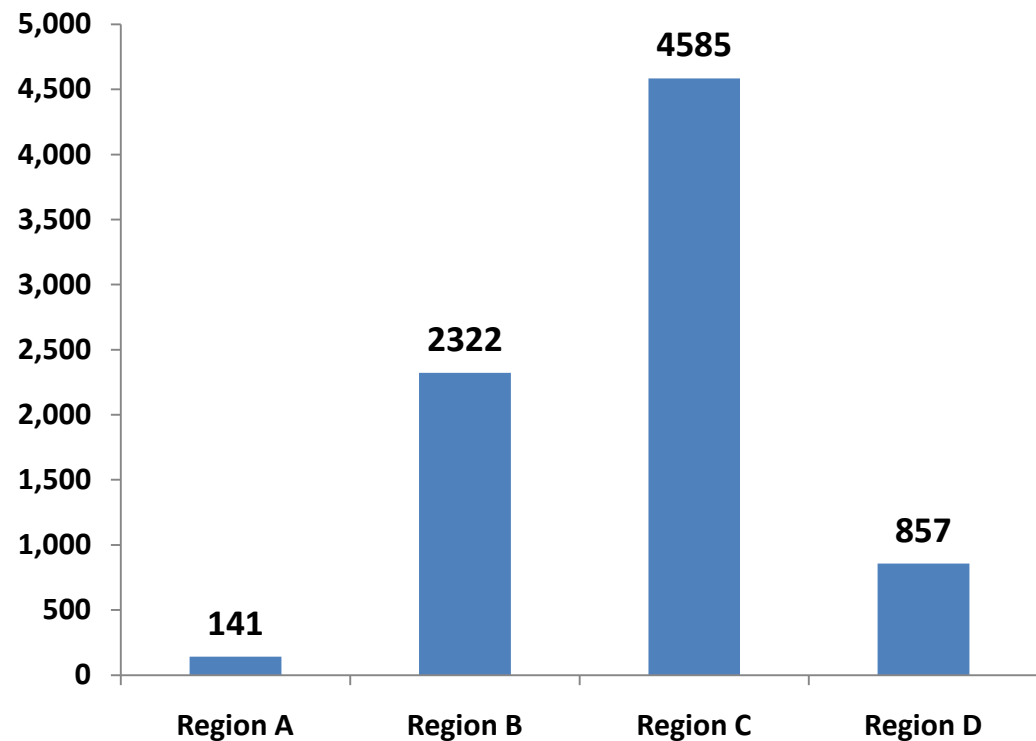
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Region C had the highest number of medical records requested, over 4,500, and an average of 30 per reporting hospital.

Number of Medical Records Requested from Responding Hospitals With RAC Activity, through 1st Quarter 2010

	Average Number of Medical Record Requests per Reporting Hospital
Region A	16
Region B	19
Region C	30
Region D	19

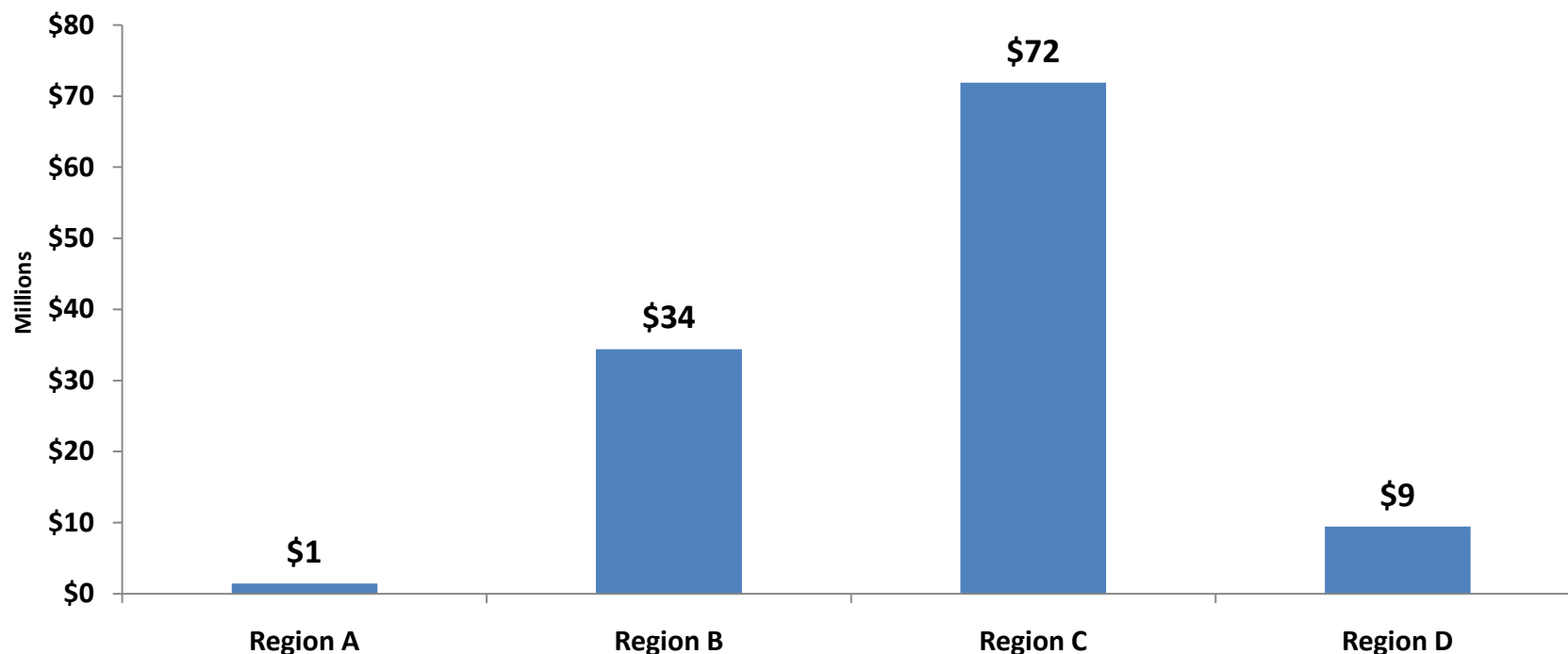


Source: AHA. (May 2010). *RACTrac Survey*

AHA analysis of survey data collected from 653 hospitals: 437 reporting activity, 216 reporting no activity from January to March 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

Region C also had the highest amount of dollars targeted in medical record requests, over \$72 million.

