



Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTrac Survey, 2nd Quarter 2010

September 9, 2010

Executive Summary—*RAC*Trac and RAC 101

- AHA created *RAC*Trac—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
- *RAC*Trac 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
 - Second quarter 2010 was generally consistent with hospital representation in each of the four RAC regions



Executive Summary—RAC 101

- 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



Executive Summary—*RAC*Trac Participation and RAC Activity

- Participation in *RAC*Trac has more than doubled since the first quarter of 2010, with 1389 hospitals participating.
- More than two thirds of the 1389 hospitals responding to *RAC*Trac 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
 - RAC Region C had the highest number of hospitals reporting RAC activity, but RAC Region D had a higher percentage of participating hospitals reporting RAC activity



Executive Summary—RAC Reviews

- 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
 - The majority of RAC activity during the 2nd quarter of 2010 was medical record requests.
 - *RACTrac* respondents reported complex reviews of medical records totaling over \$432 million in Medicare payments nationwide, \$214 million for Region C alone



Executive Summary—RAC Denials

- \$19.2 million in denied claims have been reported since the first quarter of 2010, nearly \$11 million in Region C alone.
 - 85% of denied payments resulted from complex denials, totaling over \$15.5 million
 - 87% of hospitals reporting automated denials experienced denials for outpatient coding and billing errors
 - 91% of hospitals reporting complex denials experienced denials for inpatient coding errors



Executive Summary—RAC Appeals

- 39% of hospitals reported appealing at least one RAC denial
 - Participating hospitals reported appealing 16% of all denials available for appeal, totaling over \$5 million in value
 - Of the claims that have completed the appeals process, 13% were overturned in favor of the provider; Region D reported the highest percentage of overturned denials.
 - 1,571 of claims are still in the appeals process and the overturn rate may increase as more appeals complete the appeals process.
 - Hospitals reported a total of \$420,870 in overturned denials, with \$273,113 in Region C alone



Executive Summary—RAC Administrative Burden

- 76% of responding hospitals report that their RAC impacted their organization in the first quarter of 2010—whether they experienced RAC reviews or not
 - 51% of responding hospitals reported increased administrative costs
 - Managing the RAC process is spread across many types of hospital staff creating significant administrative burden
 - Medical records staff spent the most time responding to RAC activity
 - Hospitals are using both internal and external resources to prepare and manage RAC activity
 - Those hospitals (11%) using external resources reported spending an average of \$48,770 to hire an external utilization management consultant



Methodology

- **AHA Survey, *RACTrac*: Ongoing Monitoring of RAC Impact on Hospitals**
 - Data are collected on a quarterly basis, capturing cumulative RAC activity in participating hospitals
 - 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**
 - Since *RACTrac* began collecting data in January, 2010, 1,389 hospitals have responded: 972 hospitals reporting RAC activity, 417 hospitals reporting no RAC activity
 - Survey questions are designed to collect *cumulative* RAC experience data, from the inception of a hospital's RAC activity through the 2nd quarter of 2010
 - Respondents include 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
 - 9% are teaching hospitals
 - 41% of hospitals are rural
 - 63% of hospitals have a bed size of less than 200



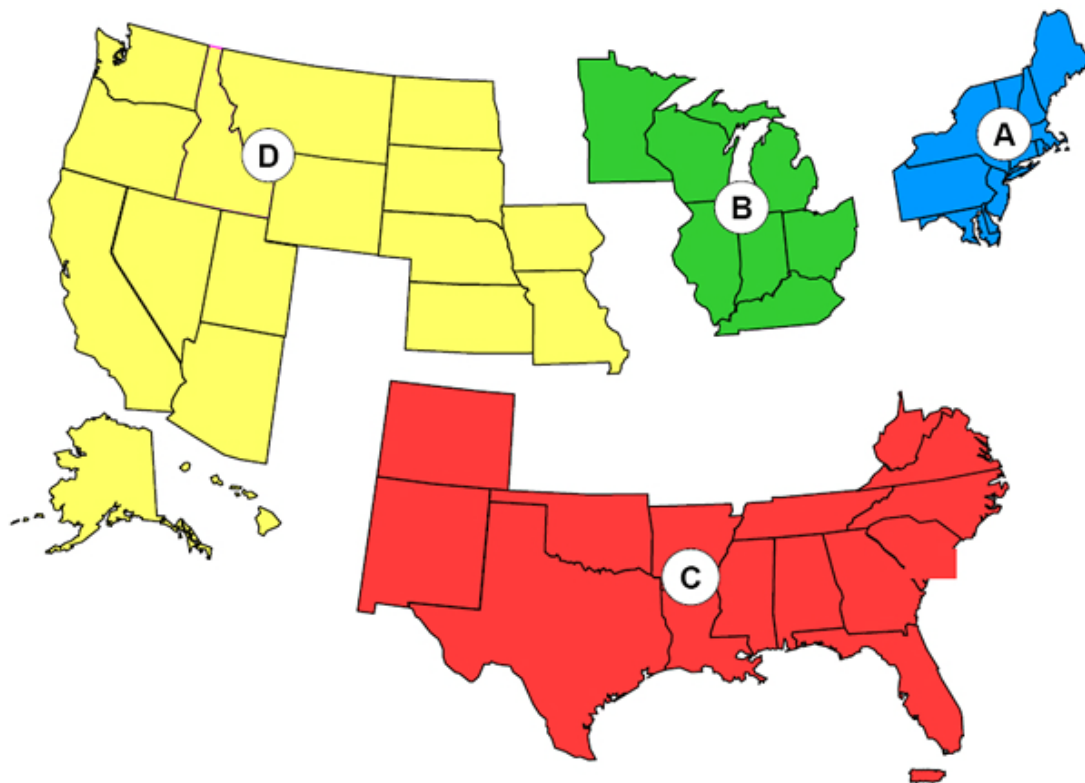


RACTrac Participation

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%

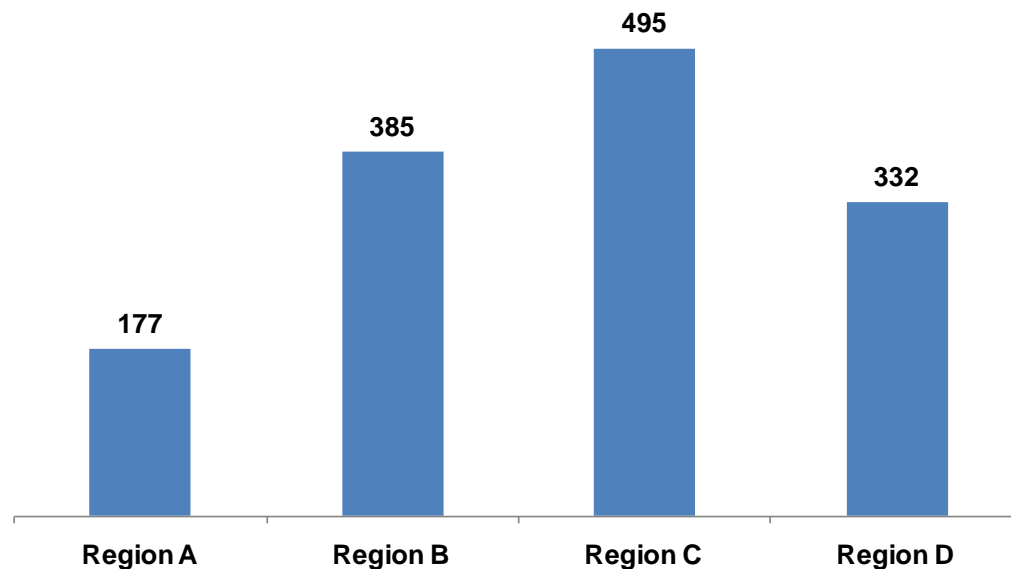


Source: Centers for Medicare and Medicaid Services

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, through 2nd Quarter, 2010

	Percent of Hospitals Nationwide	Percent of Participating Hospitals by Region
Region A	16%	13%
Region B	19%	28%
Region C	39%	36%
Region D	26%	24%



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

AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 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.

