



Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTrac Survey, 3rd Quarter 2010

November 15, 2010

RAC 101

- Centers for Medicare & Medicaid Services (CMS) Recovery Audit Contractor (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.
- Improper payments include:
 - incorrect payment amounts;
 - incorrectly coded services (including Medicare Severity diagnosis-related group (MS-DRG) miscoding;
 - non-covered services (including services that are not reasonable and necessary); and
 - duplicate services.
- All four RACs were authorized to begin conducting Medical Necessity Reviews (MNR) in August of 2010.



RACTrac Background

- AHA created *RACTrac*—a free, web-based survey—in response to a lack of data provided by CMS on the impact of the RAC program on America's hospitals.
 - Hospitals use AHA's online survey application, *RACTrac* (accessed at www.aharactrac.com), to submit their data regarding the impact of the RAC program.
 - Survey questions are designed to collect *cumulative* RAC experience data, from the inception of a hospital's RAC activity through the 3rd quarter of 2010.
 - Survey registration information and *RACTrac* support can be accessed at ractracsupport@providercs.com or 1-888-722-8712.
- Note: When reviewing charts that reference previous quarter activity, please keep in mind that changes are attributable to changes in RAC activity as well as increases in the number of hospitals submitting data to *RACTrac*.



Executive Summary

- Nearly 1700 hospitals have participated in *RAC*Trac since we began collecting data in January of 2010.
- Nearly two thirds of the participating hospitals reported experiencing RAC activity.
- RACs are primarily engaging in complex reviews.
- \$42 million in denied claims have been reported since the first quarter of 2010.
- Nearly half of all hospitals with RAC activity reported receiving at least one underpayment determination.
- 46% of hospitals reported appealing at least one RAC denial.
- Of the claims that have completed the appeals process, 38% were overturned in favor of the provider.
- 72% of responding hospitals report that the RAC program impacted their organization in the first quarter of 2010—whether they experienced RAC reviews or not.



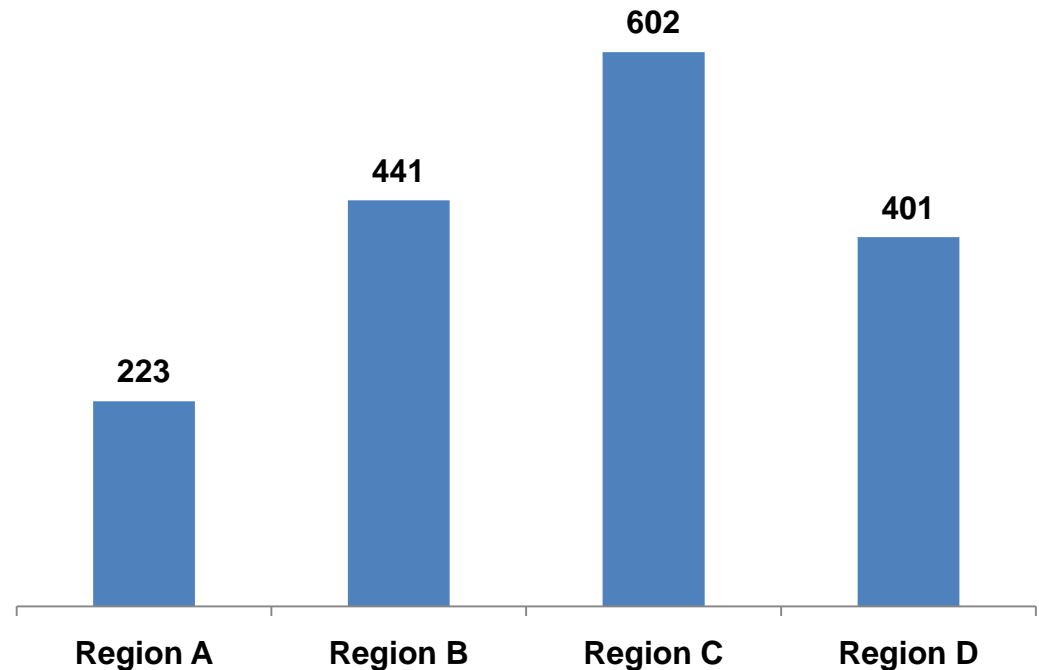


RACTrac Participation

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

Hospitals Participating in the RACTrac Survey by RAC Region, through 3rd Quarter, 2010

	Percent of Hospitals Nationwide	Percent of Participating Hospitals by Region
Region A	15%	13%
Region B	19%	27%
Region C	40%	36%
Region D	26%	24%



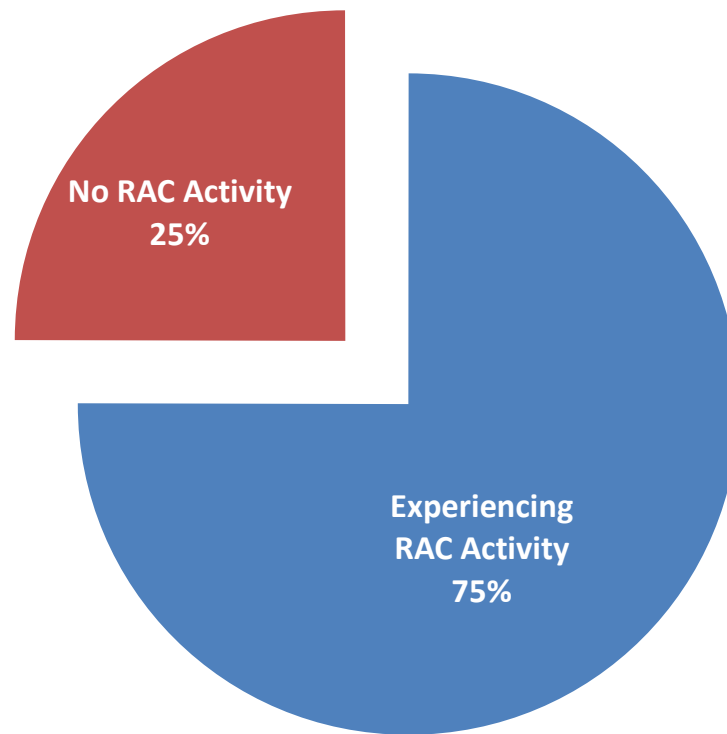
Source: AHA. (November 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,667 hospitals: 1,250 reporting activity, 417 reporting no activity through September 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.



RAC Activity

Three-fourths of participating hospitals are experiencing RAC activity.

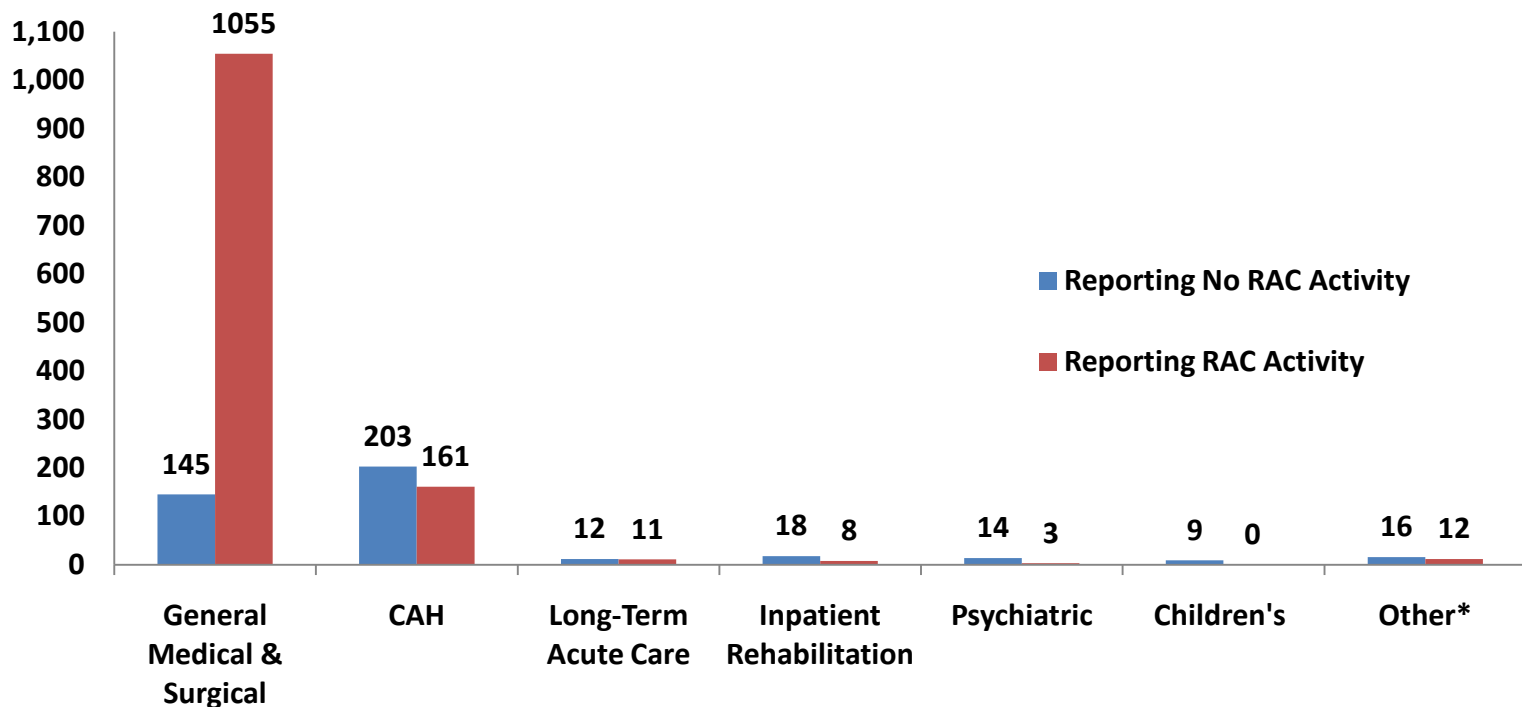
Percent of Responding Hospitals Experiencing RAC Activity, through 3rd Quarter 2010



Source: AHA. (November 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,667 hospitals: 1,250 reporting activity, 417 reporting no activity through September 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.

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

Number of Hospitals Reporting RAC Activity by Hospital Type, through 3rd Quarter 2010



Other includes: Cancer, Chronic Disease, Alcohol and Other Chemical Dep., Heart, Obstetrics & Gynecology, Orthopedic and Surgical hospitals.

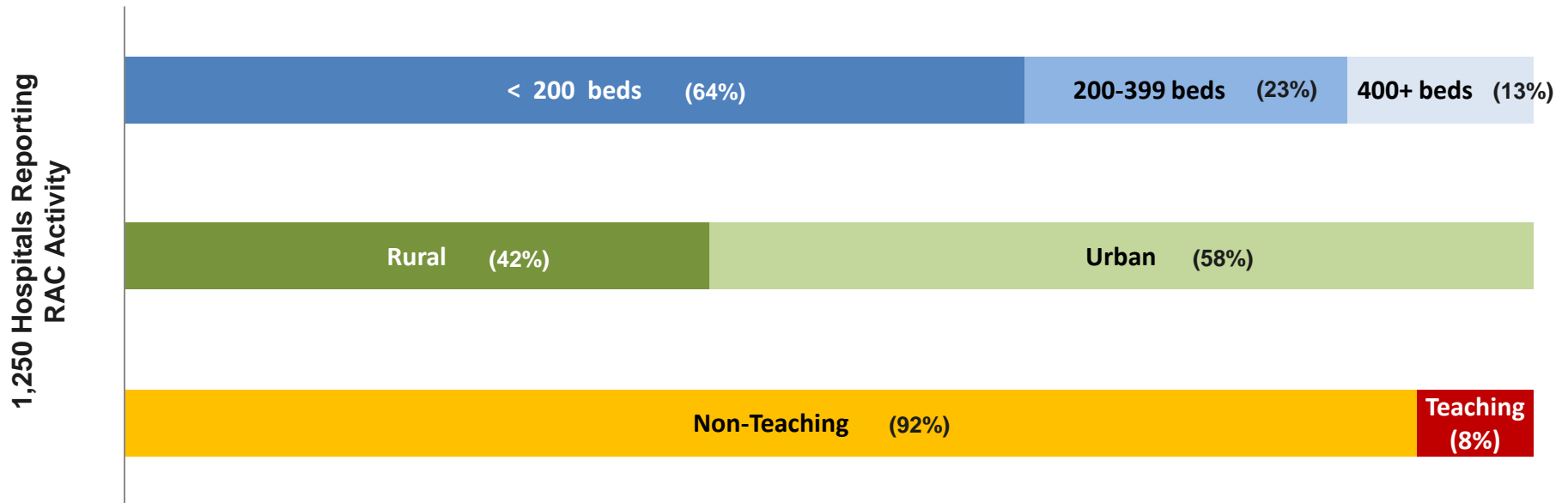
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Different types and sizes of hospitals reported that they were subject to RAC review.

Types of Hospitals Reporting RAC Activity, through 3rd Quarter 2010

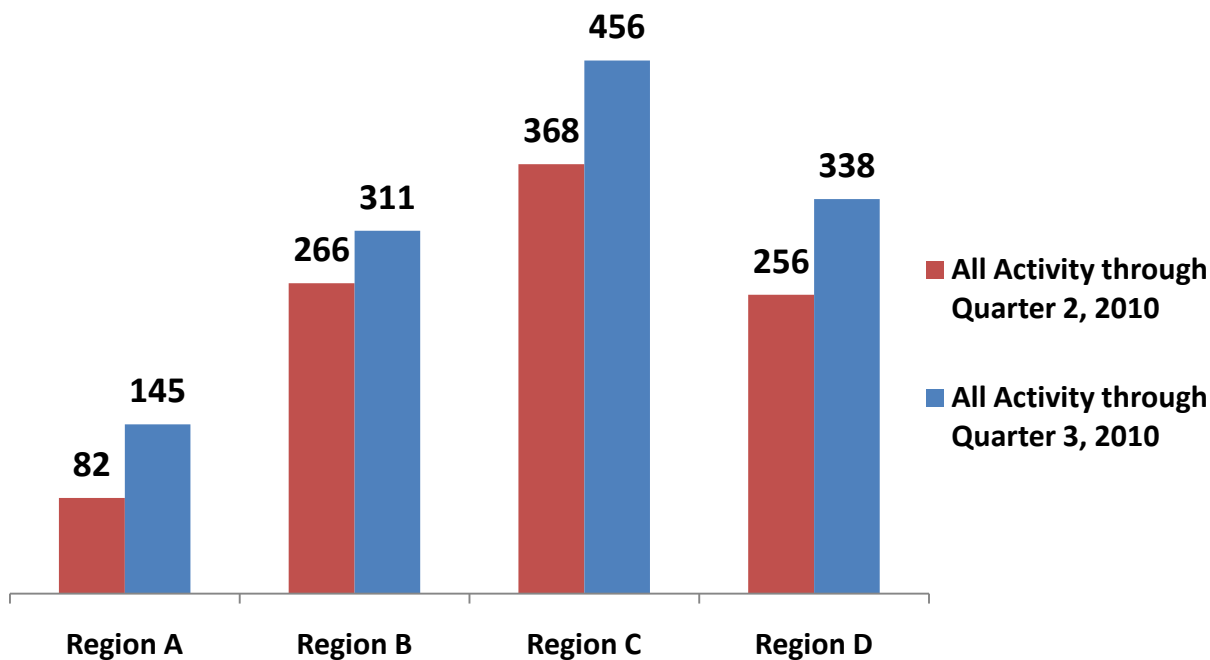


Source: AHA. (November 2010). *RACTrac Survey*

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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 3rd 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