Dollar Value of Medical Records Requested from Responding Hospitals, through 1st Quarter 2010, in Millions

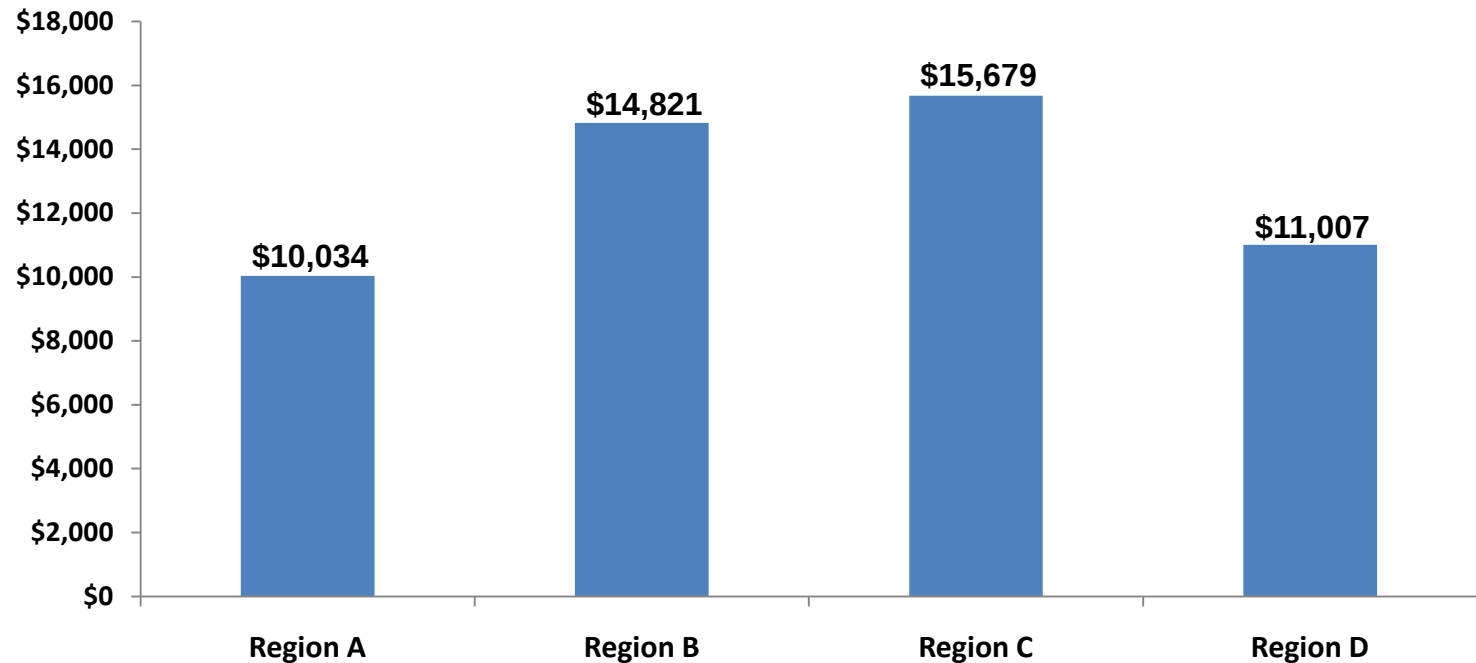


Source: AHA. (May 2010). *RACTrac Survey*

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The average value of a medical record requested in a complex review varied slightly across RAC Regions.

Average Value of a Medical Record Requested in a Complex Review Among Hospitals Reporting RAC Activity, through 1st Quarter 2010



Source: AHA. (May 2010). *RACTrac Survey*

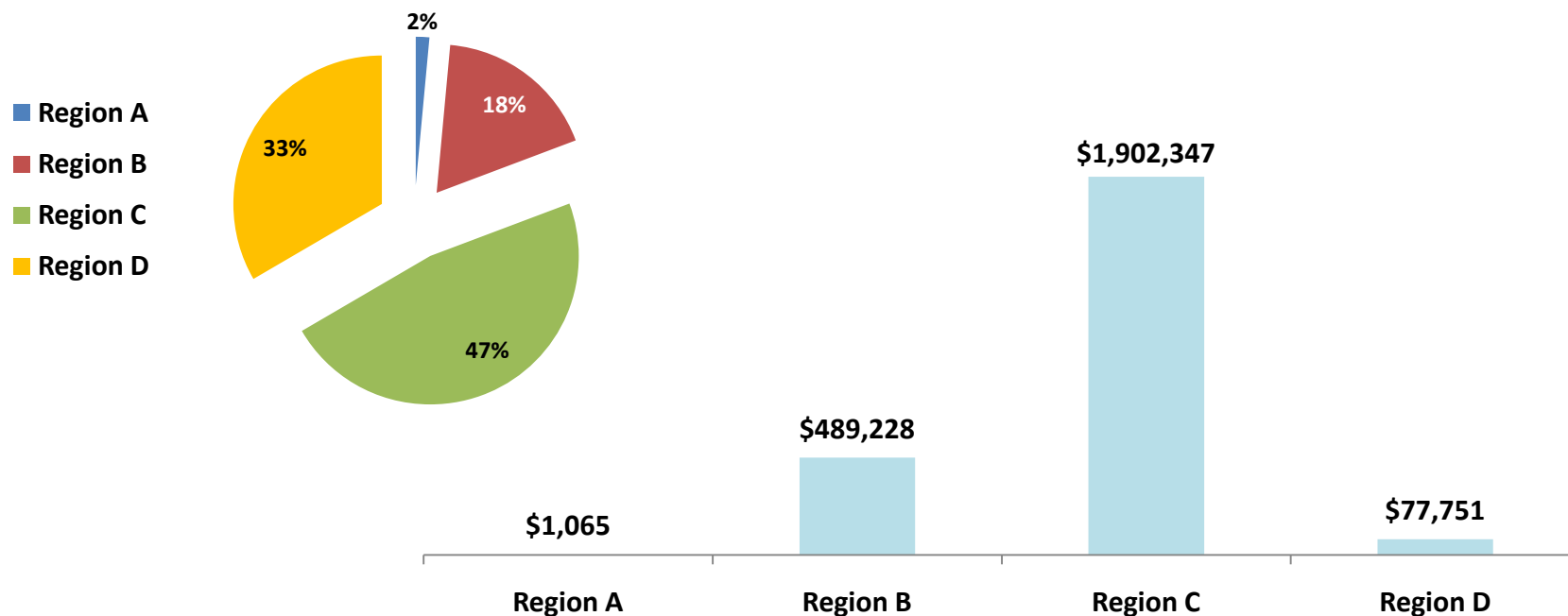
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RAC Denials