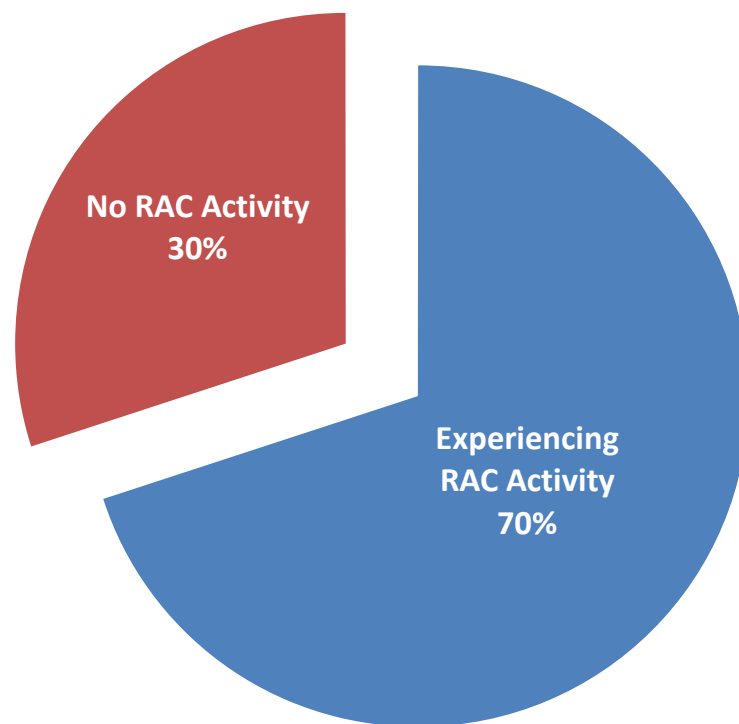


RAC Activity



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

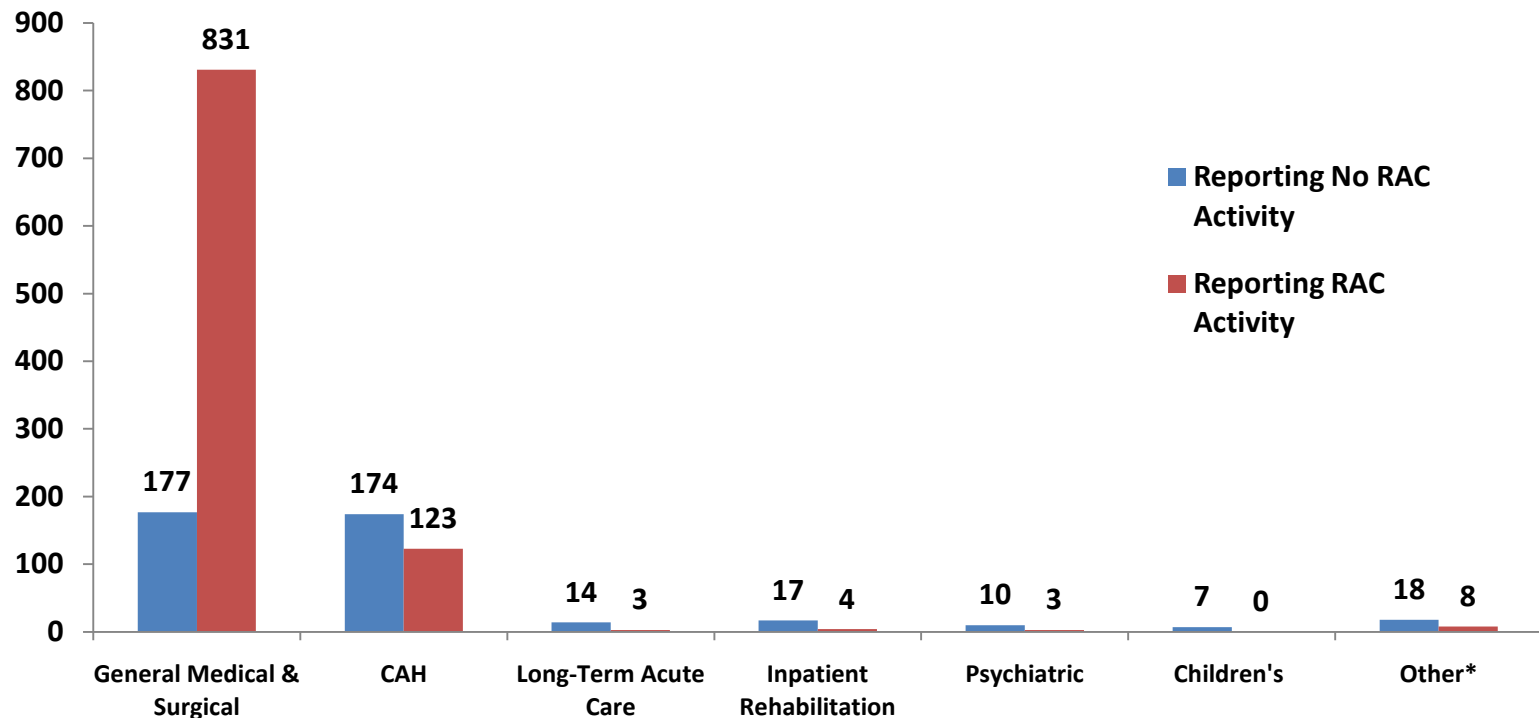
Percent of Responding Hospitals Experiencing RAC Activity, through 2nd Quarter 2010



Source: AHA. (August 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 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 2nd Quarter 2010

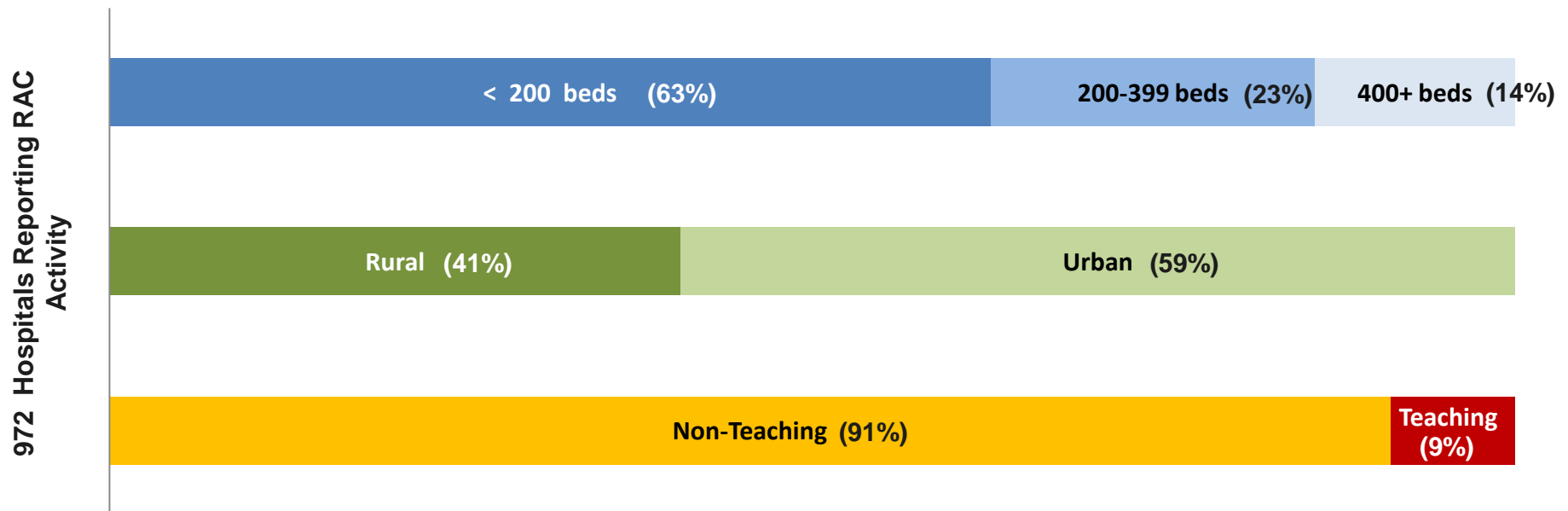


Source: AHA. (August 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), 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., Heart, Obstetrics & Gynecology, Orthopedic and Surgical hospitals.