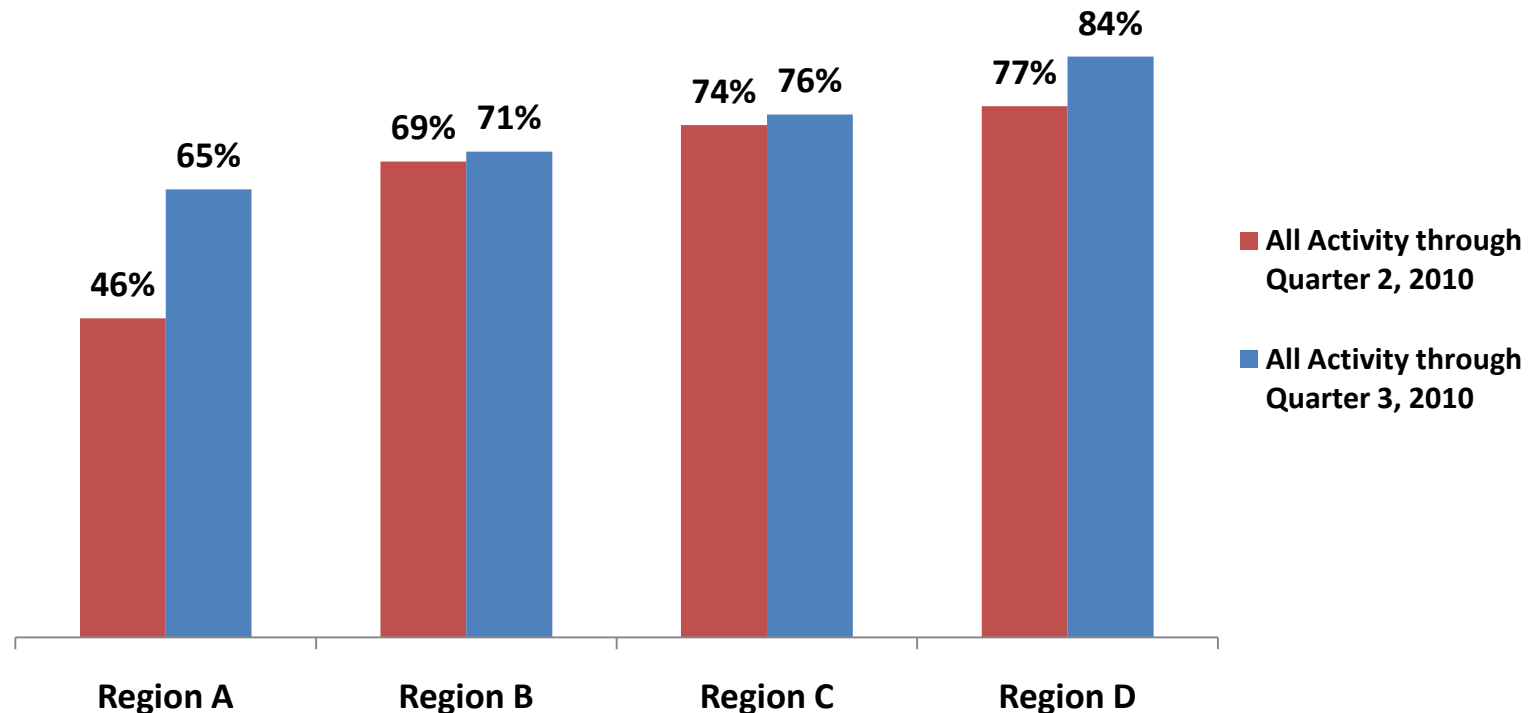


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...but RAC Region D had a higher percentage of participating hospitals reporting RAC activity.

Percent of Participating Hospitals Reporting RAC Activity, by Region, through 3rd Quarter, 2010



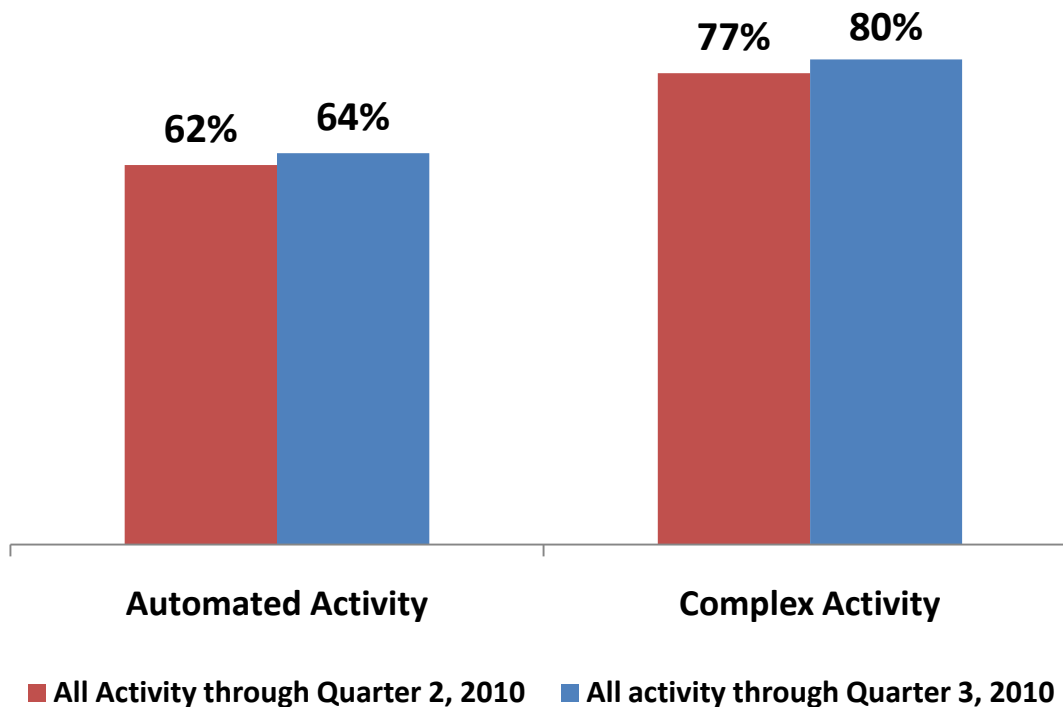
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RAC Reviews

A higher percentage of hospitals reported automated reviews than the previous quarter, but RACs continue to focus their efforts on complex reviews.

Percent of Responding Hospitals with RAC Activity Experiencing Automated and/or Complex RAC Review, through 3rd 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.

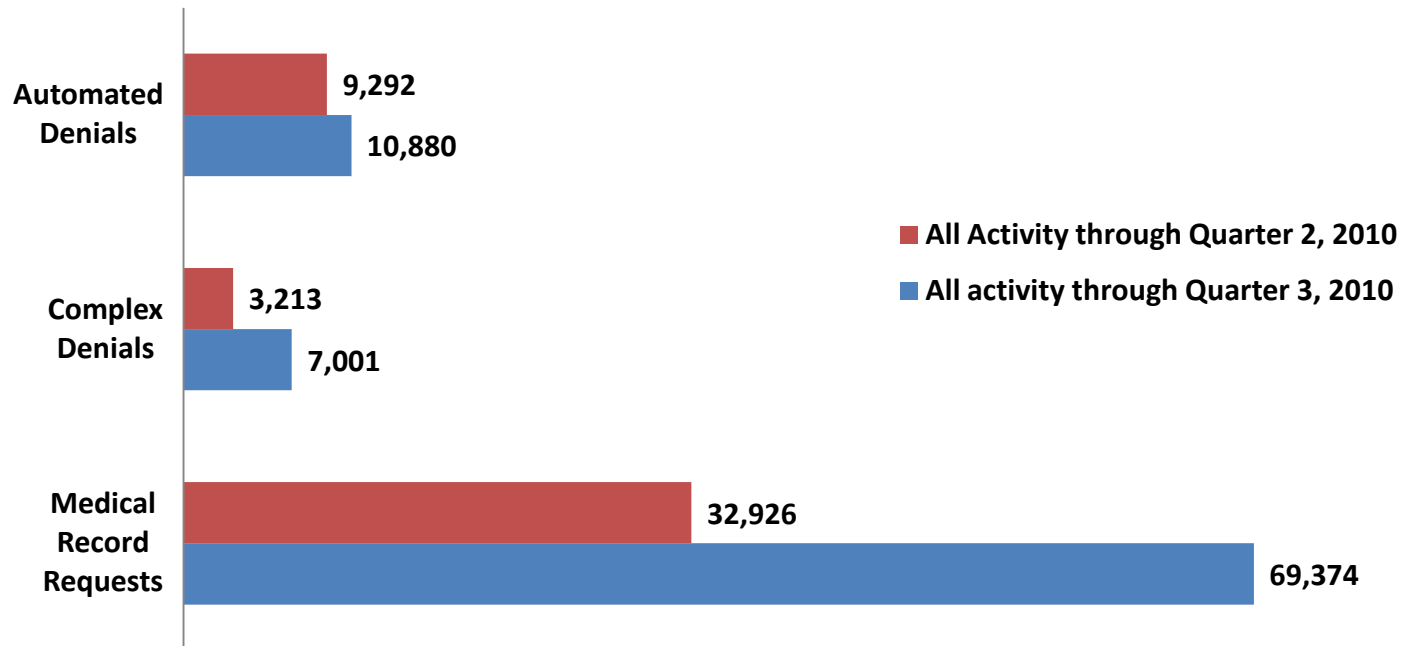
Complex Activity: includes all complex reviews, which is a human review and determination of whether or not an improper payment has been identified once the medical record has been received. Upon that determination, a hospital will be notified via a review results letter if an improper payment was found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



Source: AHA. (November 2010). *RACTrac Survey*
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The majority of RAC activity through the 3rd quarter of 2010 has been medical record requests.

Reported Automated Denials, Complex Denials and Medical Records Requests by Responding Hospitals, through 3rd Quarter 2010



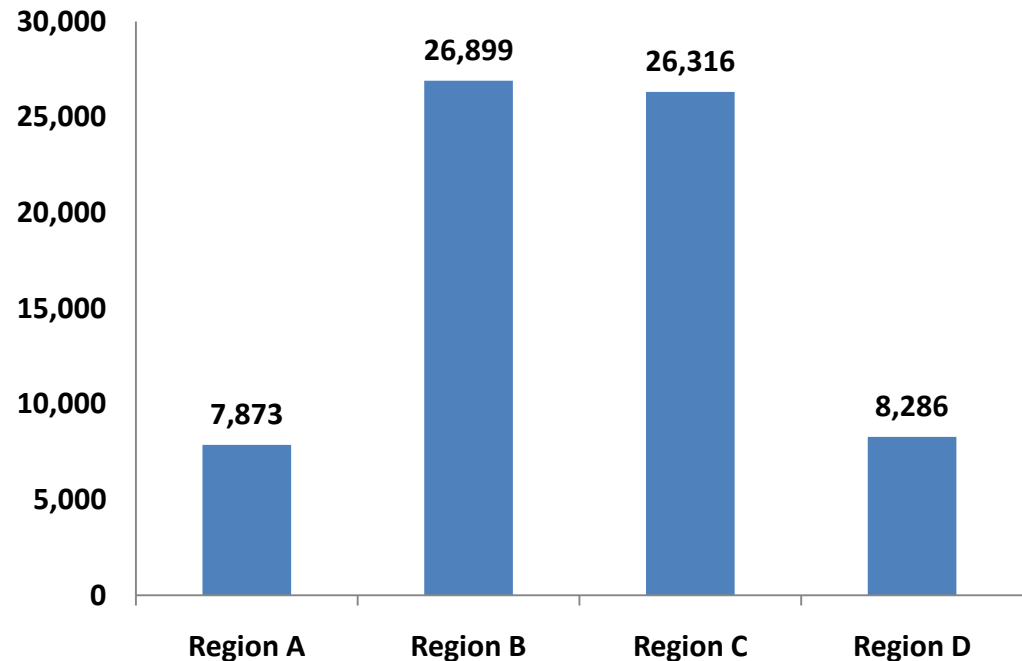
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Region B experienced, on average, 50% more medical records requested per reporting hospital.

Number of Medical Records Requested from Responding Hospitals With Complex Medical Record RAC Activity, through 3rd Quarter 2010

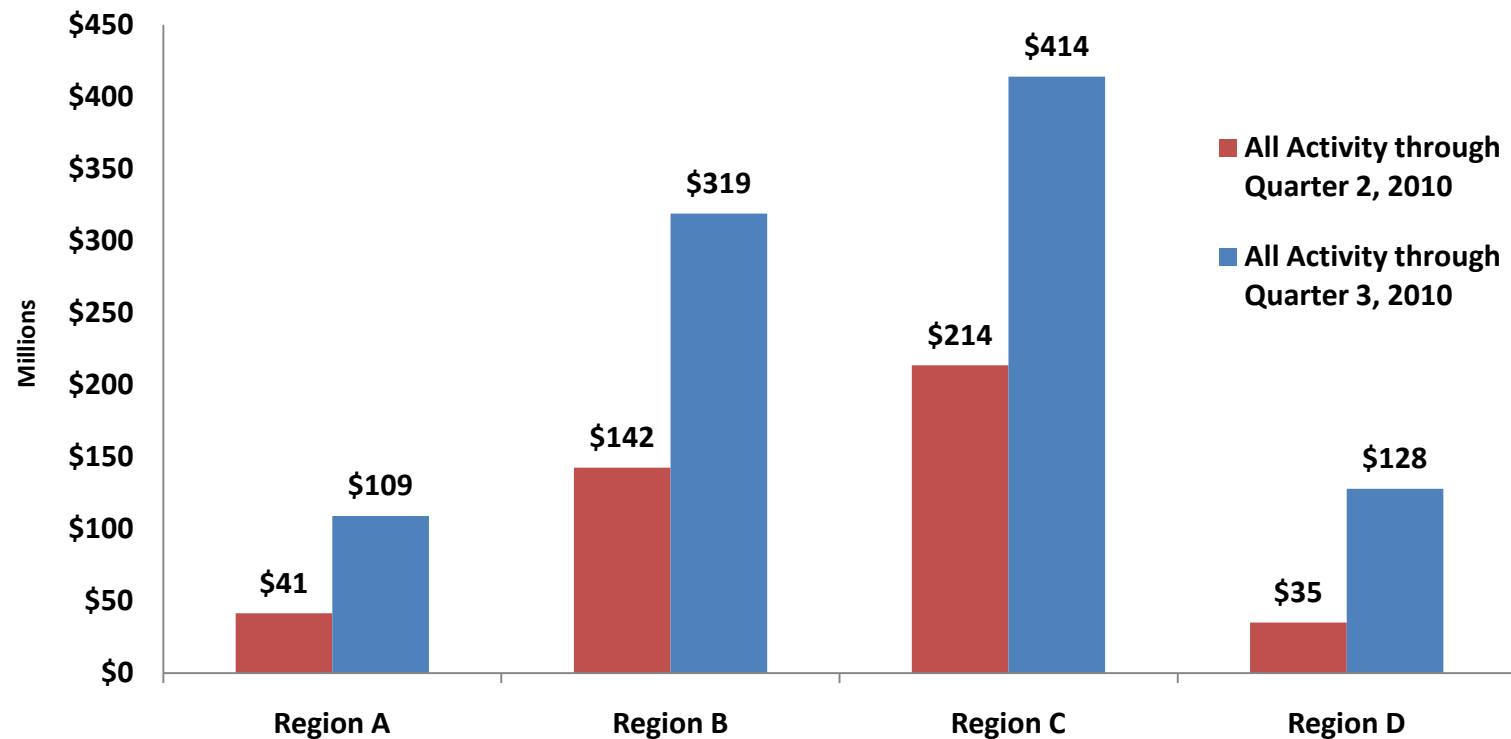
Average Number of Medical Record Requests per Reporting Hospital	
Region A	87
Region B	120
Region C	85
Region D	66



Source: AHA. (November 2010). *RACTrac Survey*
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Among responding hospitals, \$970 million in Medicare payments were targeted for medical record requests through the 3rd quarter of 2010.