\$2.47 million in denied claims were reported in the first quarter of 2010 and Region C had 47% of the reported denials.

Percent and Dollar Value of Automated and Complex Denials by RAC Region, through 1st Quarter 2010

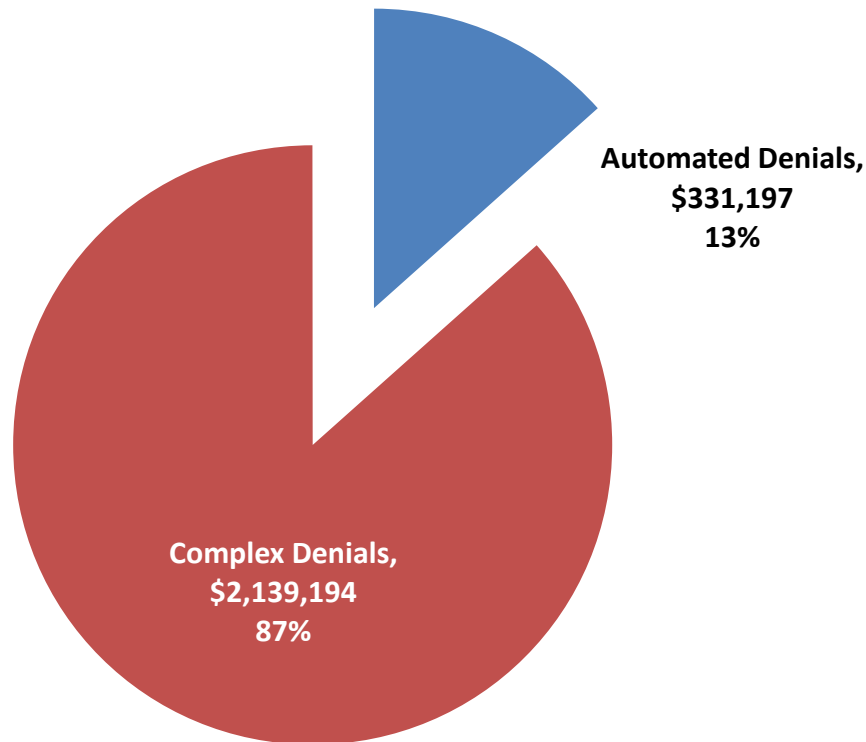


Source: AHA. (May 2010). RACTrac Survey

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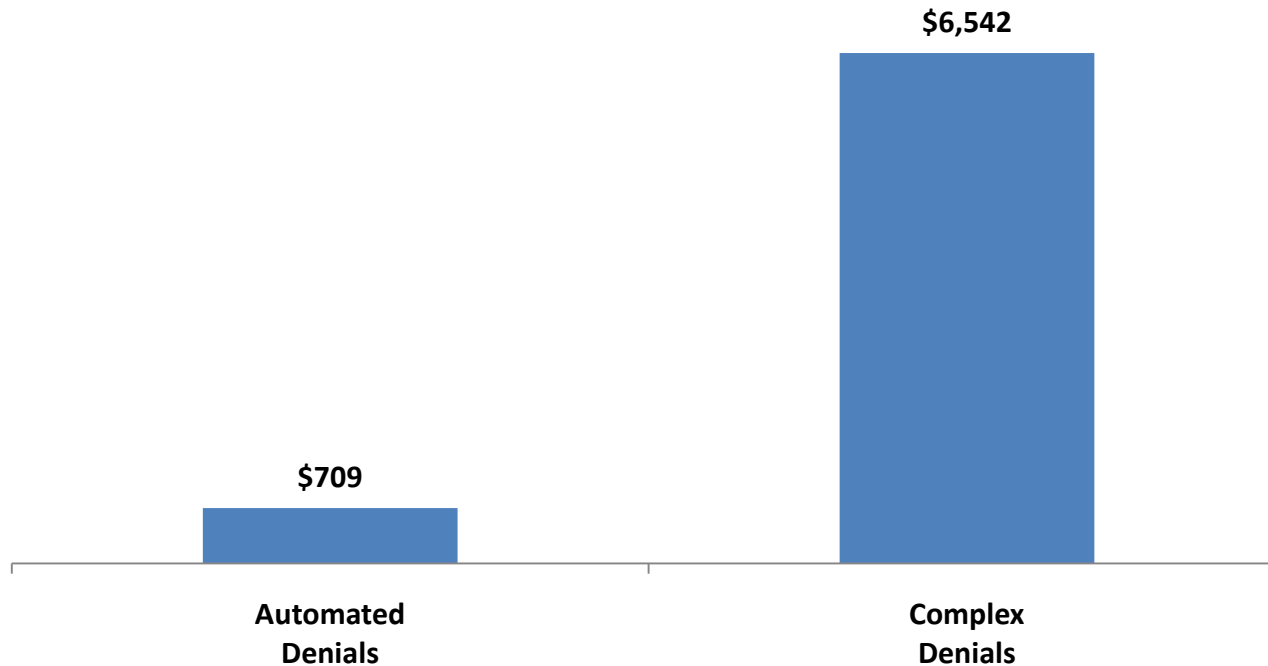
87% of denied dollars were complex denials.

Percent and Dollar Amounts of Automated Denials Versus Complex Denials, through 1st Quarter 2010



The average dollar value of an automated denial was \$709 and the average dollar value of a complex denial was \$6,542.

Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 1st Quarter 2010

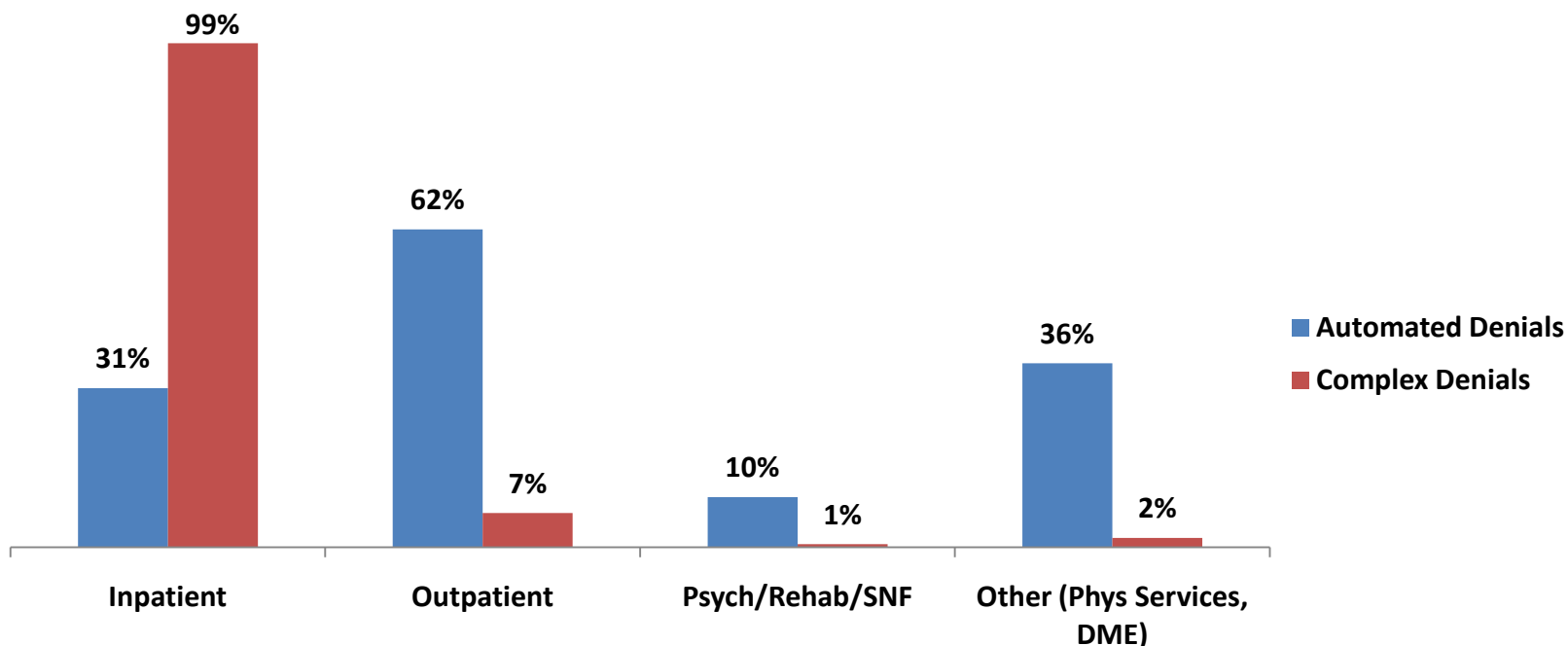


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The highest percentage of hospitals reported automated denials in the outpatient service area and complex denials in the inpatient service area.

Percent of Responding Hospitals with RAC Activity Experiencing Denials by Type of Service, 1st Quarter 2010

Survey participants were asked to select all areas targeted for denials

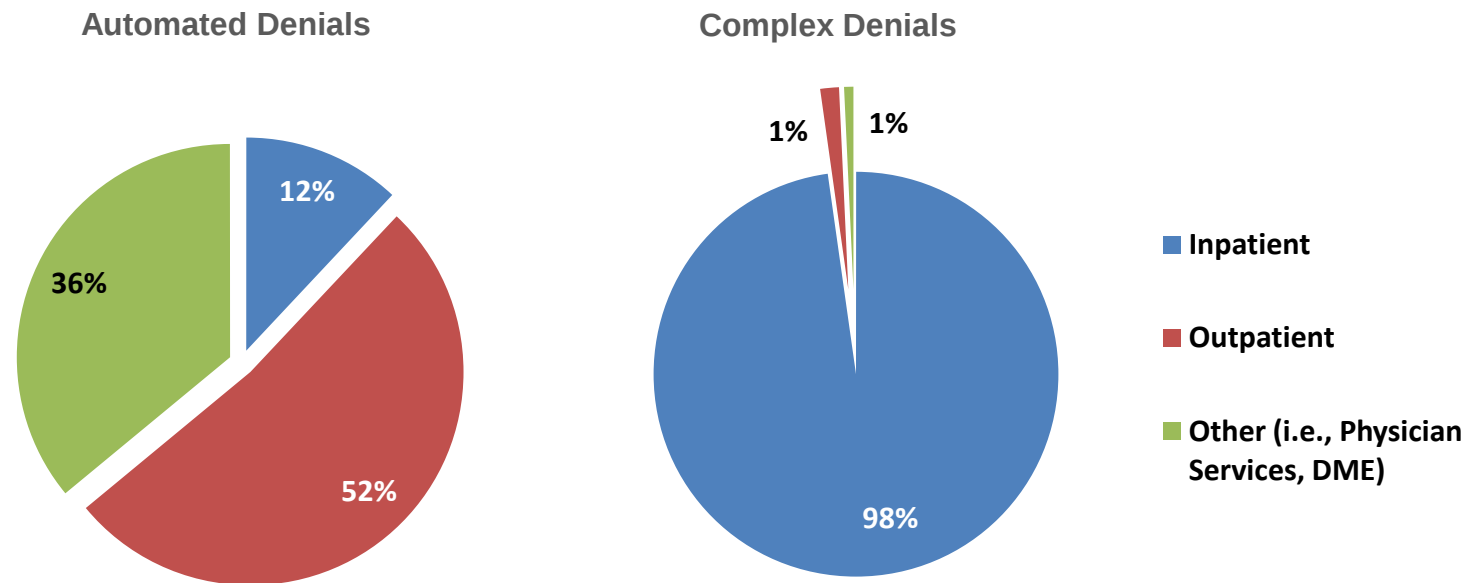


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Hospitals reporting automated denials in the outpatient service area had the largest financial impact while complex denials in the inpatient service area had the largest financial impact.

