

RAC Program Update – July 2009

The Medicare Recovery Audit Contractor (RAC) Program is expanding from a six-state demonstration to a national program, to be fully in place by January 1, 2010. The mission of the RAC Program is to reduce Medicare improper payments through detection and collection of overpayments, identification of underpayments and the implementation of actions that will prevent future improper payments.

Background

RAC contractors are paid on a contingency fee basis (9.0% to 12.5%, depending on the contractor) on the amount of the improper payments they correct for both overpayments and underpayments. Improper payments can occur for medically unnecessary services or services or procedures that are performed in a medically unjustified setting (inpatient versus outpatient). Improper payments can also occur for services that were not correctly coded, for which documentation is absent or insufficient, or for which duplicate claims were submitted.

Rollout

Table 1 shows which RAC contractors cover which states, timing of the states' inclusion in the RAC Program, and the contingency fees the contractors will be paid.

Table 1. RAC Program Contractors, Timing, and Contingency Fees.

| Medicare Region | RAC Contractor | Subcontractor | Timing for Inclusion in RAC Program: | | Contingency Fee |
|-----------------|---------------------------------|-----------------------|--------------------------------------|------------------------------------|-----------------|
| | | | Mar. 1, 2009 | Aug. 1, 2009 | |
| Region A | Diversified Collection Services | PRG-Schultz | NY *, MA*, ME, NH, VT, RI | PA, NJ, DE, MD, CT | 12.45% |
| Region B | CGI Technologies and Solutions | PRG-Schultz | MI, IN, MN | WI, IL, OH, KY | 12.5% |
| Region C | Connolly Consulting Associates | Viant Payment Systems | FL*, SC*, CO, NM, OK, TX | TN, WV, VA, NC, LA, GA, AR, MS, AL | 9.0% |
| Region D | HealthDataInsights | PRG-Schultz | AZ*, MT, WY, ND, SD, UT, CA*, NV | WA, OR, AK, HI, ID, IA, MO, NE, KS | 9.49% |

* These states were part of the RAC demonstration. FL, SC, AZ, and CA will be switching RACs on the timing indicated here.

Process

RAC contractors are currently holding Town Hall type meetings in each state with health care providers, CMS staff and representatives from the contractors. When outreach in a state is completed, the contractor may begin contacting hospitals to request medical records.

Table 2 displays the types of reviews being conducted and the associated timeline. Group A States include: CA, NV, AZ, UT, MT, WY, CO, NM, ND, SD, OK, TX, MN, MI, IN, FL, SC, NY, VT, NH, ME, MA, RI and HI. Group B States include: WA, OR, ID, NE, KS, IA, MO, AR, LA, WI, IL, MS, KY, TN, AL, GA, NC, VA, WV, OH, PA, NJ, CT, DE, MD and AK.

Table 2. RAC Review Phase-in Strategy

| Type of review* | Affected States | Earliest possible dates |
|---|-----------------|-------------------------|
| Automated review – black and white issues | Group A | June 2009 |
| | Group B | August 2009 |
| DRG Validation – complex review | Group A | August/September 2009 |
| | Group B | October/November 2009 |

| | | |
|--|-------------|-----------------------|
| Coding Errors – complex review | Group A | August/September 2009 |
| | Group B | October/November 2009 |
| DME Medical Necessity Reviews – complex review | Group A & B | Fiscal year 2010 |
| Medical Necessity Reviews – complex review | Group A & B | Calendar year 2010 |

* Black and white issues do not require review of medical records; complex review requires review of medical records

RACs Not to Conduct Medical Necessity Reviews Until 2010

CMS does not expect its RAC contractors to conduct reviews for medical necessity until 2010. RACs will begin with coding and DRG validation, which don't require requests for records. During the RAC demonstration, 32% of all claims denials were for medical necessity. However, a CMS-sponsored study of medical necessity denials of inpatient rehabilitation facility claims performed by the California demonstration RAC found a 40% error rate.