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

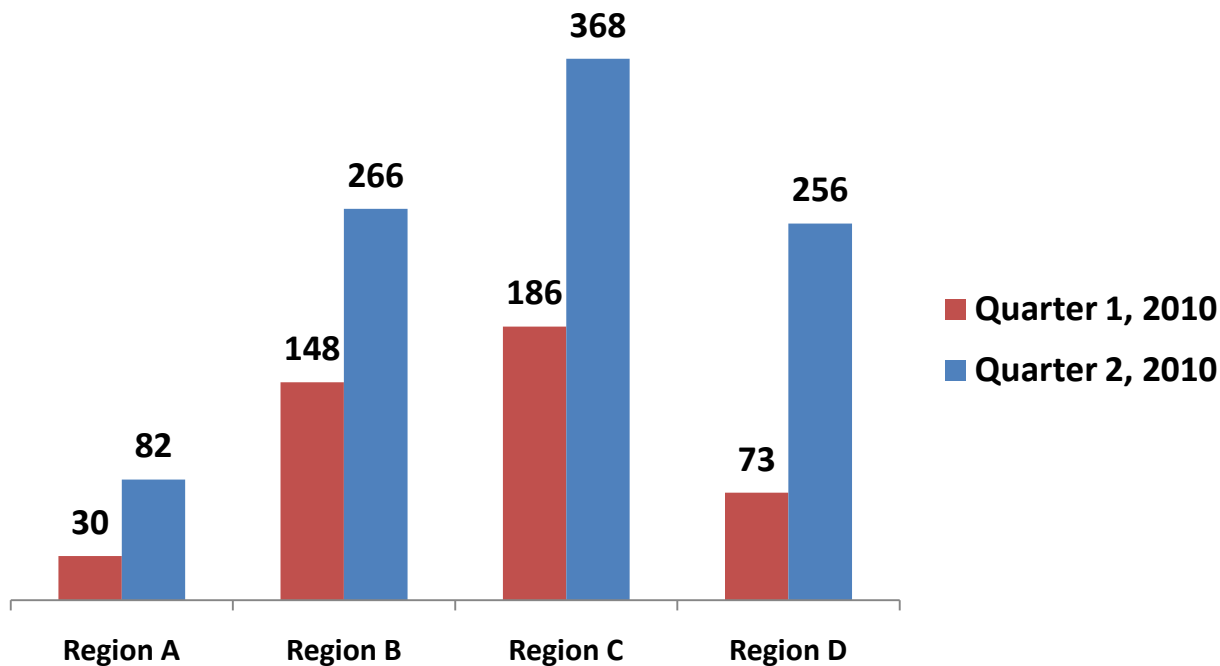
Types of Hospitals Reporting RAC Activity, through 2nd Quarter 2010



Source: AHA. (August 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 2nd 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

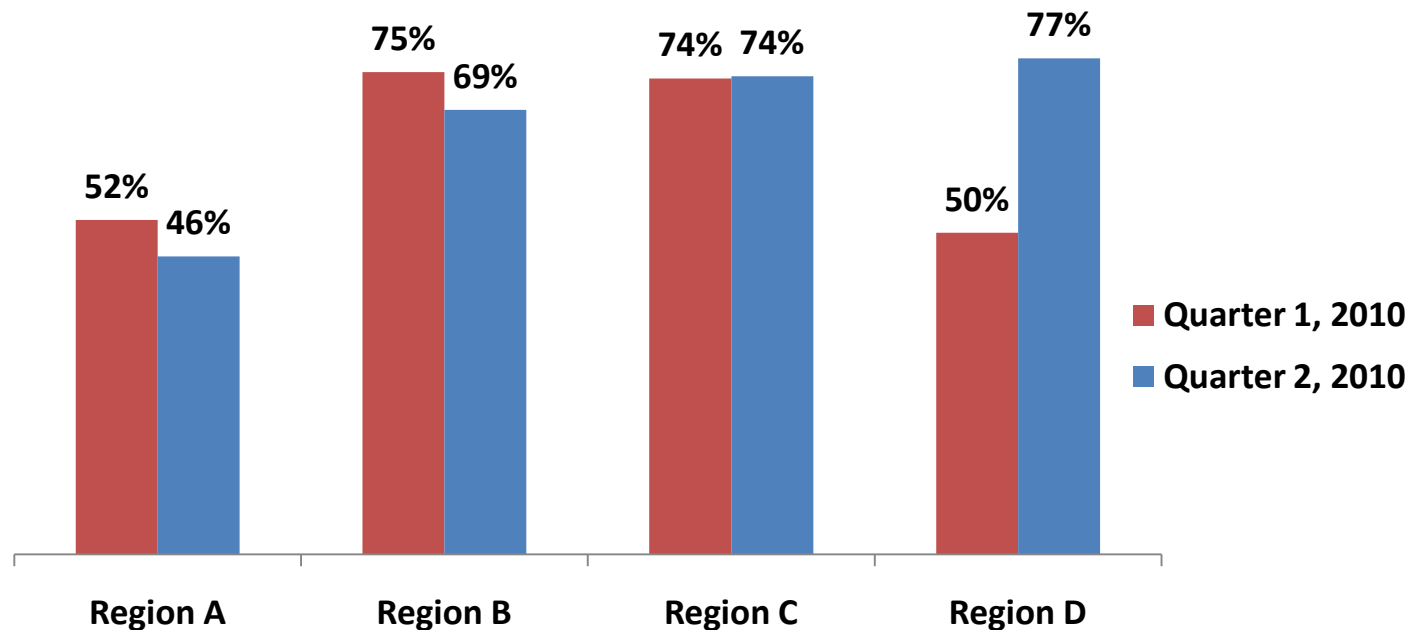
Participation in RACTrac has more than doubled since Quarter 1, 2010.



Source: AHA. (August 2010). RACTrac Survey
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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 2nd Quarter, 2010



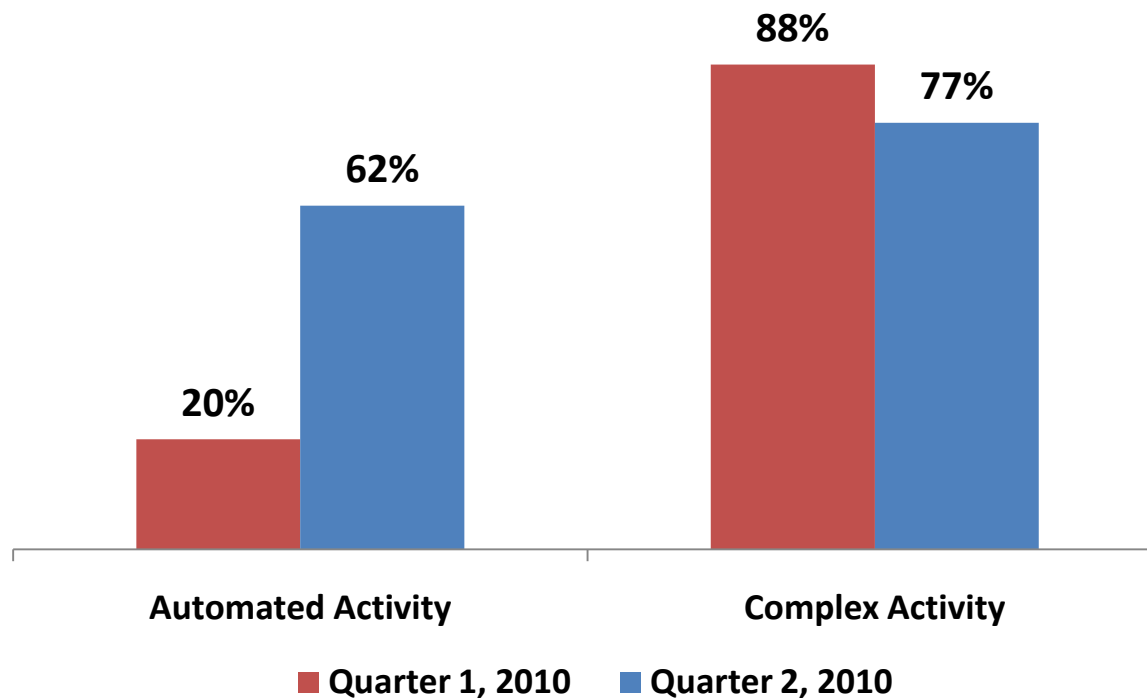
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RAC Reviews

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 2nd 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.