Medicare Payments Associated with Medical Records Requested from Responding Hospitals, through 3rd Quarter 2010, in Millions



Source: AHA. (November 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 3rd Quarter 2010



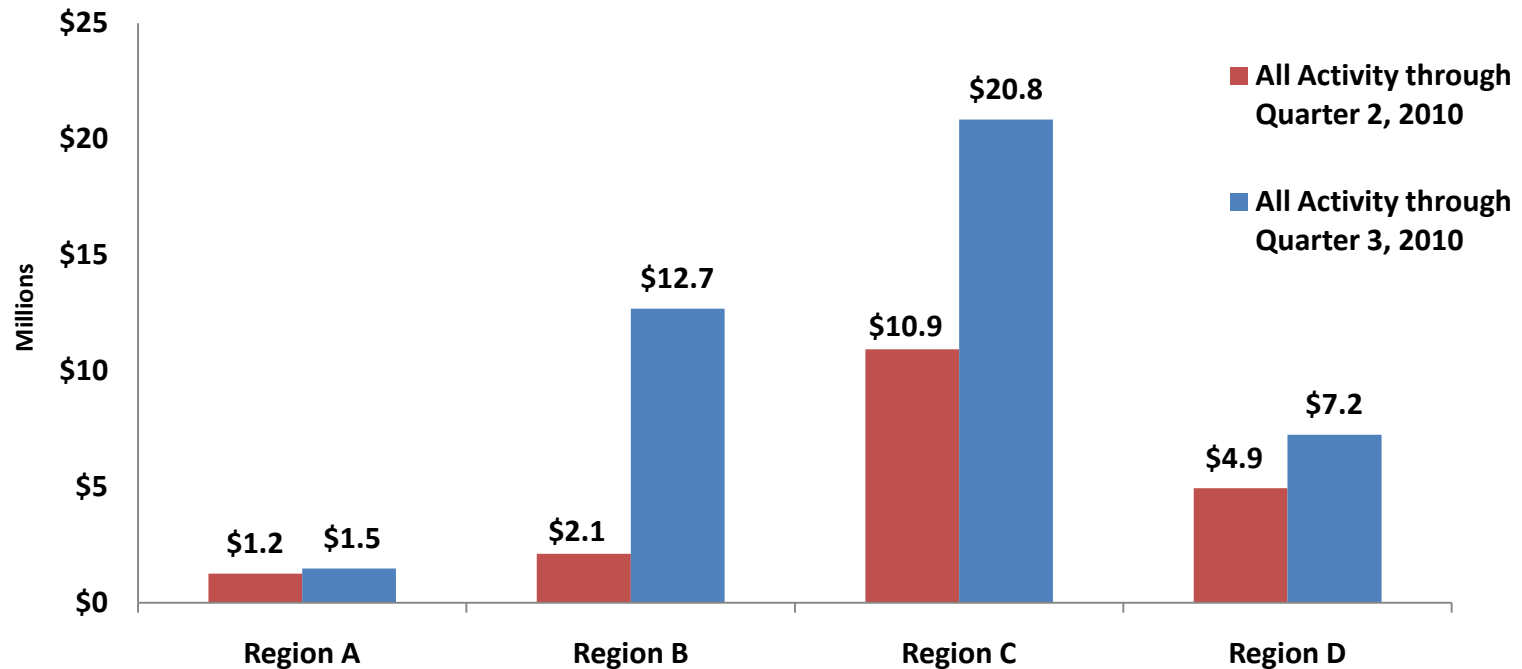
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RAC Denials

\$42 million in denials have been reported since the first quarter of 2010, up from \$19 million last quarter.

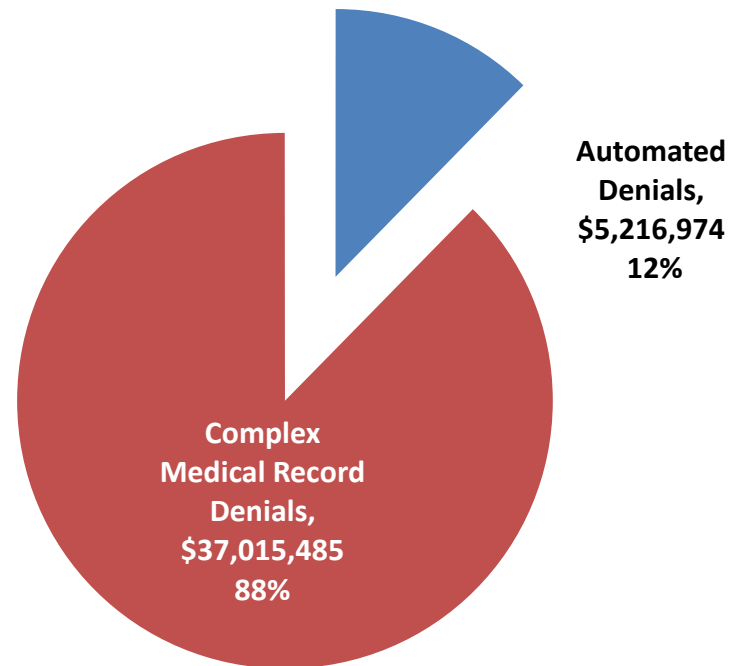
Dollar Value of Automated and Complex Denials by RAC Region for Reporting Hospitals, through 3rd Quarter 2010, Millions



Source: AHA. (November 2010). *RACTrac Survey*
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88% of denied dollars were complex denials totaling over \$37 million dollars.

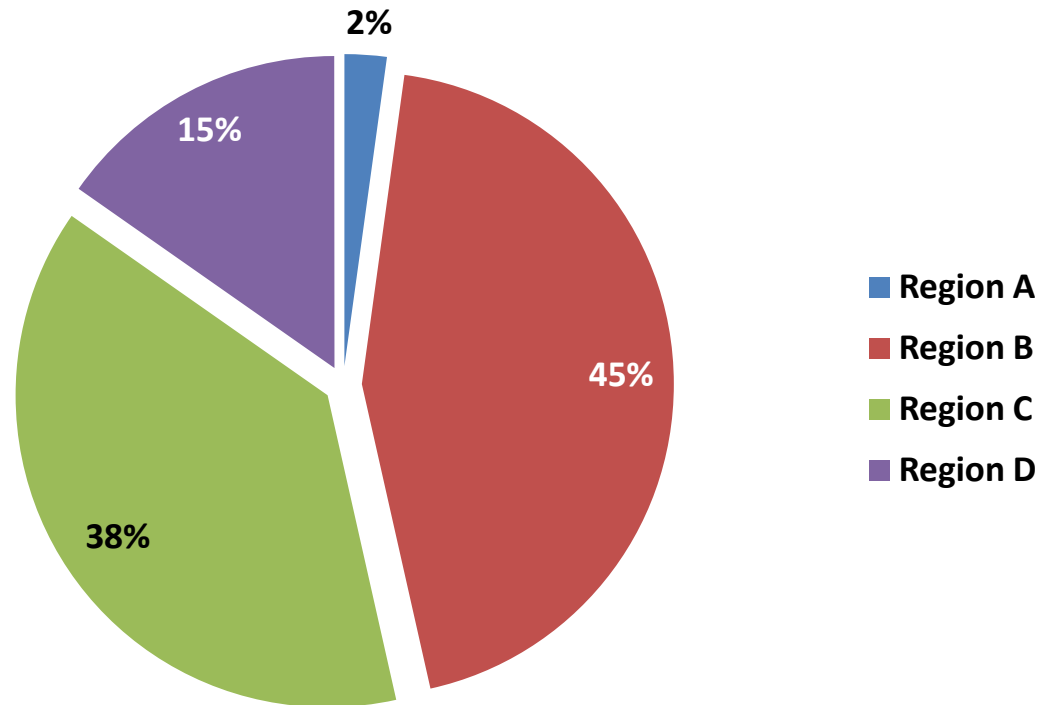
Percent and Dollar Amounts of Automated Denials Versus Complex Denials for Reporting Hospitals, through 3rd Quarter 2010



Source: AHA. (November 2010). *RACTrac Survey*
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Regions B and C account for more than 80% of all reported denials.

Percent of Automated and Complex Denials by RAC Region for Reporting Hospitals, through 3rd Quarter 2010

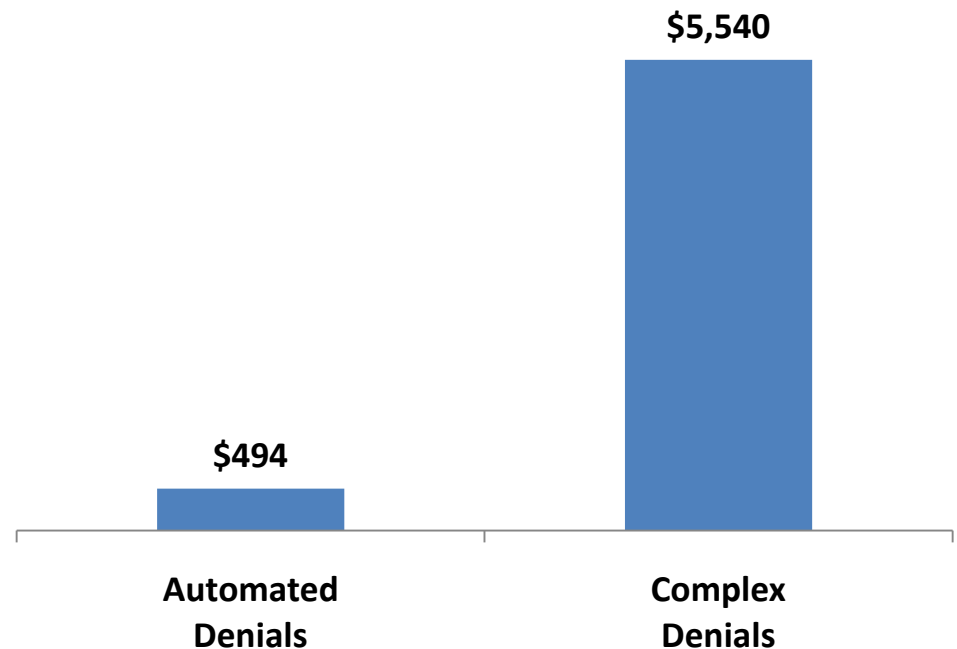


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The average dollar value of an automated denial was \$494 and the average dollar value of a complex denial was \$5,540.

Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 3rd Quarter 2010

Average Dollar Amount of Automated and Complex Denials Among Reporting Hospitals, by Region		
RAC Region	Automated Denial	Complex Denial
Region A *	\$663	\$5,371
Region B	\$411	\$5,101
Region C	\$559	\$5,344
Region D	\$624	\$7,608



* Only 13 hospitals reporting for automated denial activity in Region A.

Source: AHA. (November 2010). RACTrac Survey

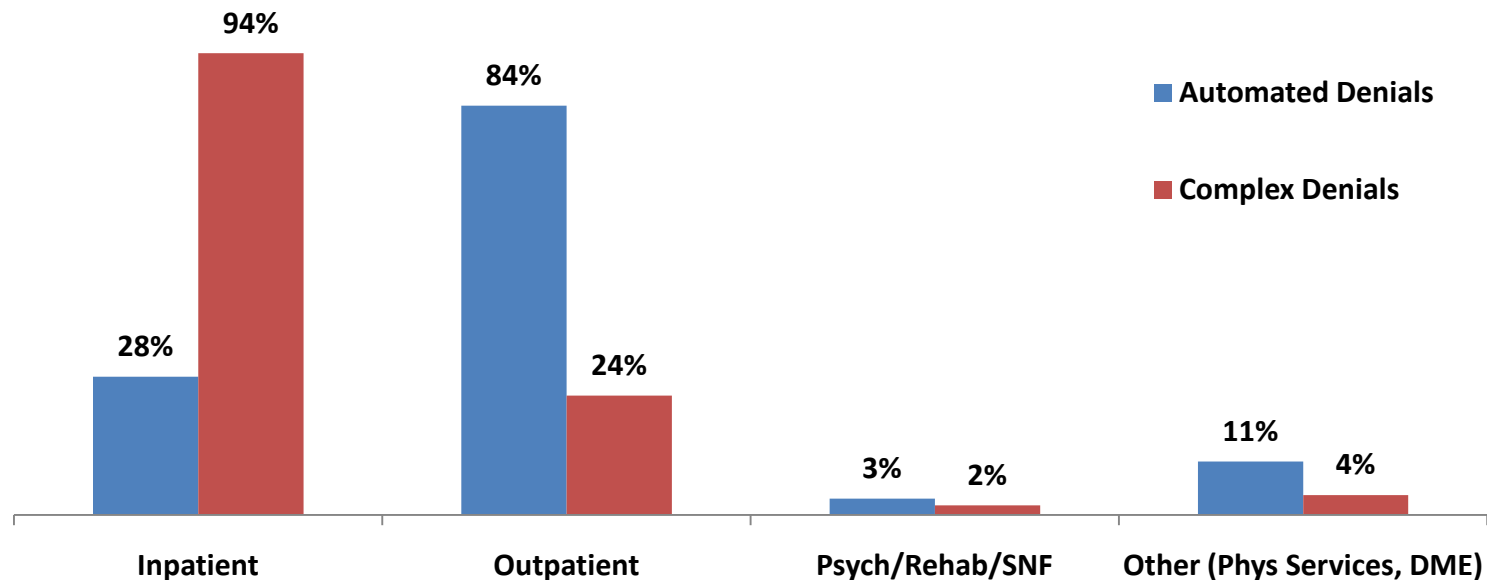
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94% of hospitals reported automated denials in the outpatient service area and 84% of hospitals reported complex denials in the inpatient service area.