The delay of medical necessity reviews is due to the sheer complexity of the reviews. "We are really trying to ensure that when there is a difference of opinion [on the medical necessity determination of the case], the RAC clearly documents their rationale," said Marie Casey, deputy director of the Division of Recovery Audit Operations at CMS. She adds that the delay will also help CMS with the rollout of its "issue review team," a group comprised of members of various agency divisions that will look at questions that come in about policy (e.g., whether the RACs are correct in their interpretations of coding guidelines).

High Cost, Short Stay Inpatient Admissions

High cost, short stay inpatient procedures were a target during the demonstration and are expected to remain a target in the permanent program. High on the list of inpatient admissions released within 24 hours are ICD and pacemaker implants. This doesn't mean they are inappropriate admissions; however the medical necessity of inpatient admissions must be supported by the medical record.

Demonstration Observations (Five States, Three Years) as of March 2008

- Review of 0.3% of Medicare claims from the eligible period yielded \$992.7 million in total collections
- Of the \$516 million in inpatient hospital medical necessity denials, \$64.7 million (12.5%) related to ICD implants in the wrong setting in Florida only
- Providers appealed 14% of RAC determinations; of the appeals, only 4.6% were overturned
- Overpayments collected outweighed underpayments repaid by twenty-six times
- The RAC demonstration paid for itself; total costs were 20 cents for each dollar collected

Lessons Learned

Table 3 summarizes key changes in the permanent program, based on experience in the demonstration.

Table 3. Changes to the Permanent Program Driven by the Demonstration

| | Demonstration | Permanent Program |
|---|---|---|
| Contractor Medical Director | Not required | Required |
| Contractor coding experts | Not required | Required |
| Look-back period | 4 years | 3 years, with a maximum look-back date of October 1, 2007 |
| Allowed to review claims in current fiscal year? | No | Yes |
| Limits on # of medical records requested | Optional – each contractor sets own limit | Limit to number of medical records the contractor can request: <ul style="list-style-type: none"> - Hospital inpatient: 10% of average monthly Medicare claims, not to exceed 200, per 45 days - Hospital outpatient: 1% of average monthly Medicare services, not to exceed 200, per 45 days - Physician claims limits vary by practice size and relationship to hospital |

| | | |
|--|---|---|
| Validation of contractor review issues | No review | CMS validation of an issue to determine whether the contractor can proceed with a review involving more than 10 claims. Issues validated by CMS to be posted to the contractor website. |
| Reason for review listed on request for records letters and overpayment letters | Not required | Required |
| Discussion period regarding improper payment determination | No opportunity for provider to discuss the improper payment determination | Optional discussion period within 41 days of receipt of demand letter (not to replace the appeals process) |
| Contractor contingency fee payback in case of a provider's successful appeal | Paid back if first-level appeal successful | Paid back if appeal successful at any level |

Rebilling

If a RAC contractor determines that an inpatient admission should have been outpatient, the hospital, after repaying the money, may resubmit a bill for certain ancillary services under Part B (outpatient).

Resources

CMS Medicare RAC website

http://www.cms.hhs.gov/RAC/01_Overview.asp

CMS provides details on the RAC Program for health care providers, including implementation plans, expansion schedules, dates for regional RAC town halls and FAQs.

Sample Demand Letter

<http://blogs.hcpro.com/revenuecycleinstitute/wp-content/uploads/2009/05/cms-demand-letter-part-a-complex-review.pdf>

CMS RAC Program: 3-year evaluation of the demonstration (June 2008)

http://www.cms.hhs.gov/RAC/Downloads/RAC_Demonstration_Evaluation_Report.pdf

American Hospital Association (AHA)

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

The AHA has prepared extensive information on RACs and provides a variety of educational resources, including support materials to assist in preparations for a RAC audit.

Heart Rhythm Society (HRS) Position Statement

<http://www.hrsonline.org/Policy/CodingReimbursement/resources/upload/RAC-GUIdelines-stationary.pdf>

HRS has developed a position statement regarding the appropriate classification of patient status (inpatient vs. outpatient) for the implantation of pacemakers, ICDs and EP/ablations.

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