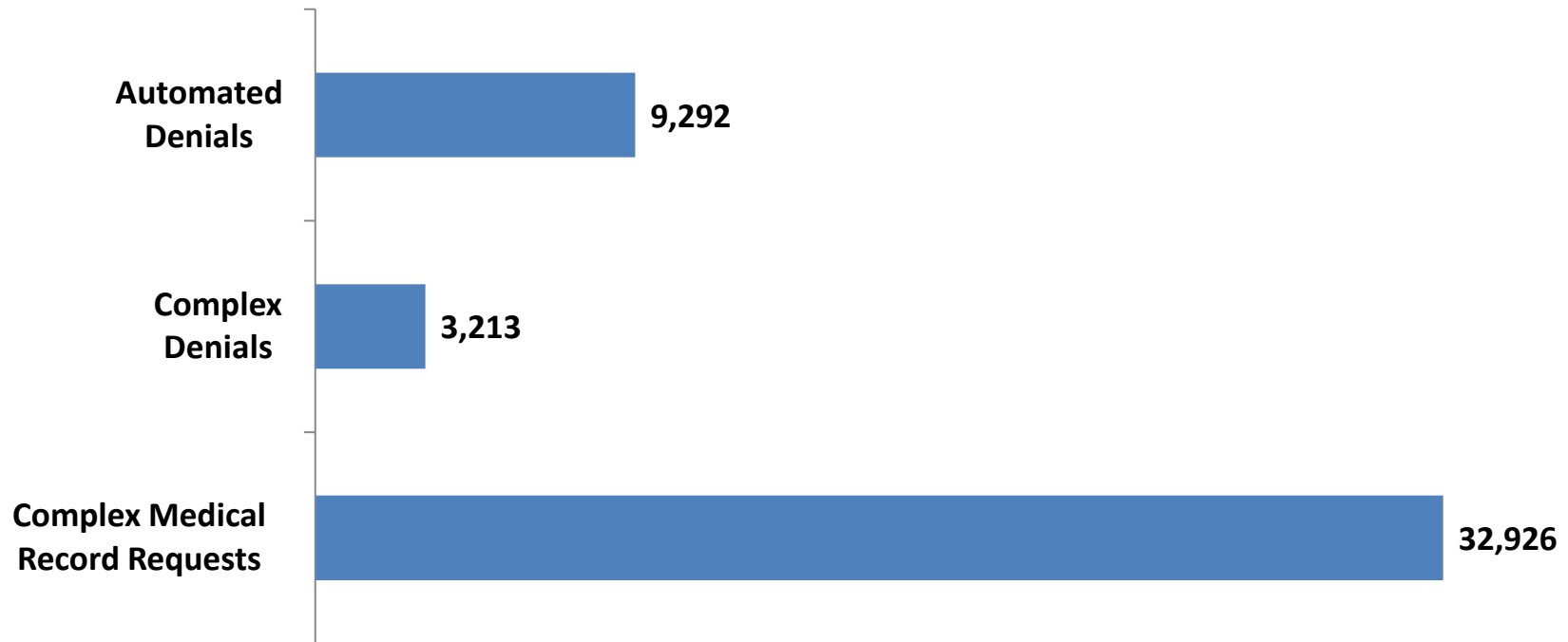
Complex Activity: includes all complex reviews, which is a human review and determination of whether or not an improper payment has been identified once the medical record has been received. Upon that determination, a hospital will be notified via a review results letter if an improper payment was found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



Source: AHA. (August 2010). RACTrac Survey
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The majority of RAC activity through the 2nd quarter of 2010 has been medical record requests.

Total Reported Automated Denials, Complex Denials and Complex Medical Records Requests, through 2nd Quarter 2010

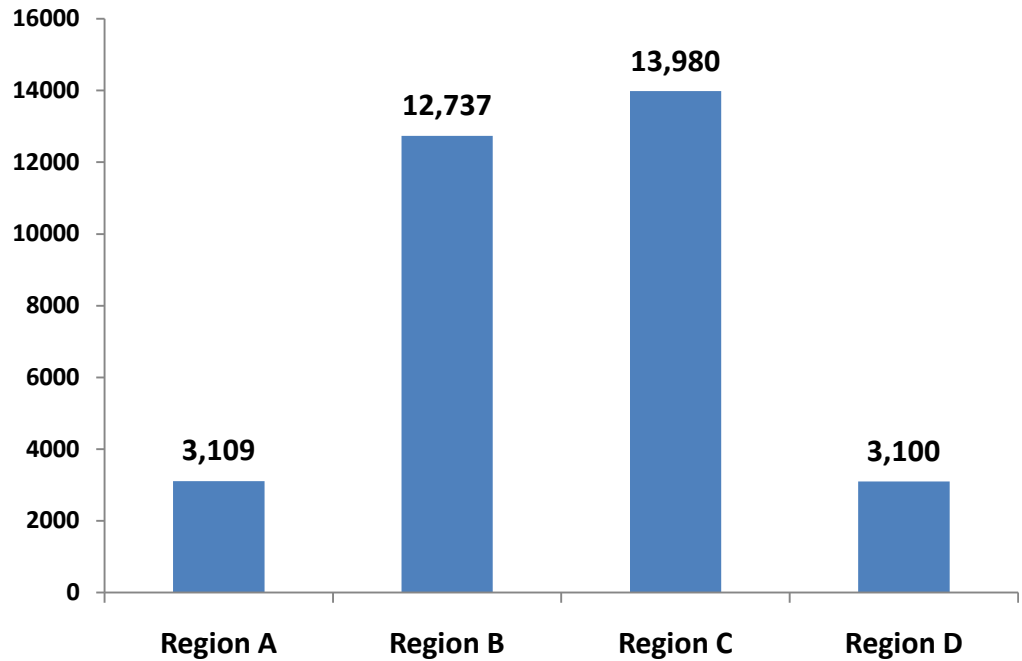


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Region C had the highest number of medical records requested, but Regions A and B had more medical records requested per reporting hospital.