Percent of Responding Medical/Surgical Acute Hospitals with RAC Activity Experiencing Denials by Type of Service, 3rd Quarter 2010

Survey participants were asked to select all areas targeted for denials



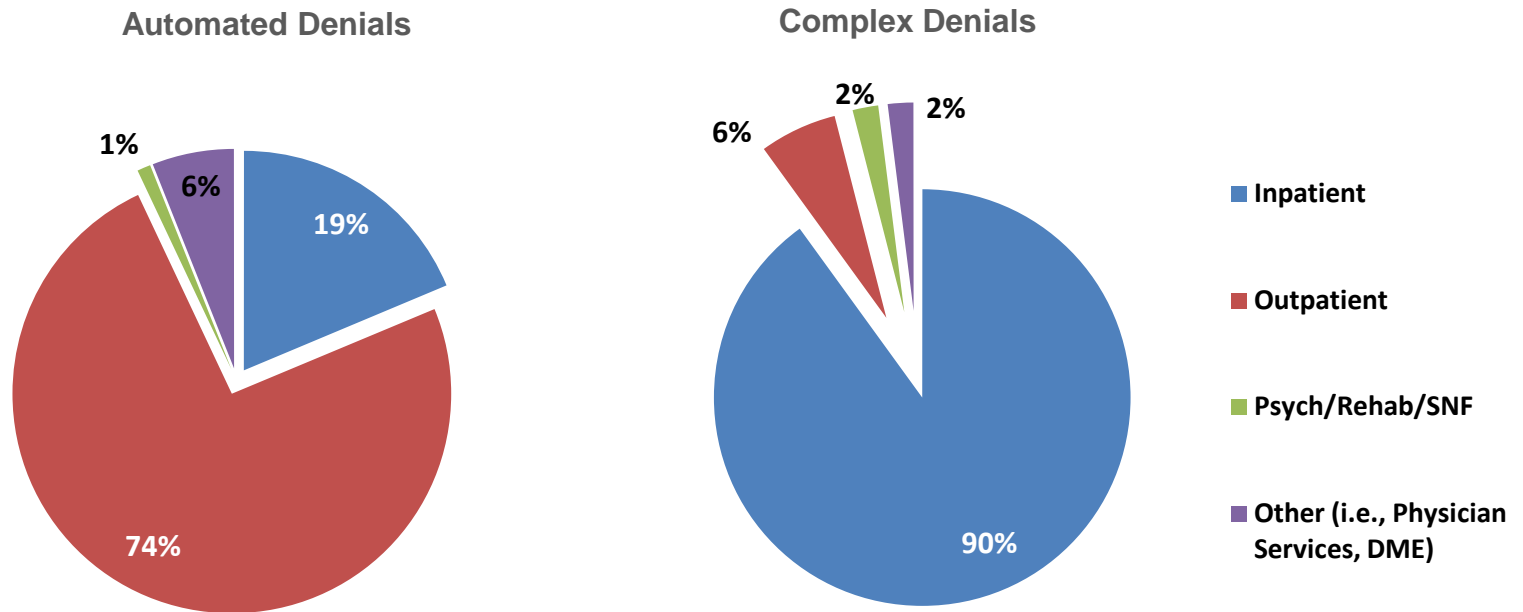
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Outpatient services had the largest financial impact through automated activity while inpatient services had the largest financial impact through complex denials.

Top Service Area for Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2010

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



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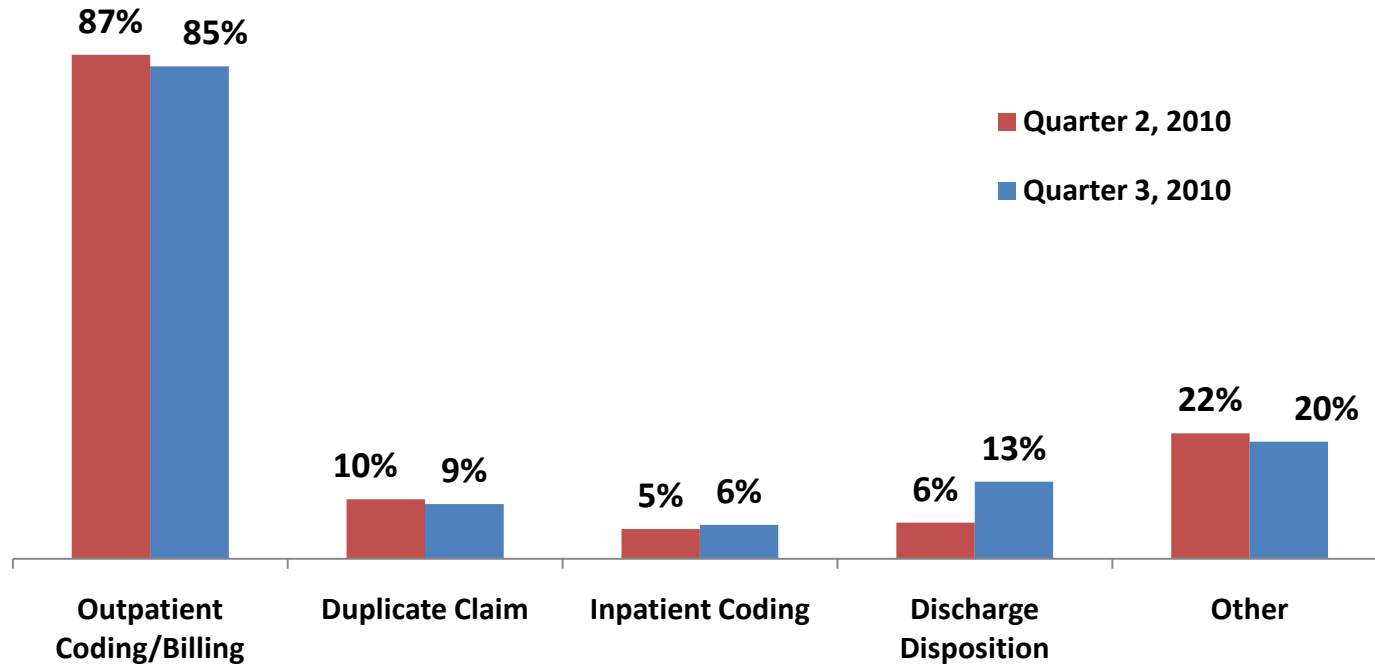


Automated RAC Denials

85% of responding hospitals with automated activity cited outpatient coding/billing as a reason for denial.

Percent of Responding Hospitals with RAC Activity Experiencing Automated Denials, by Reason, 2nd and 3rd Quarter 2010

Survey participants were asked to select all reasons for denial.

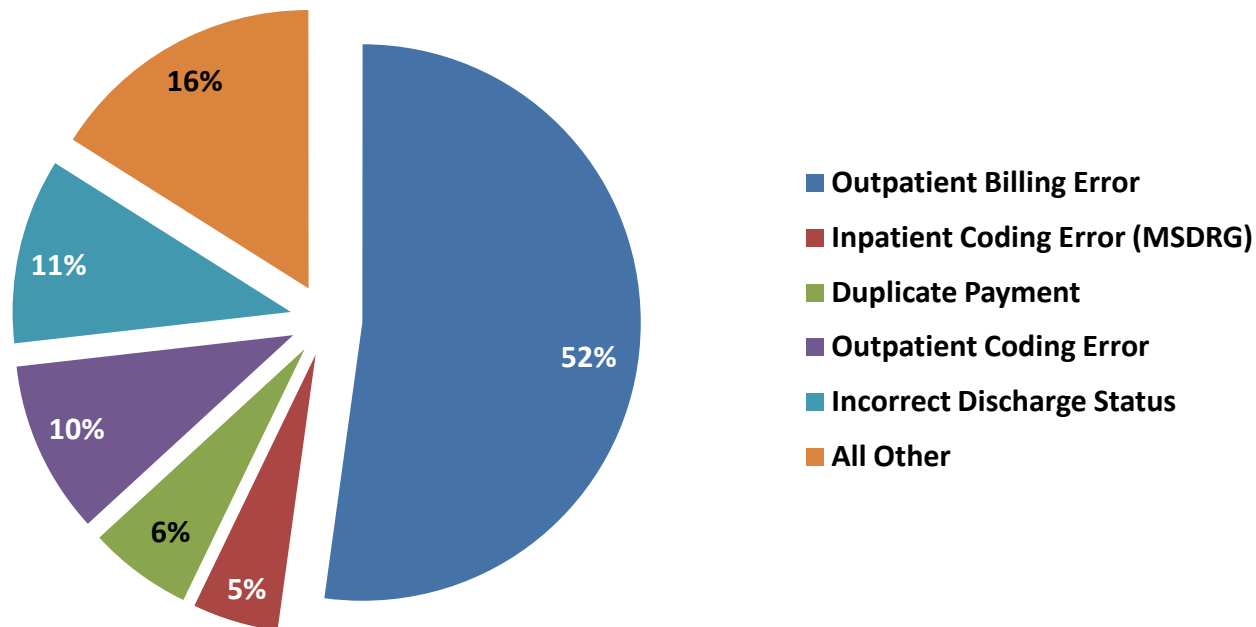


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Automated denials for outpatient billing errors had the largest financial impact on reporting hospitals.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010

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

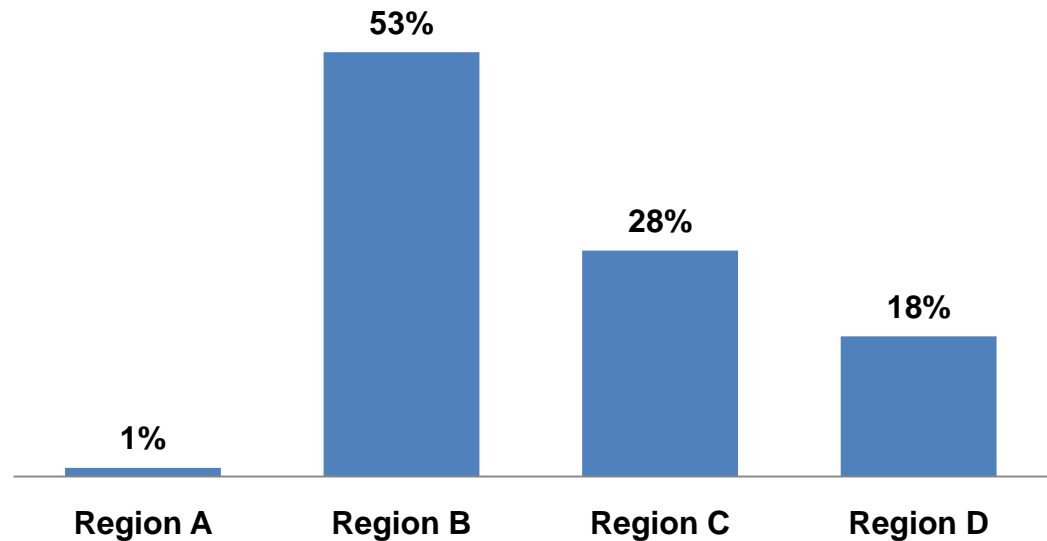


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Region B has experienced 53% of all reported automated denials.

Percent and Number of Reported Automated Denials, by Region, through 3rd Quarter 2010

	Total Number of Automated Denials by RAC Region
Region A	84
Region B	5,803
Region C	3,077
Region D	1,916

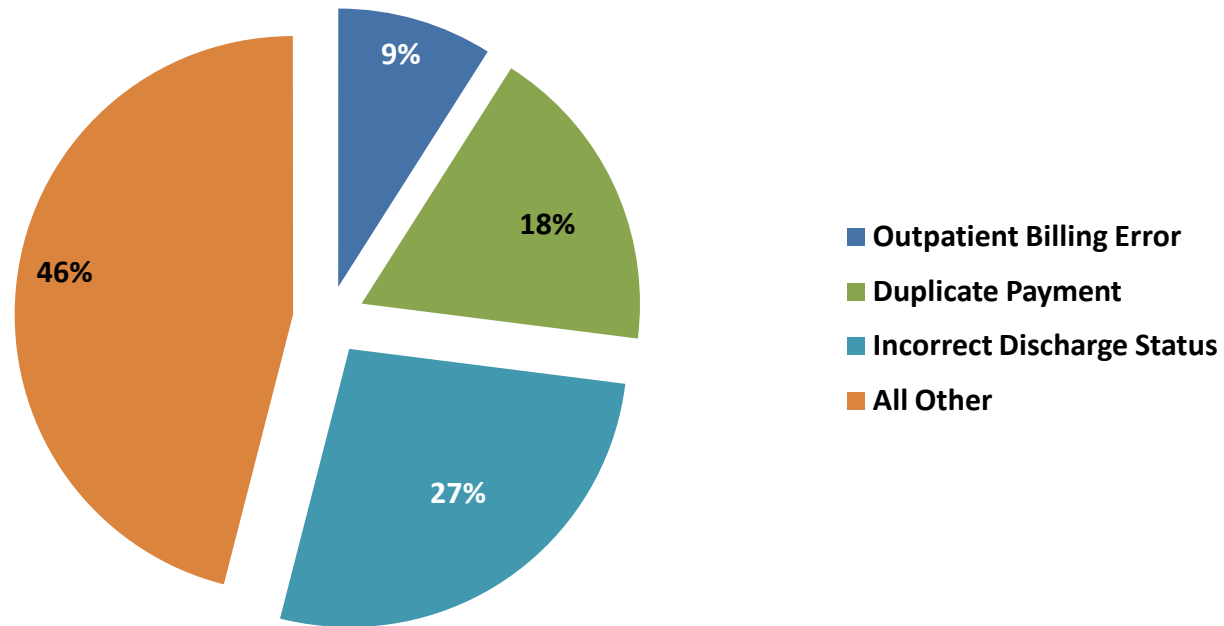


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Region A: Bucking the national trend, only 9% of Region A hospitals ranked outpatient billing errors as the top reason for automated denials.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region A

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



Only 13 hospitals reporting for automated denial activity in Region A.