Top Service Area for Denials by Dollar Amount for Hospitals with RAC Activity, 1st Quarter 2010

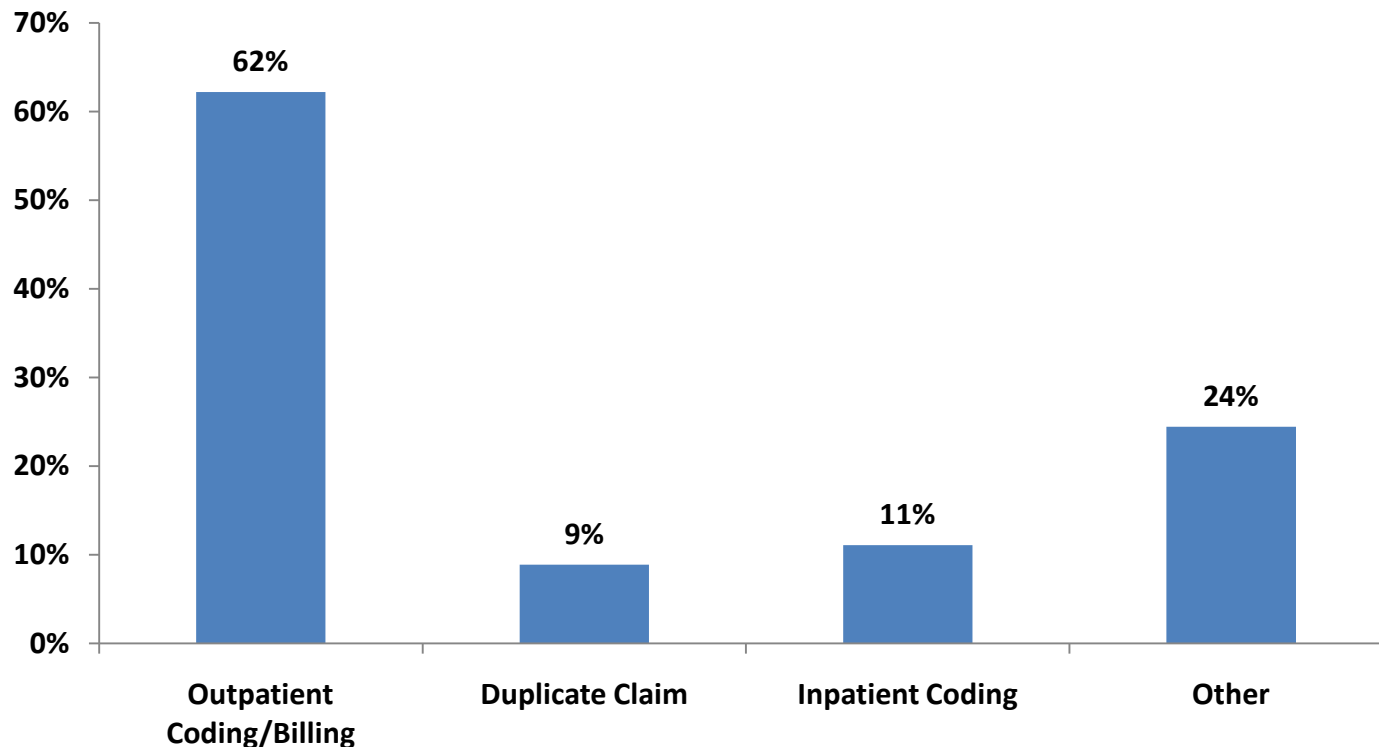
Survey participants were asked to rank denials by service, according to dollars impacted.



Source: AHA. (May 2010). RACTrac Survey
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Two thirds of hospitals reporting automated denials experienced denials for outpatient coding and billing errors.

Percent of Responding Hospitals with RAC Activity Experiencing Automated Denials by Reason, 1st Quarter 2010