Number of Medical Records Requested from Responding Hospitals With Complex Medical Record RAC Activity, through 2nd Quarter 2010

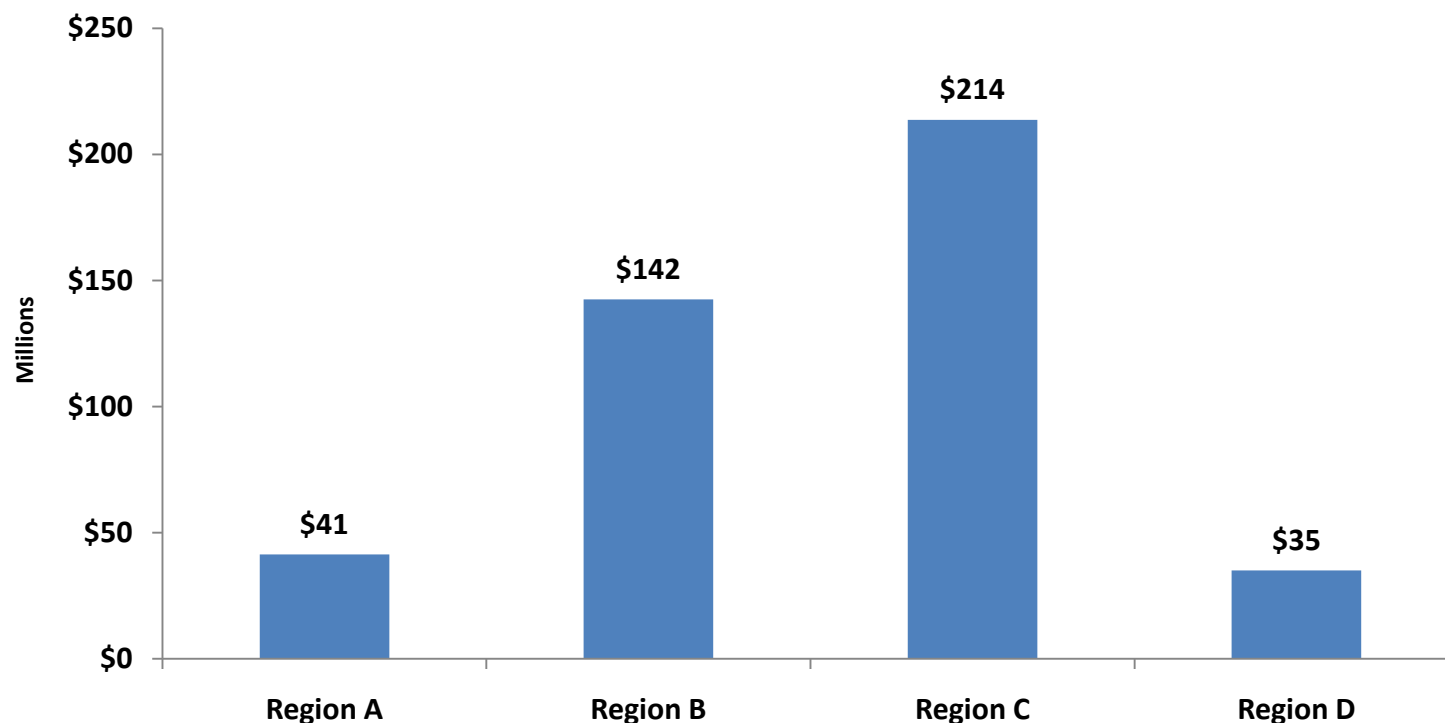
Average Number of Medical Record Requests per Reporting Hospital	
Region A	63
Region B	62
Region C	49
Region D	36



Source: AHA. (August 2010). RACTrac Survey
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Region C had the highest amount of Medicare payments targeted in medical record requests, over \$214 million.

Medicare Payments Associated with Medical Records Requested from Responding Hospitals, through 2nd Quarter 2010, in Millions



Source: AHA. (August 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 2nd Quarter 2010



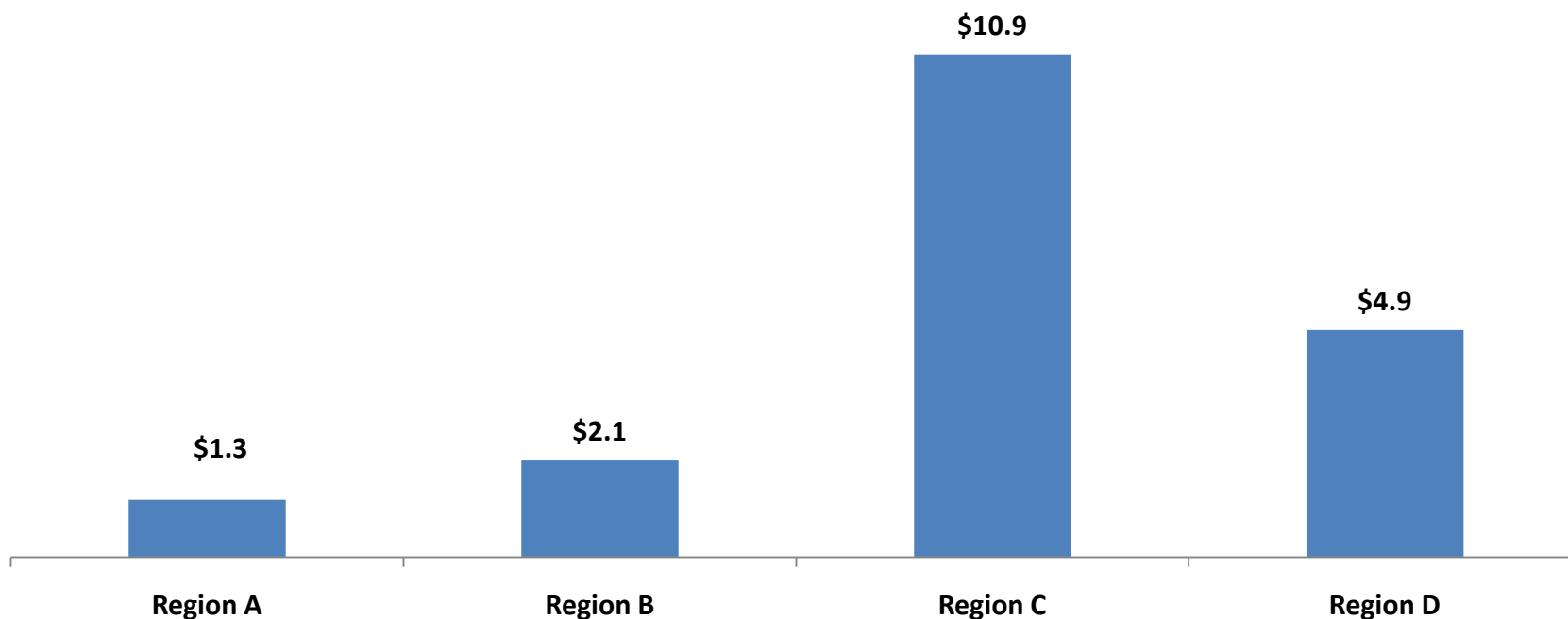
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RAC Denials

\$19.2 million in denied claims have been reported since the first quarter of 2010, nearly \$11 million in Region C alone.

Dollar Value of Automated and Complex Denials by RAC Region, through 2nd Quarter 2010, Millions

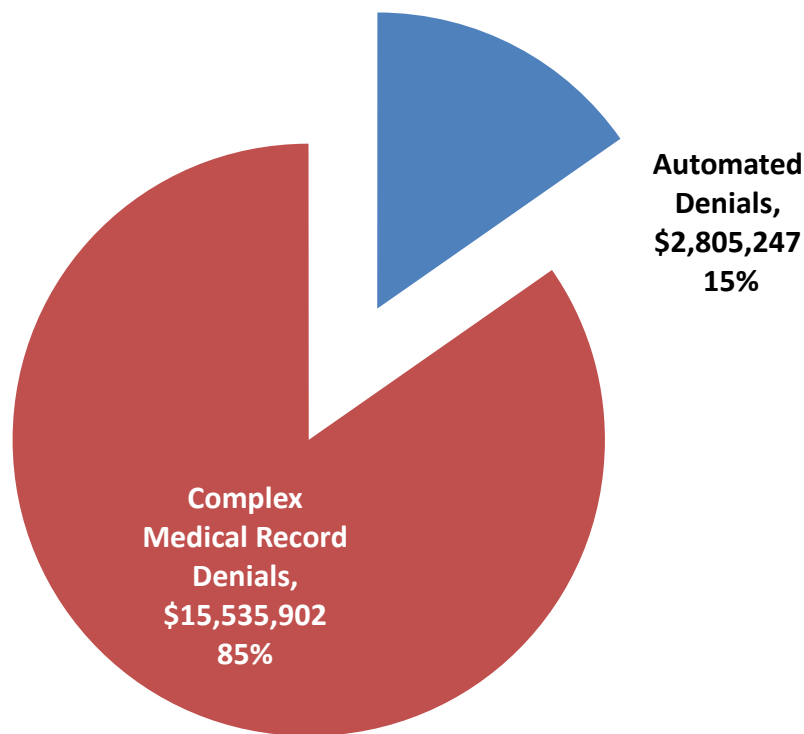


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85% of denied dollars were complex denials totaling over \$15.5 million dollars.