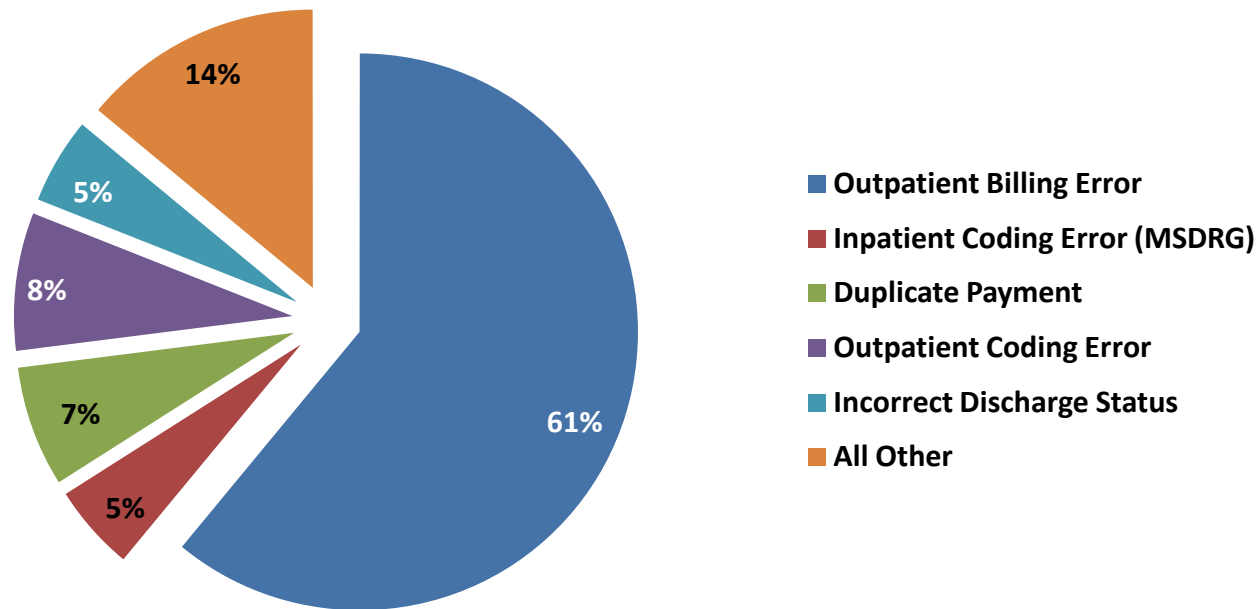
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Region B: With more than half of all automated denial activity, top denial reasons were consistent with national trend.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region B

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

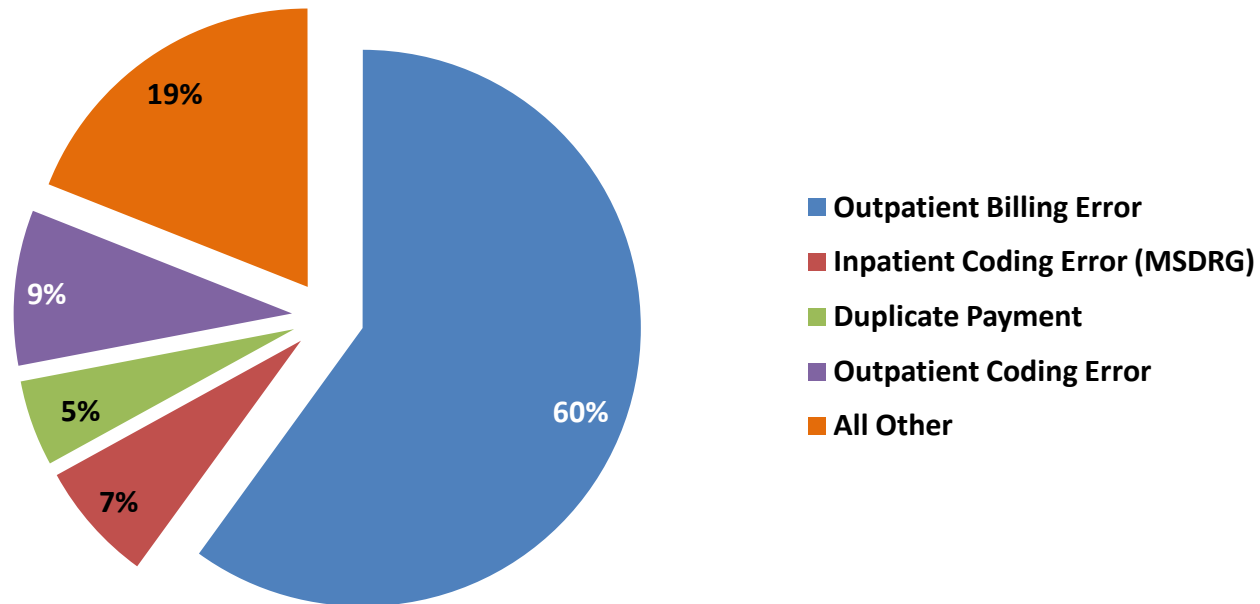


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Region C: 60% of hospitals reported outpatient billing error as the top reason for automated denials.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region C

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

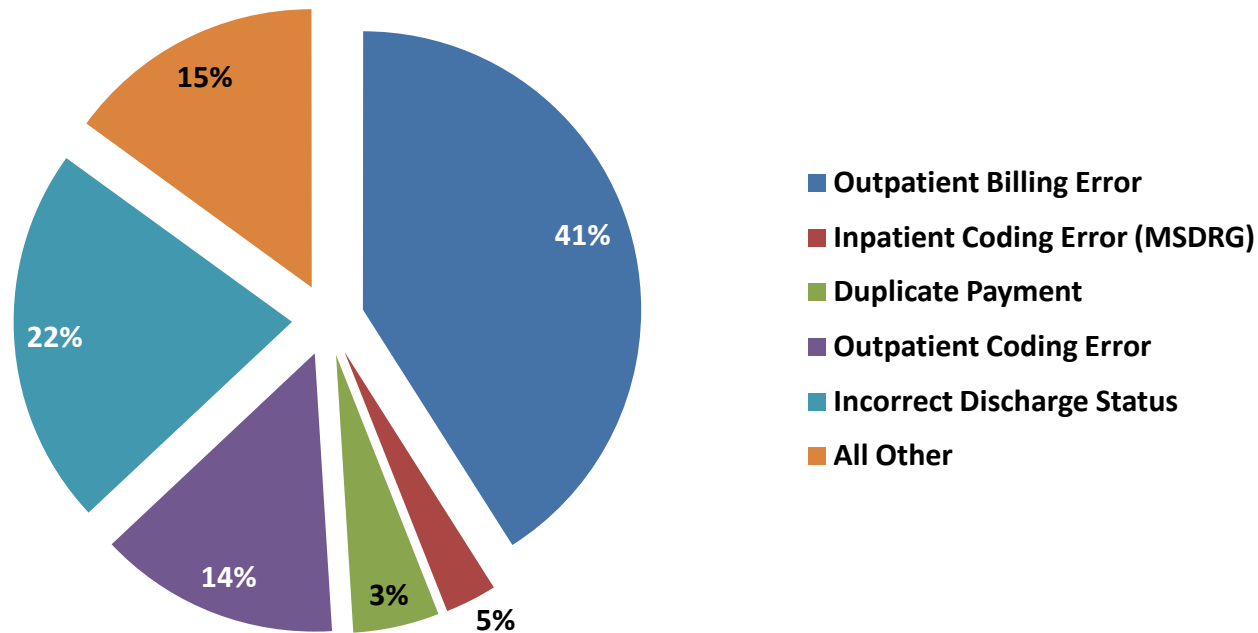


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Region D: Incorrect discharge status was more likely to be cited as a top reason for automated denials.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region D

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



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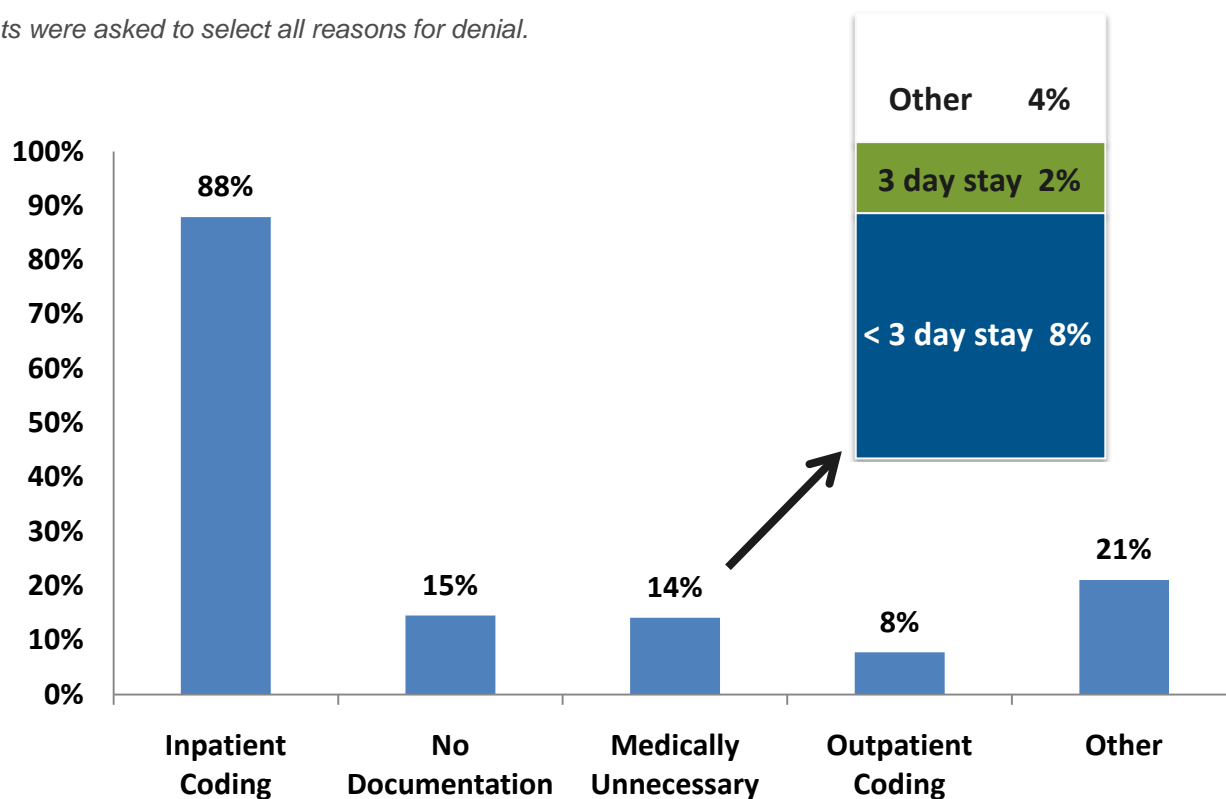


Complex RAC Denials

Now that medical necessity review is underway, 14% of hospitals have cited medically unnecessary as the top reason for complex denials.

Percent of Responding Hospitals with RAC Activity Experiencing Complex Denials by Reason, 3rd Quarter 2010

Survey participants were asked to select all reasons for denial.

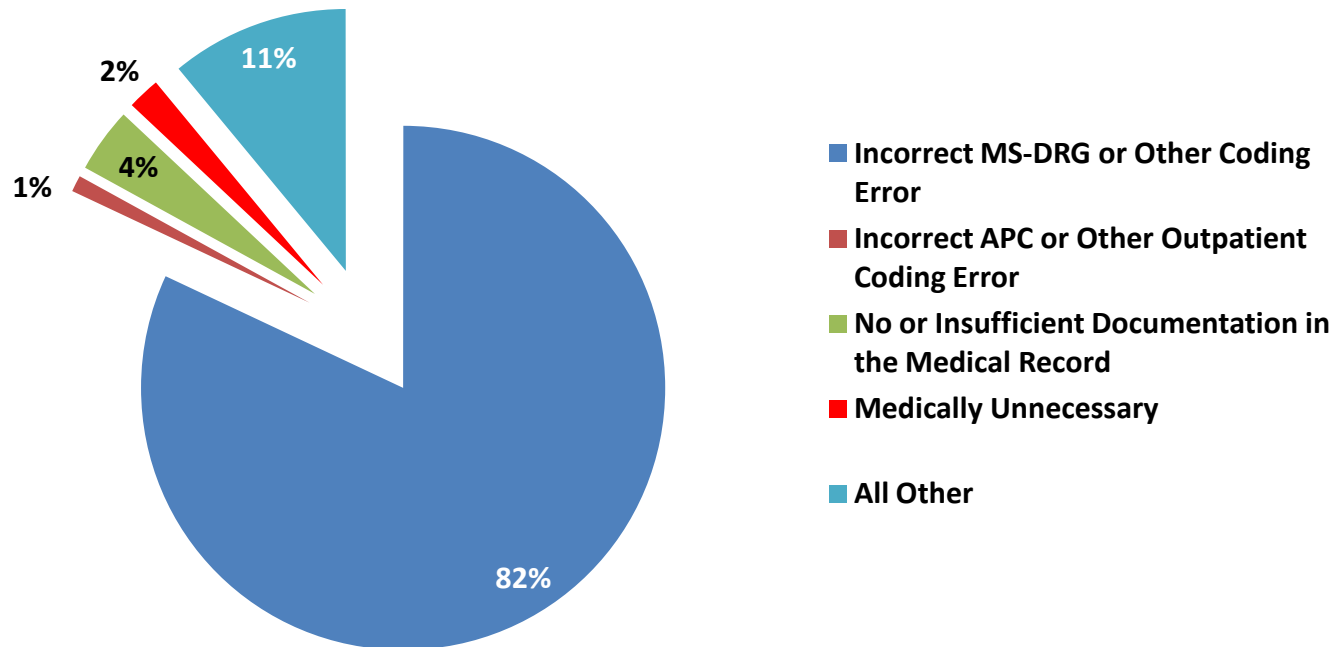


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Incorrect MS-DRG or other coding error represented the top reason by dollars for complex denials for 82% of hospitals.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010

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

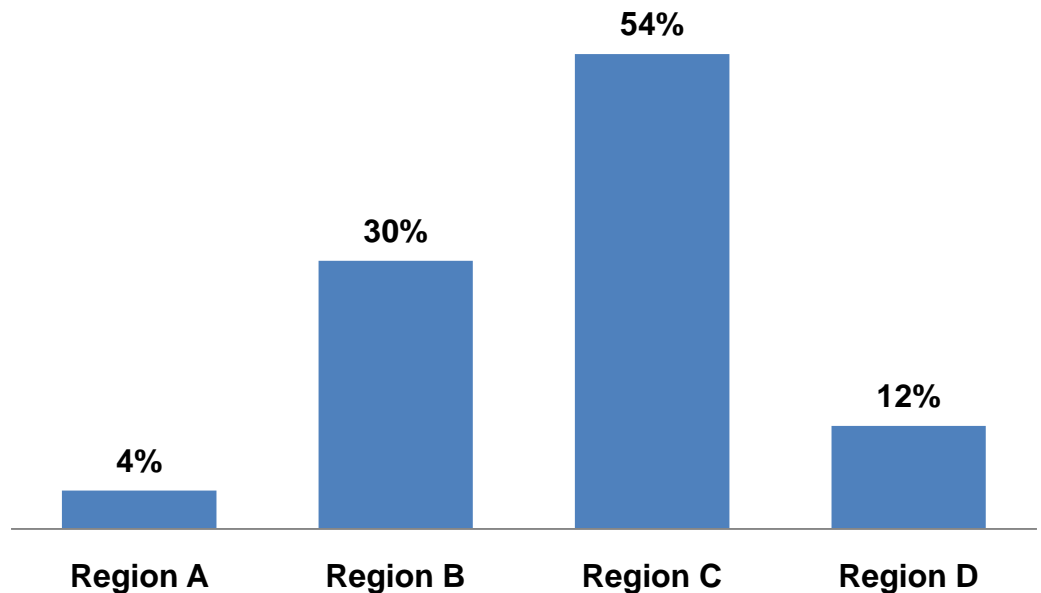


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Region C hospitals reported 54% of all complex denials.