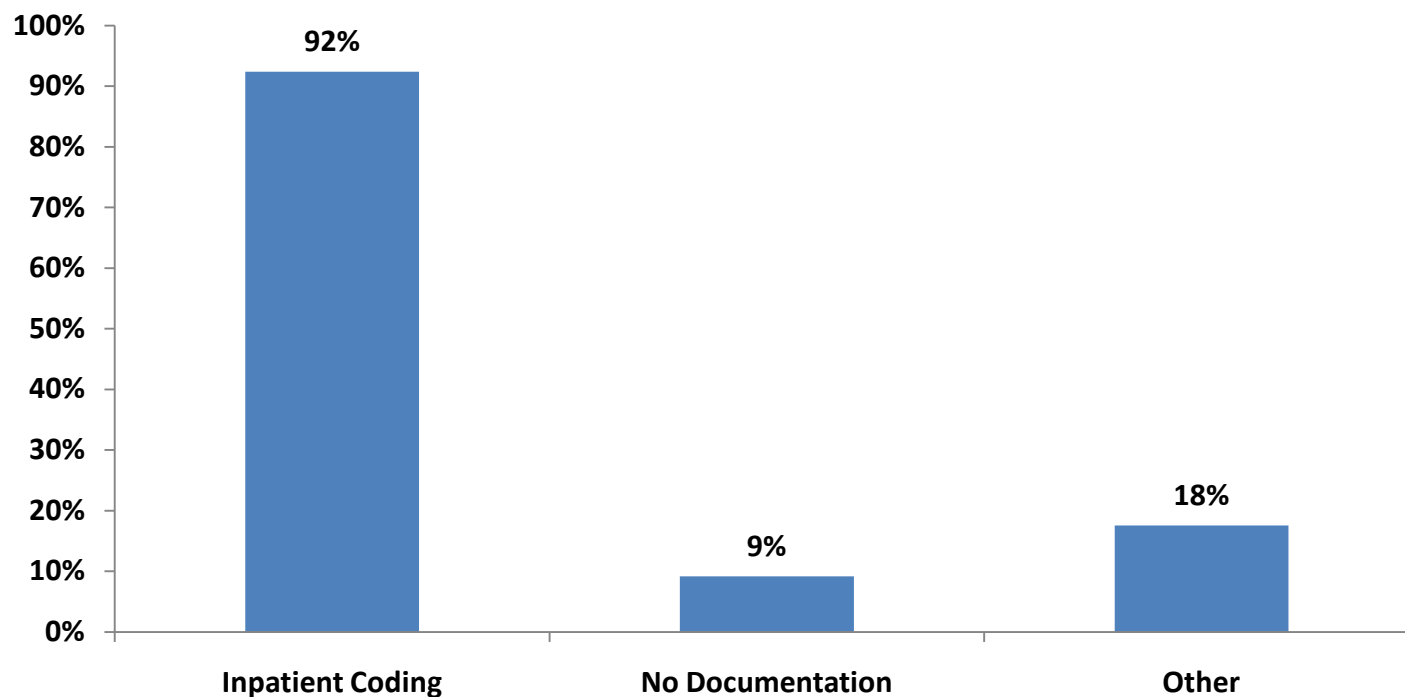


Source: AHA. (May 2010). RACTrac Survey

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Nearly all hospitals reporting complex denials experienced denials for inpatient coding errors.

Percent of Responding Hospitals with RAC Activity Experiencing Complex Denials by Reason, 1st Quarter 2010



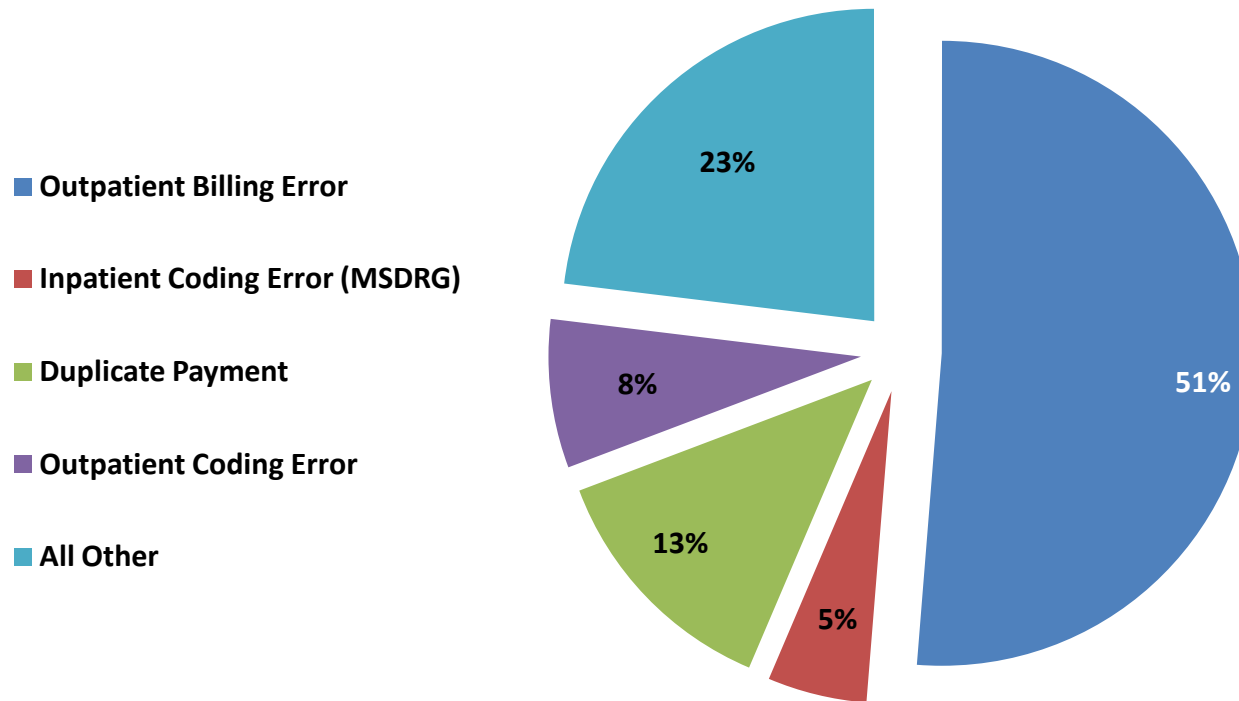
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Automated denials for outpatient billing errors had the largest financial impact on reporting hospitals...

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 1st Quarter 2010

Survey participants were asked to rank denials by reason, according to dollars impacted.