Percent and Dollar Amounts of Automated Denials Versus Complex Denials, through 2nd Quarter 2010



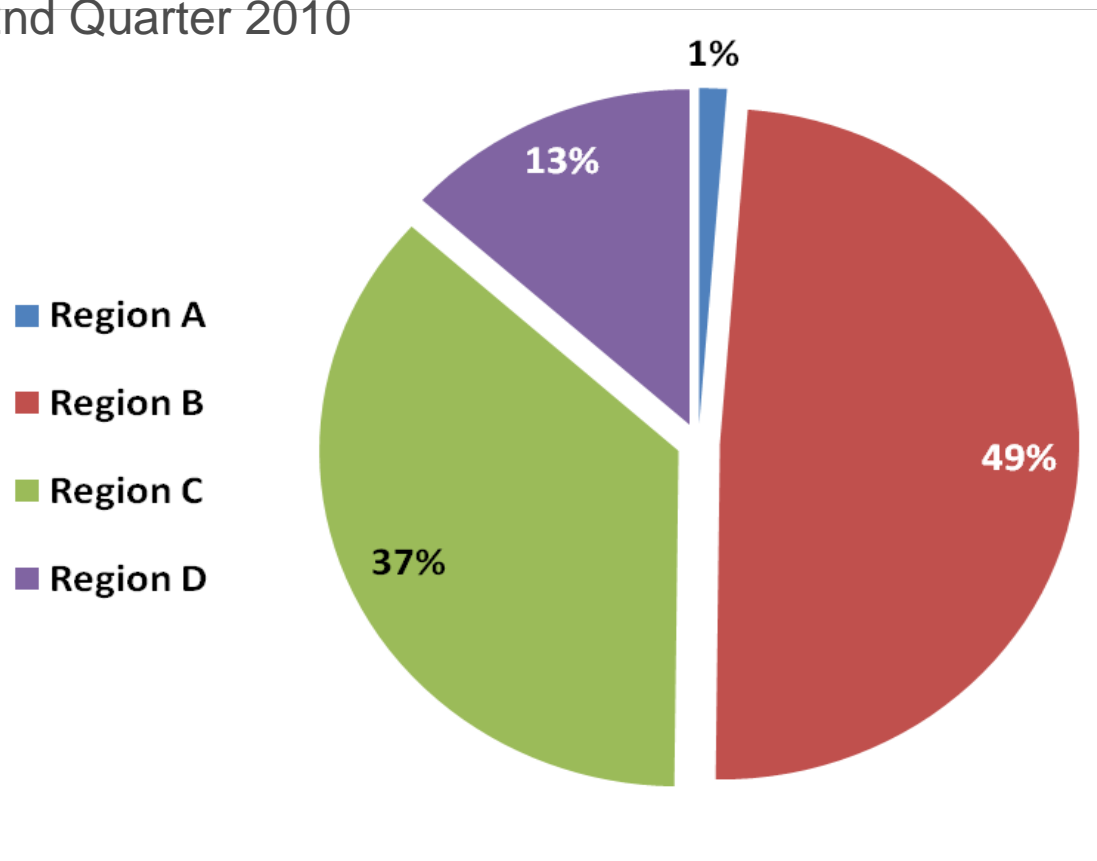
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By the second quarter of 2010, Region B had nearly half of all reported denials.

Percent of Automated and Complex Denials by RAC Region, through 2nd Quarter 2010

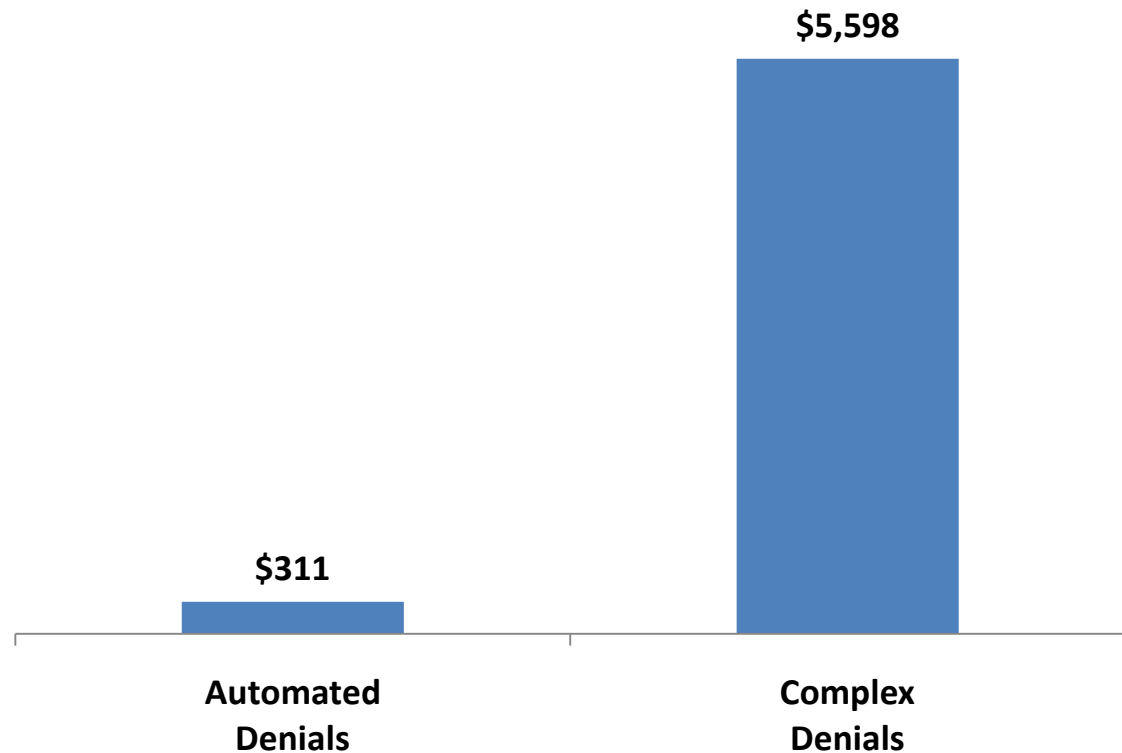


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The average dollar value of an automated denial was \$311 and the average dollar value of a complex denial was \$5,598.

Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 2nd Quarter 2010

Average Dollar Amount of Automated and Complex Denials Among Reporting Hospitals, by Region		
RAC Region	Automated Denial	Complex Denial
Region A	Insufficient data	\$6,227
Region B	\$242	\$5,576
Region C	\$397	\$5,717
Region D	\$389	\$4,868

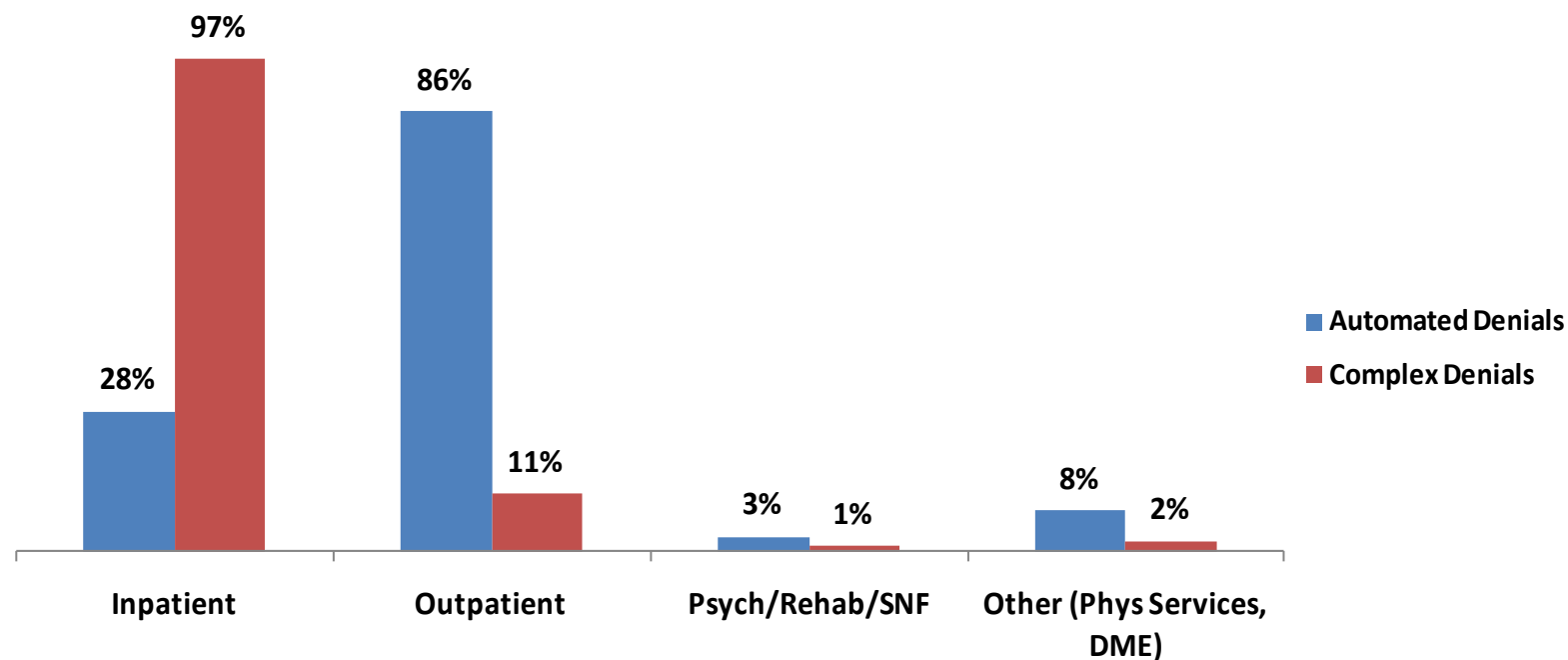


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The highest percentage of hospitals reported automated denials in the outpatient service area and complex denials in the inpatient service area.

Percent of Responding Hospitals with RAC Activity Experiencing Denials by Type of Service, 2nd Quarter 2010

Survey participants were asked to select all areas targeted for denials

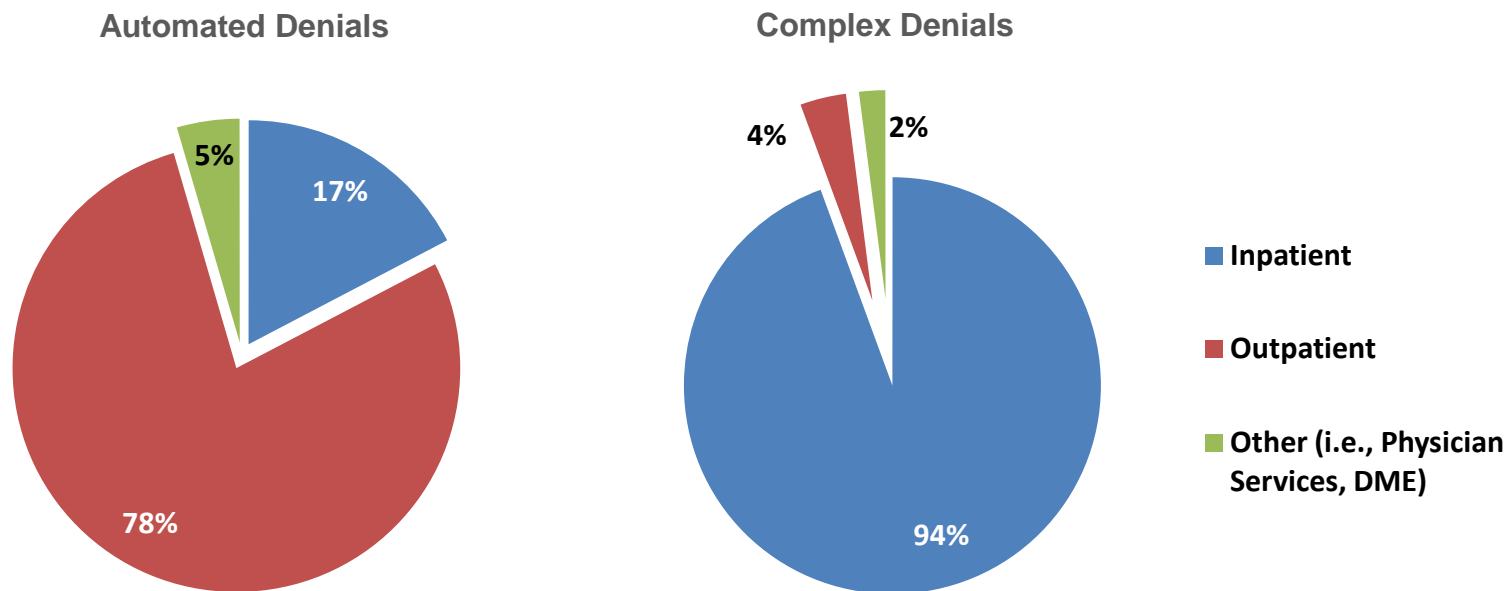


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Hospitals reporting automated denials in the outpatient service area had the largest financial impact while complex denials in the inpatient service area had the largest financial impact.

Top Service Area for Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010

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



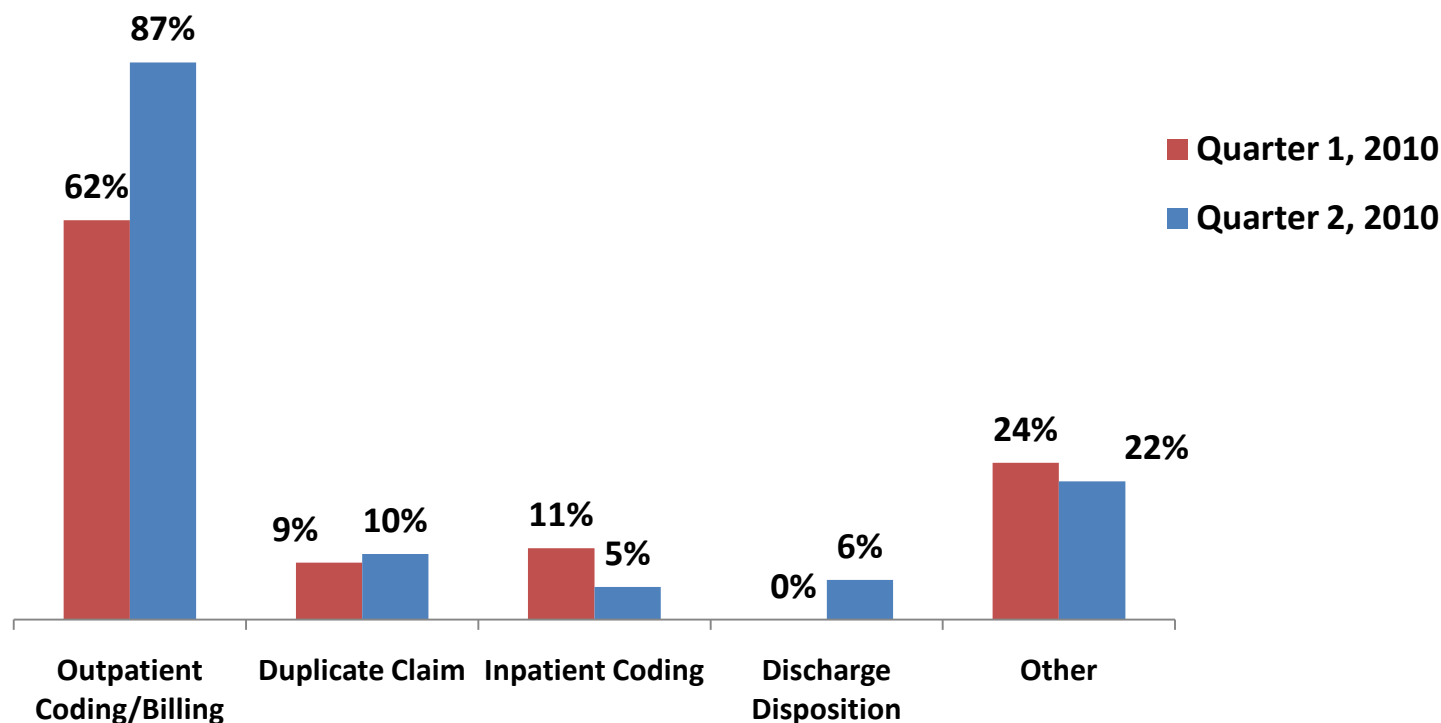
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Automated RAC Denials