Percent and Number of Reported RAC Complex Denials, by Region, through 3rd Quarter 2010

	Total Number of Claims with Overpayment Determination
Region A	305
Region B	2,119
Region C	3,761
Region D	816



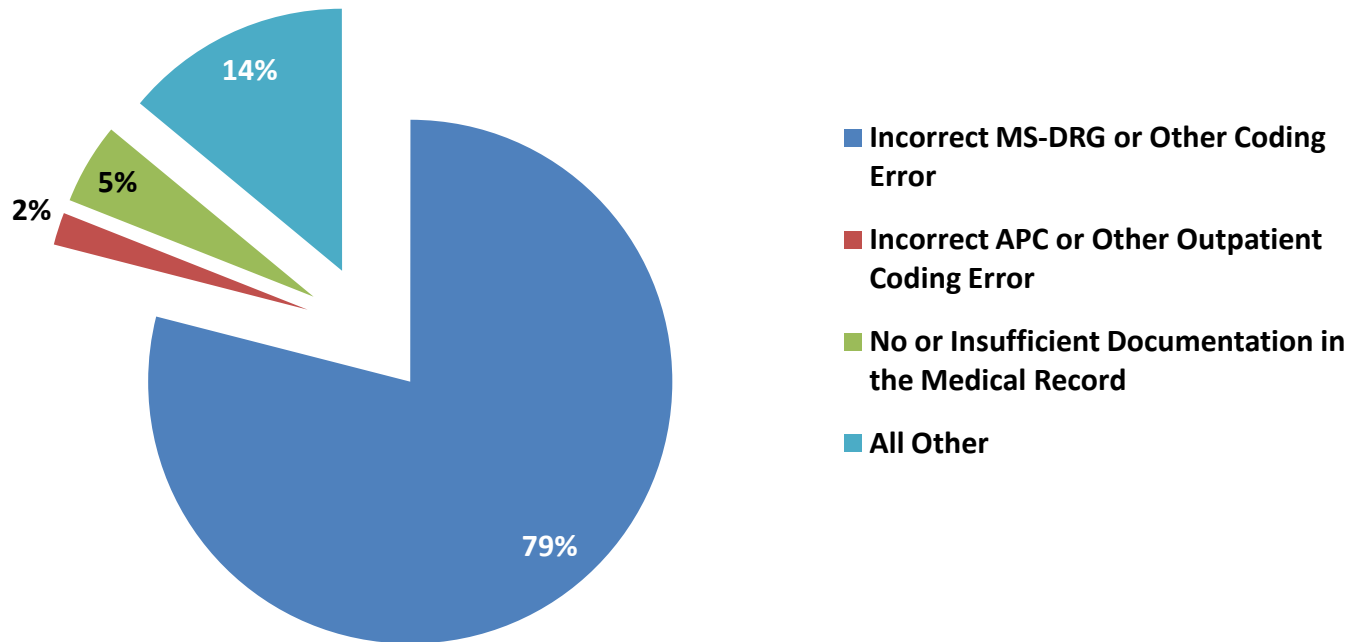
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Region A: The dominant reason for complex denials was incorrect MS-DRG or other coding errors.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region A

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

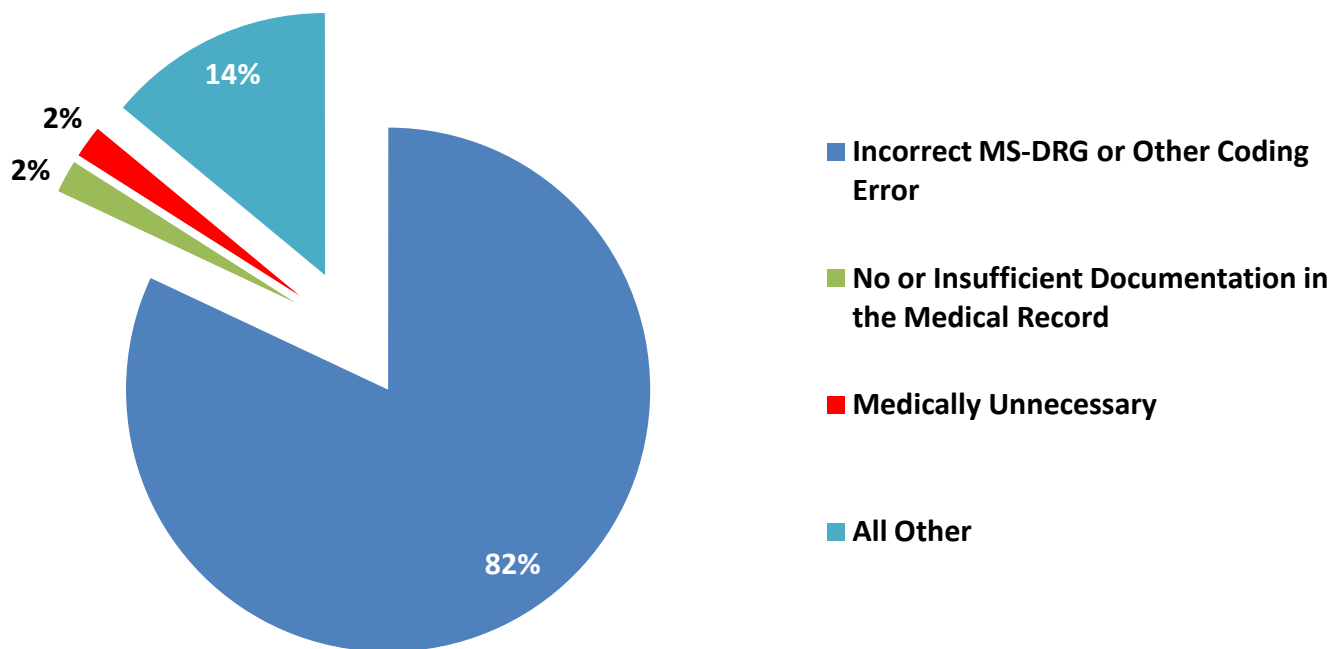


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Region B: For the first time, hospitals are reporting denials for services determined by the RAC to be medically unnecessary.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region B

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

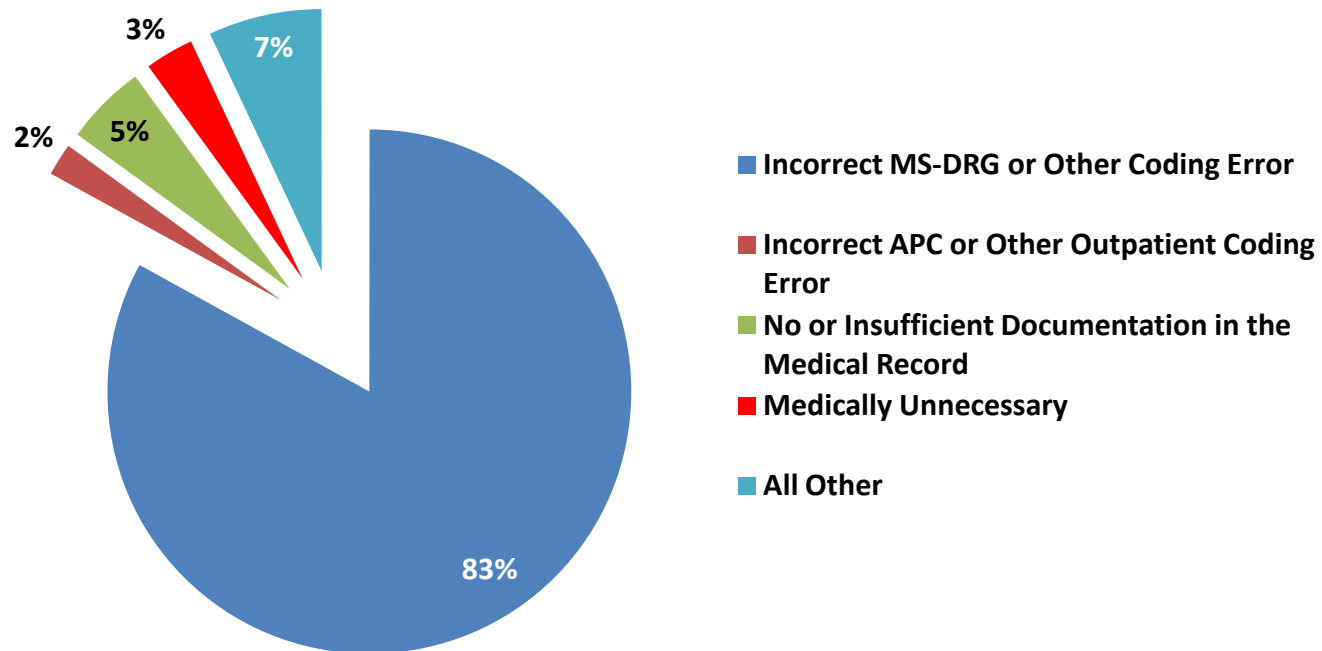


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Region C: Medically Unnecessary, for the first time, was identified by some hospitals as a top reason for complex denials.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region C

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

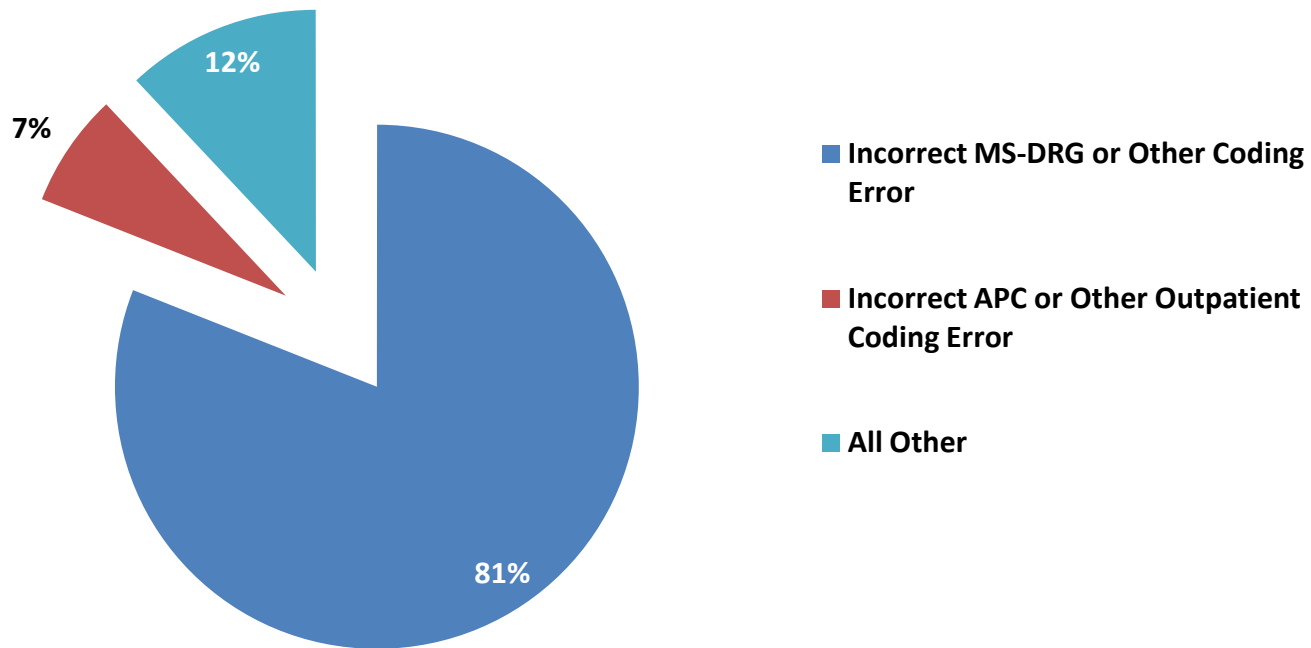


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Region D: Incorrect MS-DRG or other coding error was the top reason for denial with no hospitals reporting medically unnecessary as a top reason.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 3rd Quarter 2010, Region D

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



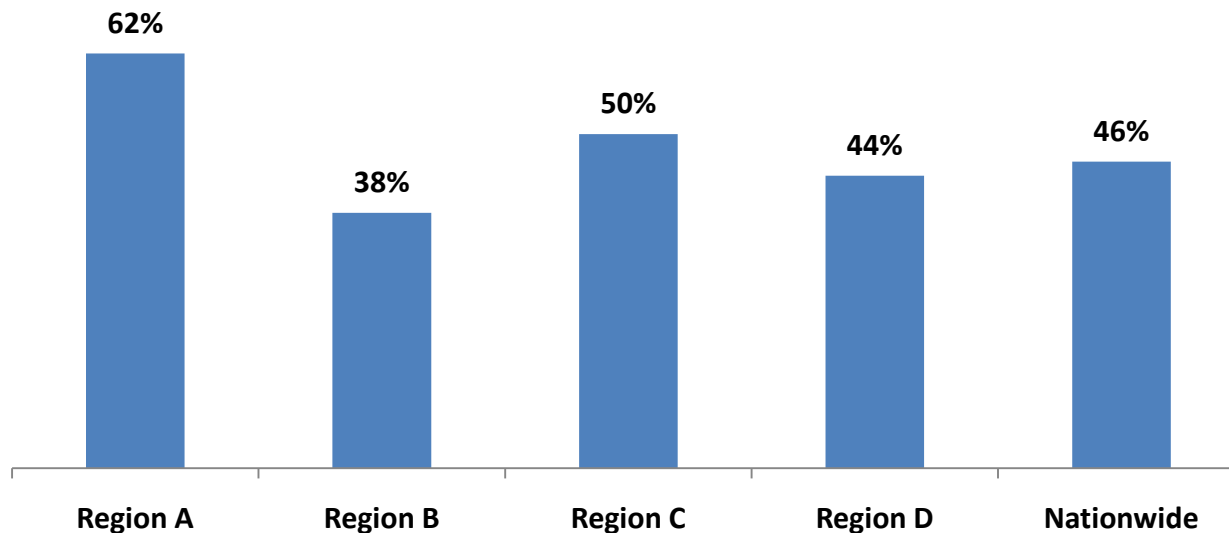
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Underpayments

Nearly half of all hospitals with RAC activity reported receiving at least one underpayment determination.