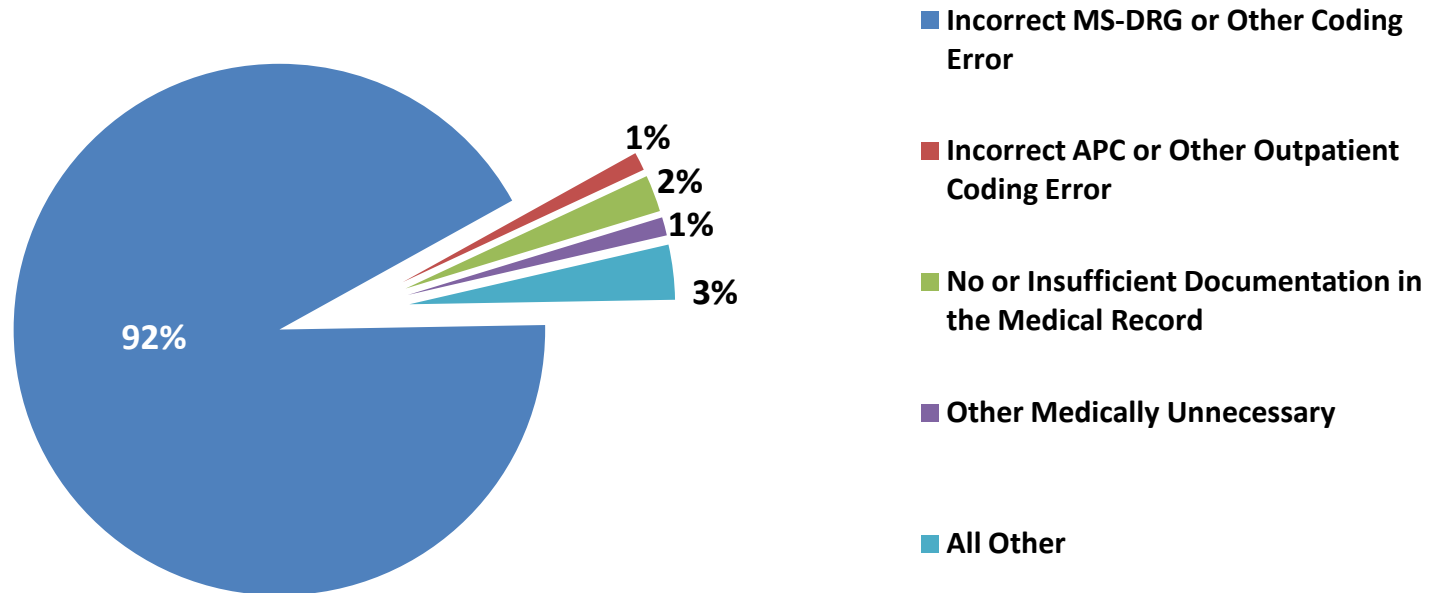


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...and incorrect coding of MS-DRGs or other coding errors represented 92% of the dollars impacted by complex denials.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 1st Quarter 2010

Survey participants were asked to rank denials by reason, according to dollars impacted.



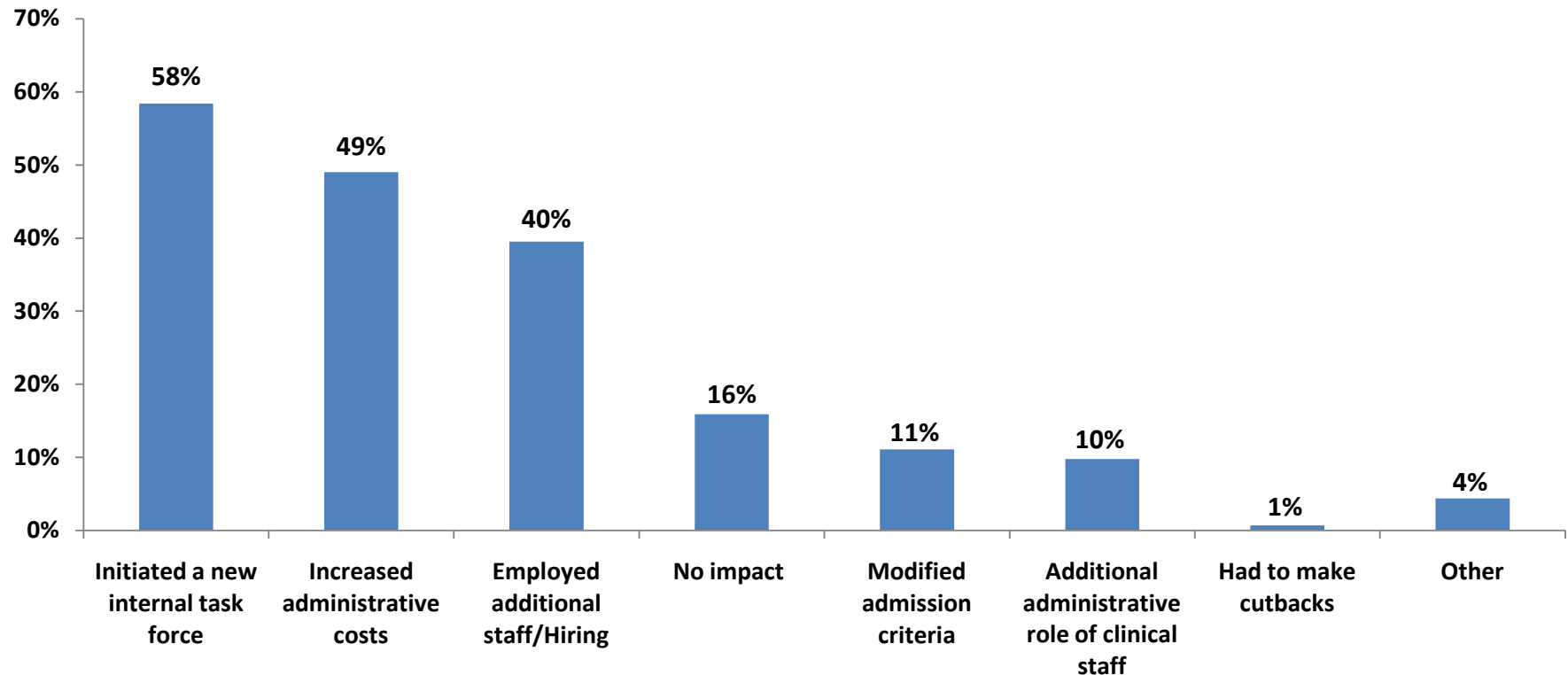
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Administrative Burden

84% of responding hospitals reported that RACs impacted their organization during the first quarter of 2010 and 49% reported increased administrative costs.