Percent of Hospitals Reporting Underpayment Determinations, By Region, through 3rd Quarter 2010



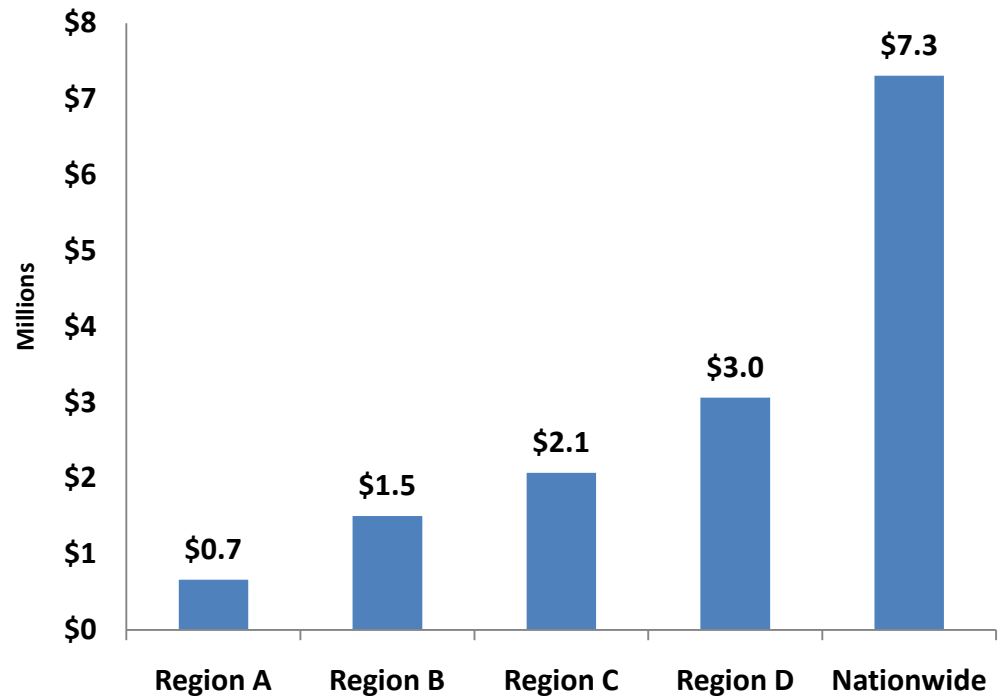
Source: AHA. (November 2010). *RACTrac Survey*

AHA analysis of survey data collected from 1,667 hospitals: 1,250 reporting activity, 417 reporting no activity through September 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 D reported more than 50% of all underpayment determinations. The dollar amount of underpayments varied by region.

Total Dollar Value of Underpayment Determination, By Region, through 3rd Quarter 2010, Millions

	Number of RAC Underpayment Determinations
NATIONWIDE	1,669
Region A	148
Region B	236
Region C	344
Region D	941

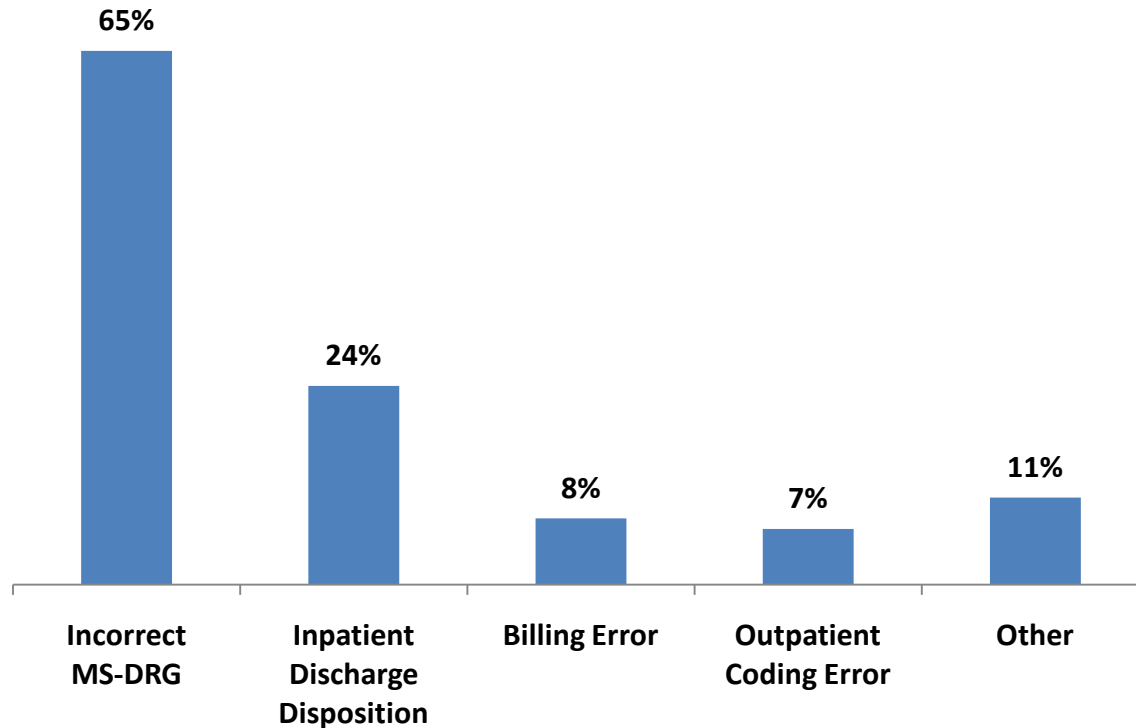


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Nearly two-thirds of hospitals with underpayment determinations cited incorrect MS-DRG as a reason for the underpayment.

Percent of Responding Hospitals with RAC Activity Experiencing Underpayments by Reason, 3rd Quarter 2010

Survey participants were asked to select all reasons for underpayment.



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

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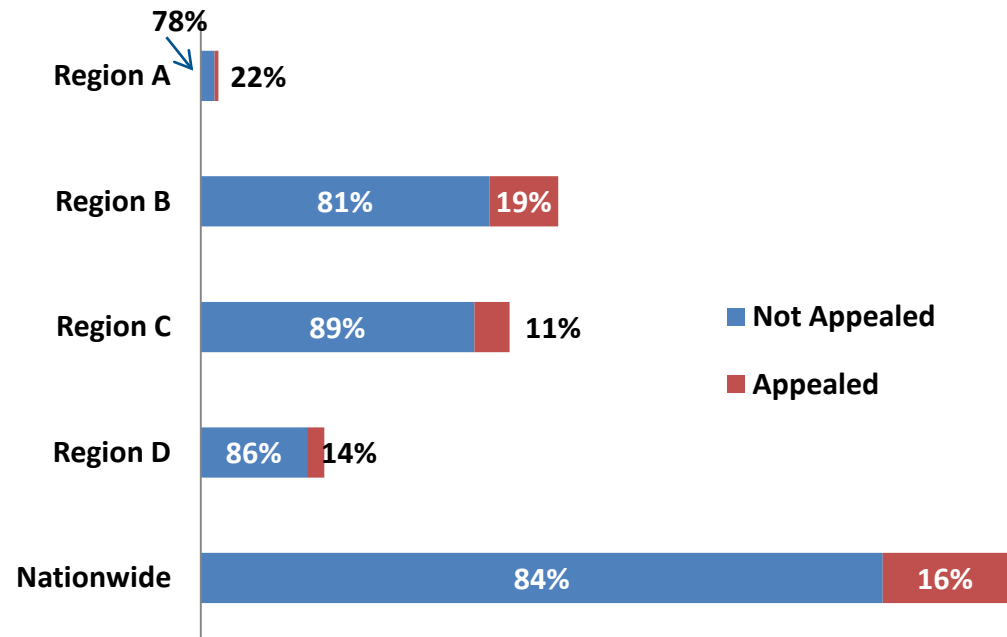


Appeals

Hospitals reported appealing 16% of RAC denials available* for appeal.

Total Number of Automated and Complex Denials Appealed by Hospitals with RAC Activity, by Region, through 3rd Quarter 2010

	Total Number of Denials Available* for Appeal	Percent of Appealed Denials
NATIONWIDE	17,881	16%
Region A	389	22%
Region B	7,922	19%
Region C	6,838	11%
Region D	2,732	14%



* Available for appeal means that the hospital received a demand letter for this claim, either as a result of automated or complex review.

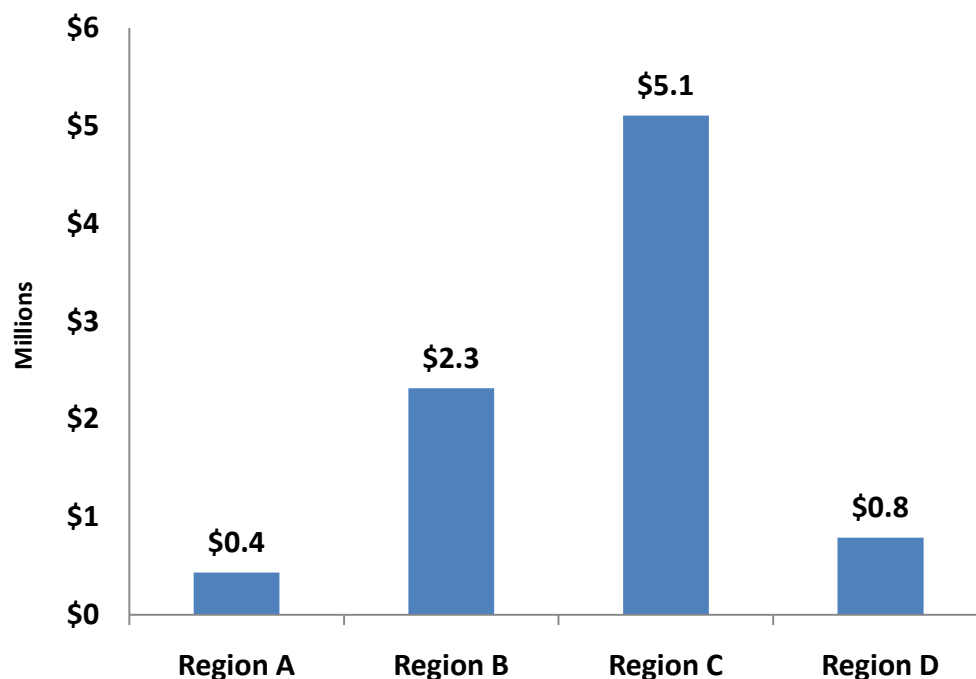
Source: AHA. (November 2010). RACTrac Survey
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Hospitals reported appealing denials totaling \$8.6 million in value and 46% of hospitals reported appealing at least one RAC denial.

Total Dollar Value, Percent and Average Number of Appealed Claims for Hospitals with Automated or Complex RAC Denials, through 3rd Quarter 2010, Millions

	Percent of Hospitals with Any Appealed Denials	Average Number of Appealed Denials per Hospital
NATIONWIDE	46%	8.1
Region A	45%	3.8
Region B	56%	12.7
Region C	43%	6.4
Region D	39%	5.0



Source: AHA. (November 2010). *RACTrac Survey*
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Of the claims that have completed the appeals process, 38% were overturned in favor of the provider. 1,475 claims are still in the appeals process.

Summary of Appeal Rate and Determinations in Favor of the Provider, for Hospitals with RAC Activity, through 3rd Quarter 2010

	Number of Claims Appealed	Percent of Denials Appealed	Number of Claims Pending Appeals Determination	Number of Claims Withdrawn from Appeals Process	Number of Denials Overturned in the Appeals Process	Percent of Appealed Denials Overturned
NATIONWIDE	2,773	16%	1,475	165	1,064	38%
Region A	87	22%	69	3	13	15%
Region B	1,527	19%	672	50	780	51%
Region C	777	11%	531	75	139	18%
Region D	382	14%	203	37	132	35%

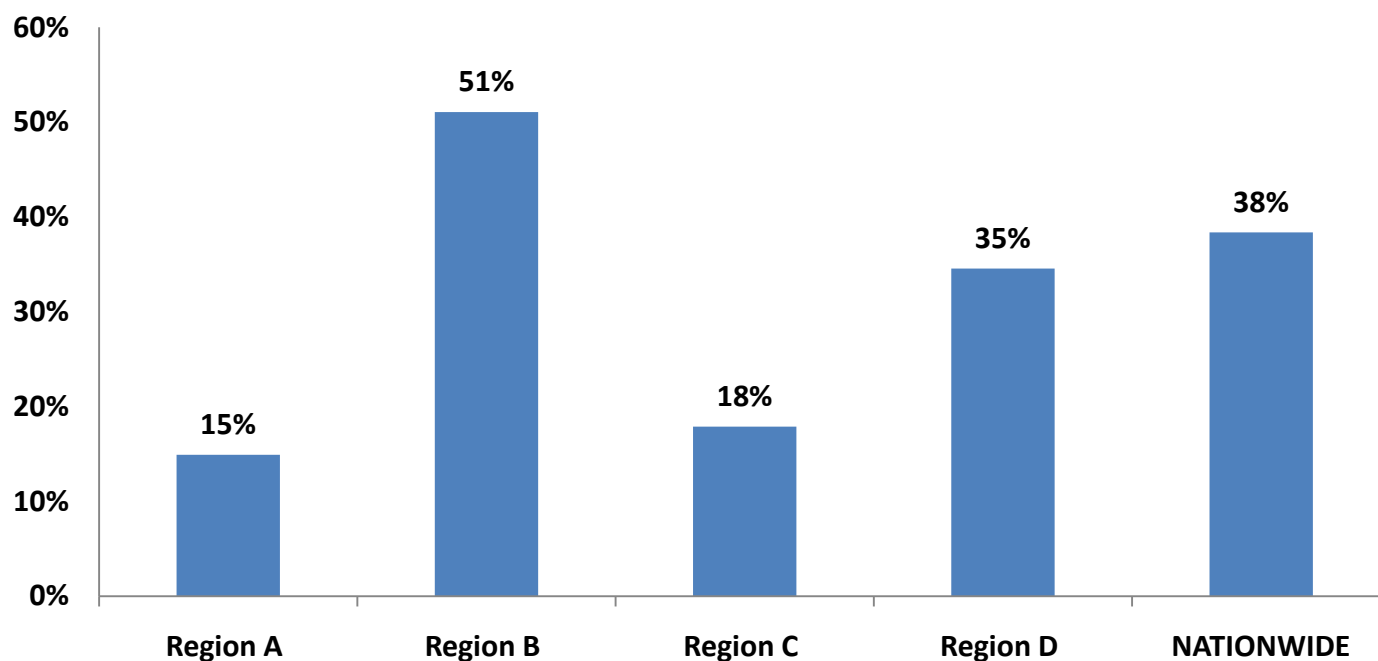
The data does not reflect the outcome of appeals currently still in the appeals process, therefore the overturn rate may increase as more appeals complete the appeals process. Due to survey submission marginal error, total appeals may be slightly greater than the sum of pending/withdrawn/overturned appeals.



Source: AHA. (November 2010). RACTrac Survey
 AHA analysis of survey data collected from 1,667 hospitals: 1,250 reporting activity, 417 reporting no activity through September 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 B has the highest overturn rate upon appeal at 51%.