Impact of RAC on Responding Hospitals* by Type, through 1st Quarter 2010



*Includes responding hospitals with and without RAC activity

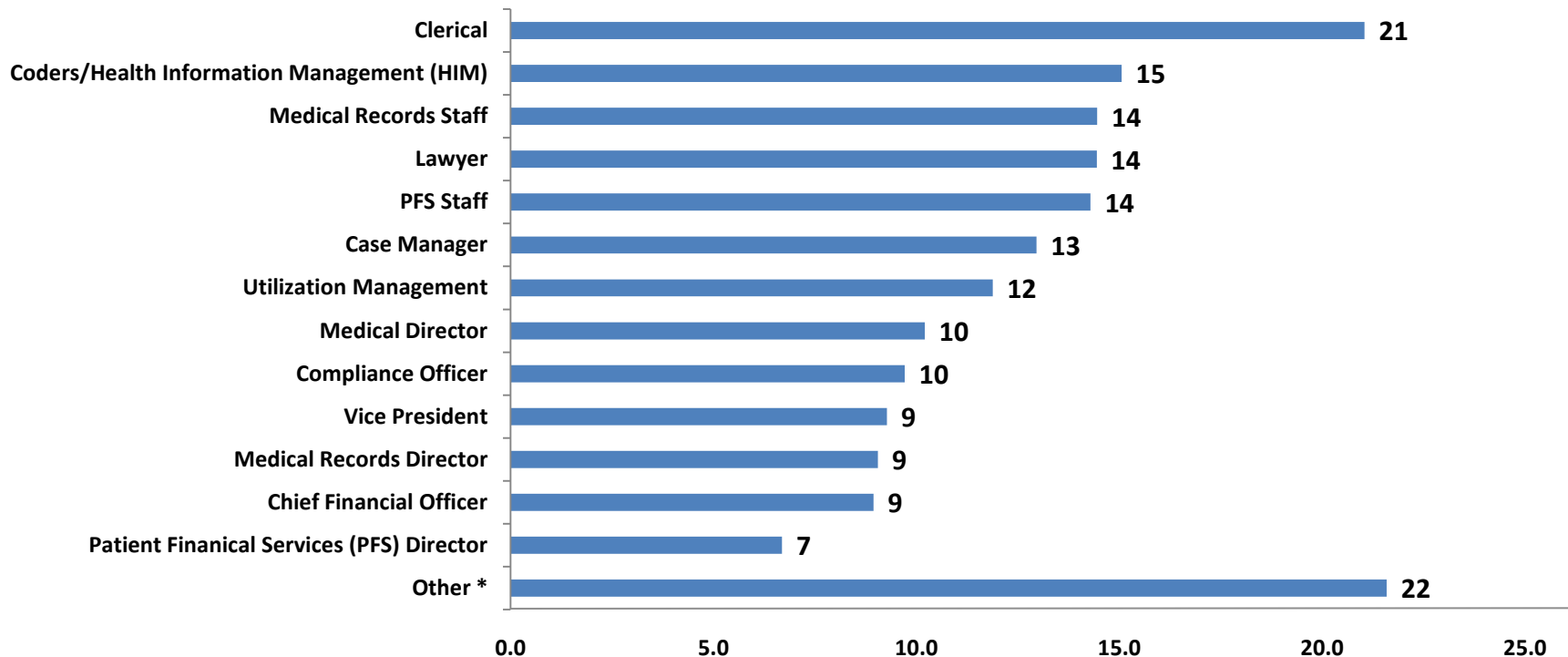
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The administrative burden of RAC is spread across all types of hospital staff. Clerical and other types of staff, including RAC coordinators, spent the most time responding to RAC activity.

Average Hours of Staff Time Spent Per Responding Hospital* on RAC by Staff Type, 1st Quarter 2010



*Includes responding hospitals with and without RAC activity

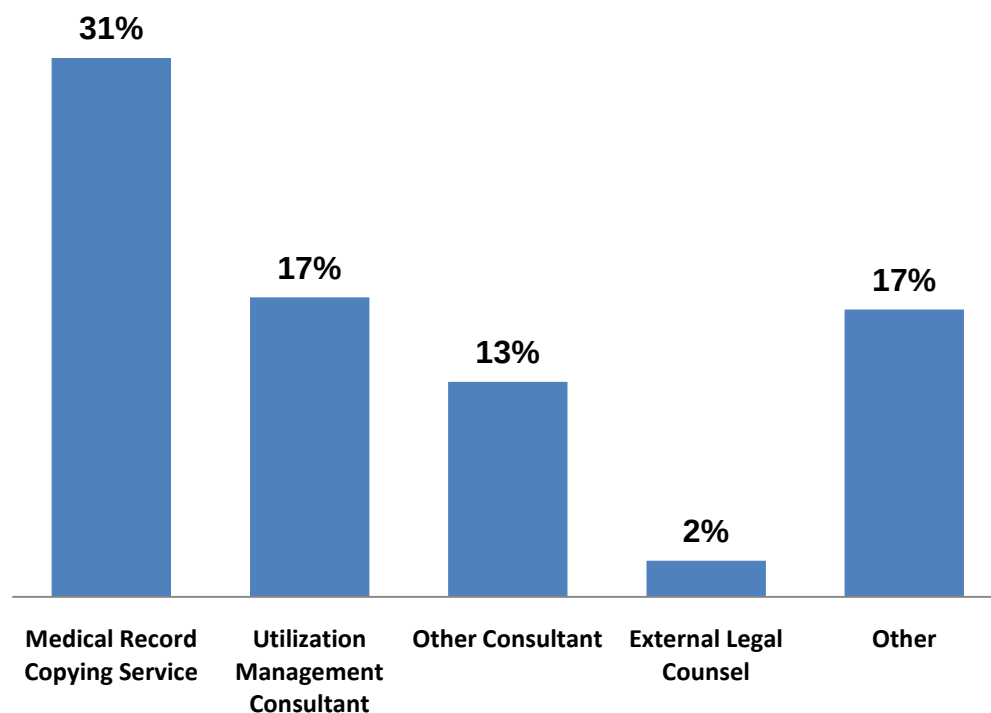
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Hospitals are also spending on external resources to deal with RAC activity and 17% of hospitals using external resources reported spending an average of \$91,636 to hire an external utilization management consultant.

Percent of Hospitals Using External Resources by Type and Average Dollars* Spent *this quarter*, 1st Quarter 2010



Administrative Burden	Average Dollar Amount This Quarter
Medical Record Copying Service	\$639
Utilization Management Consultant	\$91,636
Other Consultant	\$22,981
External Legal Counsel	\$2,795
Other	\$6,876



Source: AHA. (May 2010). RACTrac Survey

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Sign-Up For *RAC*Trac Today!

- Sign your hospital up to participate in *RAC*Trac today!
 - Contact ***RAC*Trac Support** to obtain your *RAC*Trac Organization ID and Security Code
 - 1-888-722-8712 or ractracsupport@providercs.com
- For more information on *RAC*Trac visit AHA's *RAC*Trac website:
<http://www.aha.org/aha/issues/RAC/ractrac.html>