Percent of Denials Overturned in the Appeals Process, by Region, through 3rd Quarter 2010



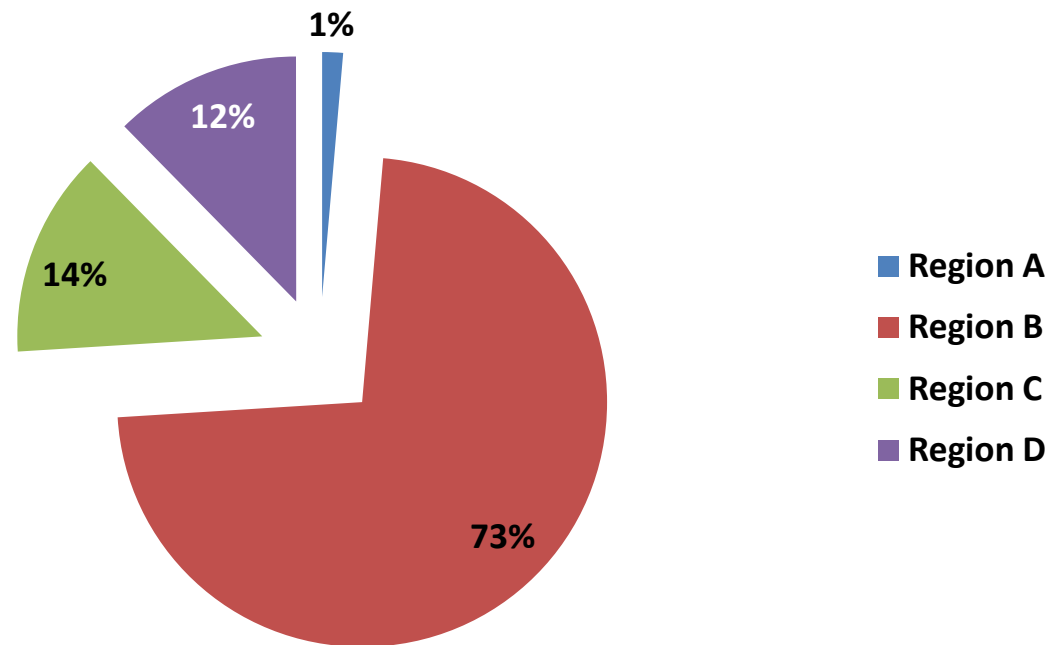
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Of the claims that have completed the appeals process, nearly three-fourths of overturned denials were reported in Region B.

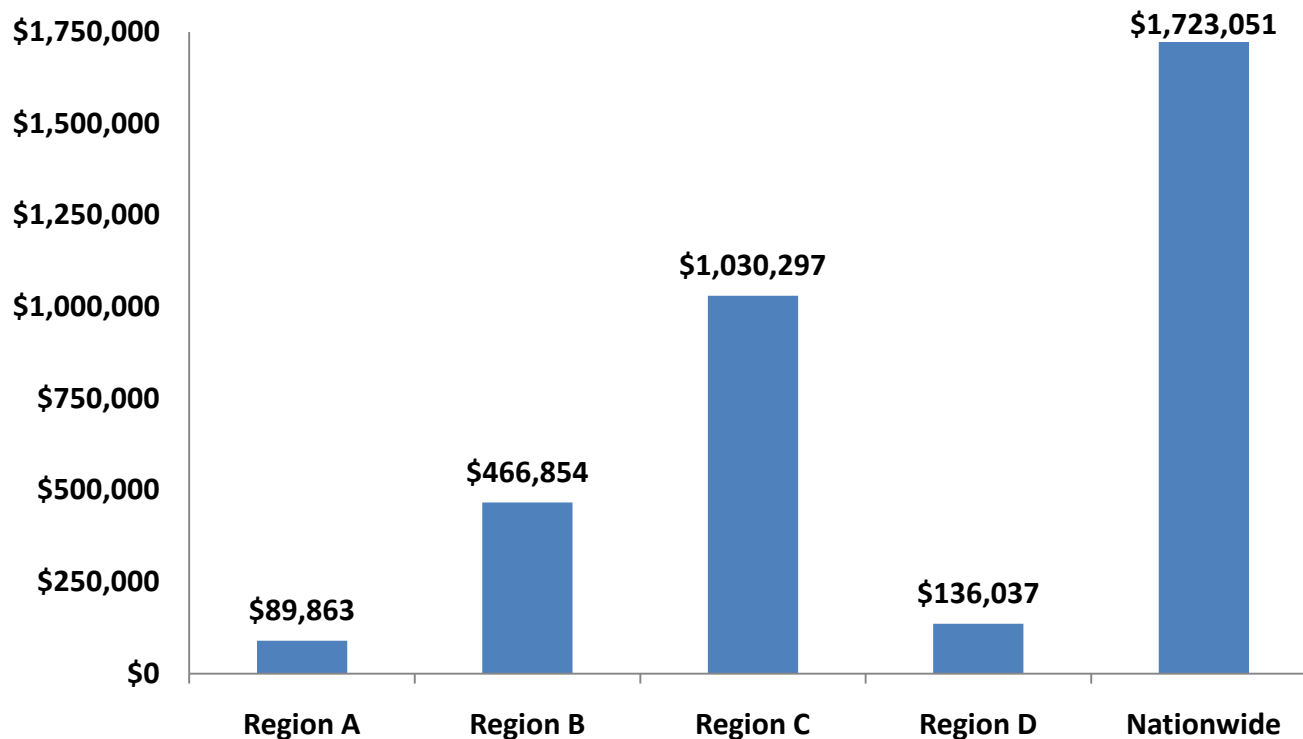
Percent of Overturned Denials by Region, through 3rd Quarter 2010



Source: AHA. (November 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,667 hospitals: 1,250 reporting activity, 417 reporting no activity through September 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.

Hospitals reported a total of \$1.7 million in overturned denials, with \$1 million in Region C alone.

Value of Denials Overturned in the Appeals Process, by Region, through 3rd Quarter 2010



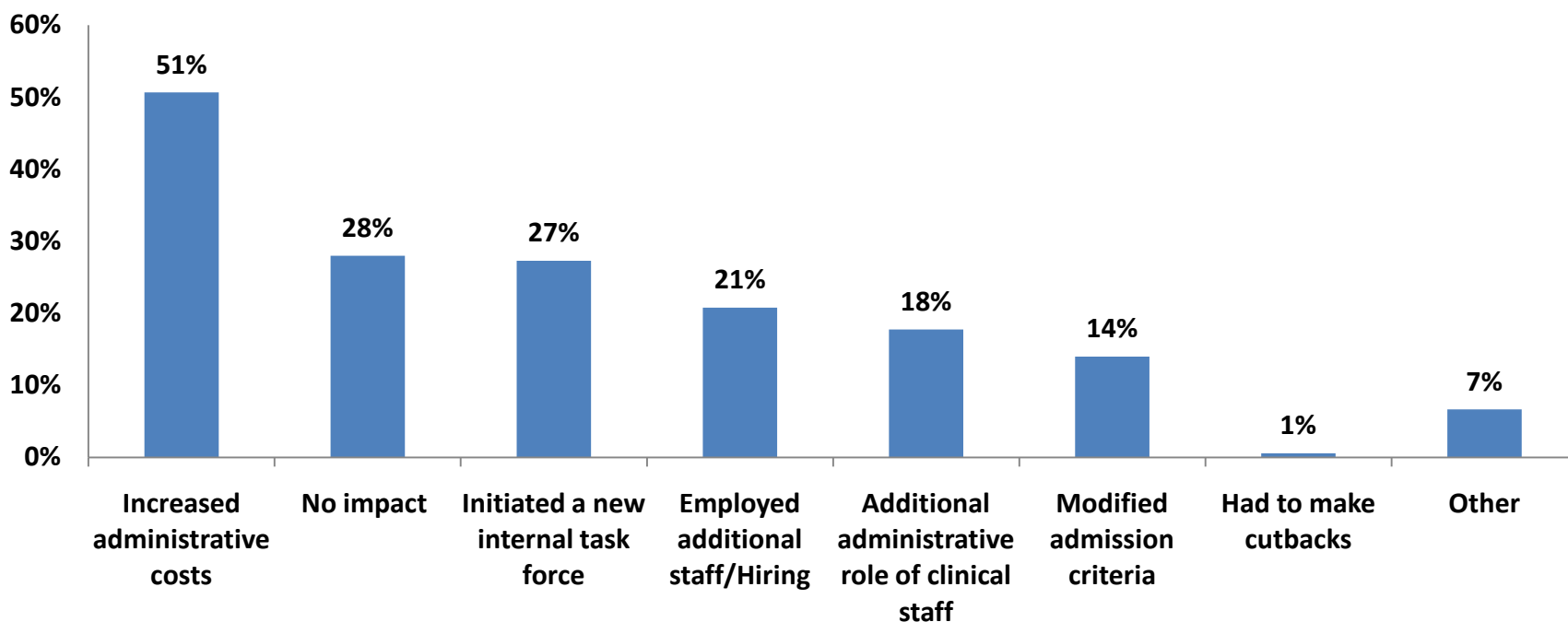
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Administrative Burden

72% of responding hospitals reported that RAC impacted their organization this quarter and 51% reported increased administrative costs.

Impact of RAC on Responding Hospitals* by Type of Impact, 3rd Quarter 2010



Includes responding hospitals with and without RAC activity

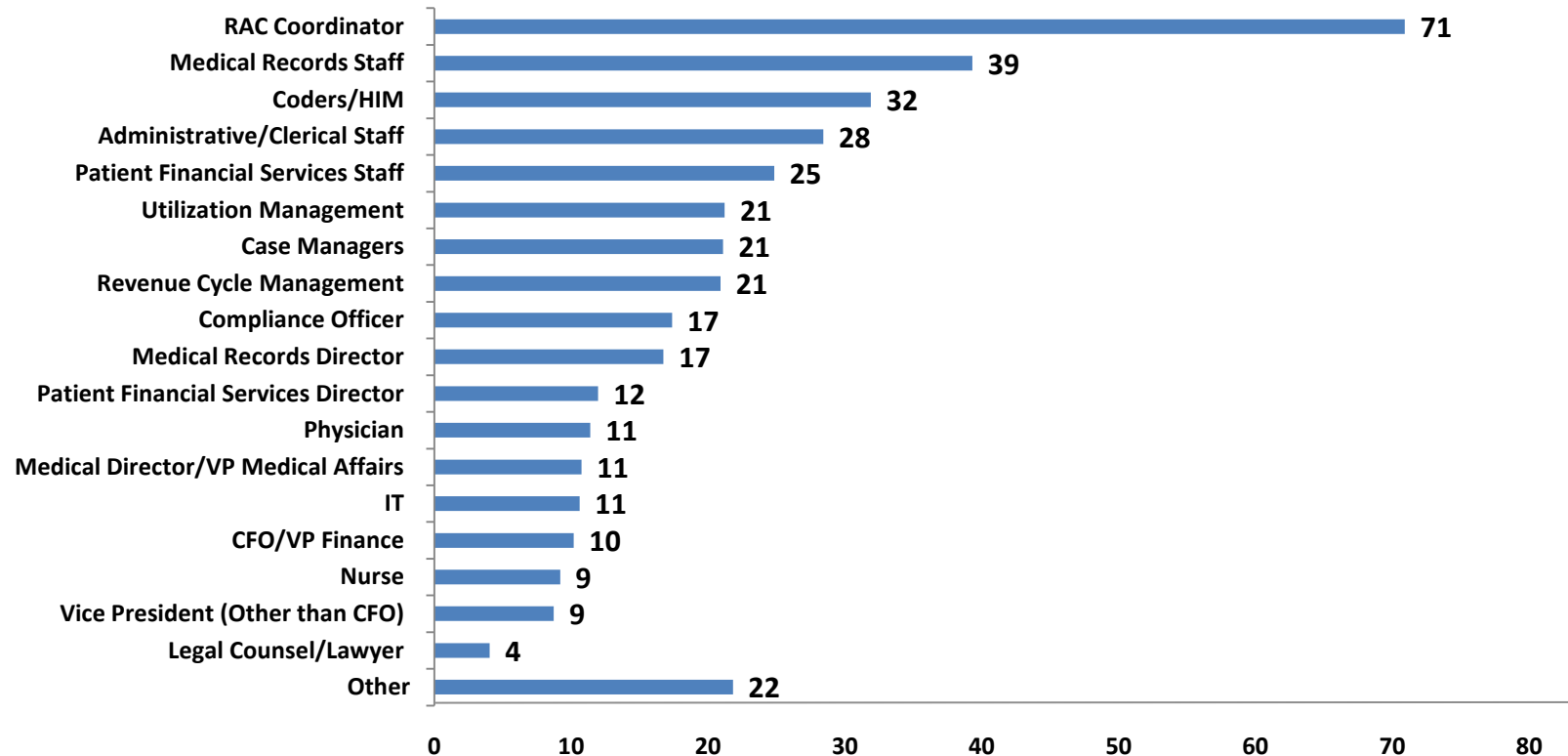
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The administrative burden of RAC is spread across all types of hospital staff. RAC coordinators spent the most time responding to RAC activity

Average Hours of Staff Time Spent Per Responding Hospital* on RAC by Staff Type, 3rd Quarter 2010



Includes responding hospitals with and without RAC activity

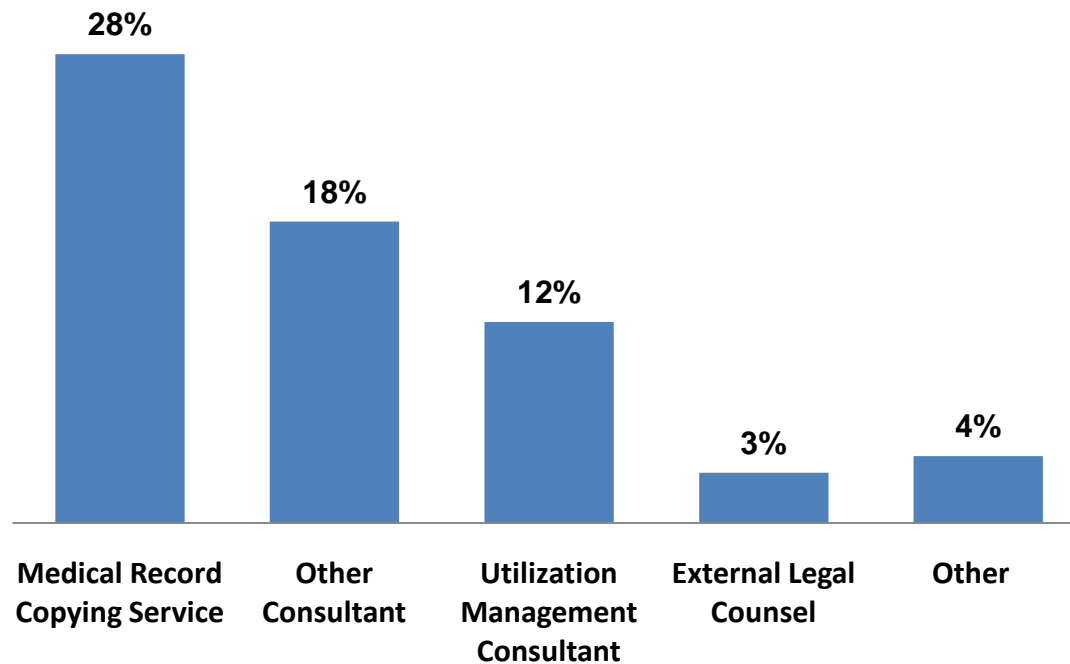
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On average, \$52,782 was spent this past quarter to hire an external utilization management consultant for those hospitals utilizing external resources.

Percent of Hospitals Using External Resources by Type and Average Dollars Spent *this quarter*, 3rd Quarter 2010



Administrative Burden	Average Dollar Amount This Quarter
Medical Record Copying Service	\$1,972
Other Consultant	\$15,330
Utilization Management Consultant	\$52,782
External Legal Counsel	\$2,822
Other	\$16,825

Average dollars spent by hospitals that reported utilizing external resources.



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For more information visit AHA's *RAC*Trac website:

<http://www.aha.org/aha/issues/RAC/ractrac.html>