In quarter two, nearly 90% of hospitals experienced automated denials for outpatient coding and billing errors.

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

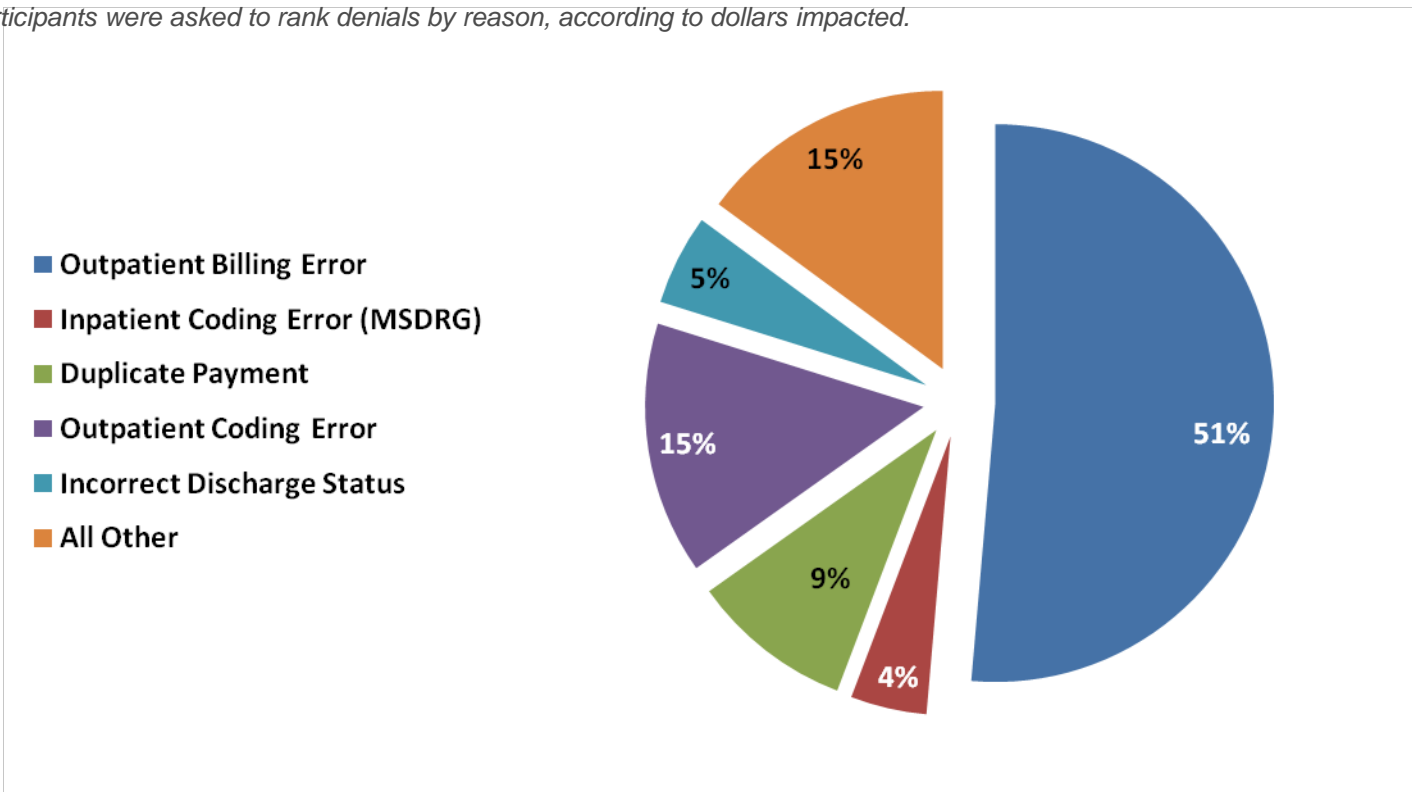


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Automated denials for outpatient billing errors had the largest financial impact on reporting hospitals.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010

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

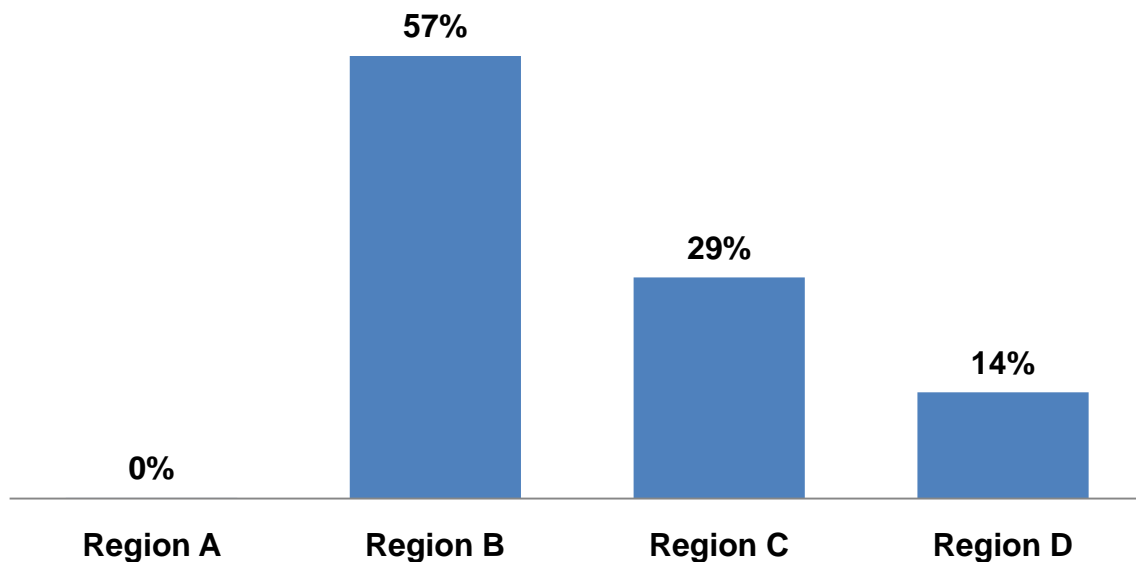


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To date, Region B reporting hospitals have experienced 57% of all reported automated denials.

Percent and Number of Reported Automated Denials, by Region, through 2nd Quarter 2010

	Total Number of Automated Denials by RAC Region
Region A	9
Region B	5,336
Region C	2,667
Region D	1,280

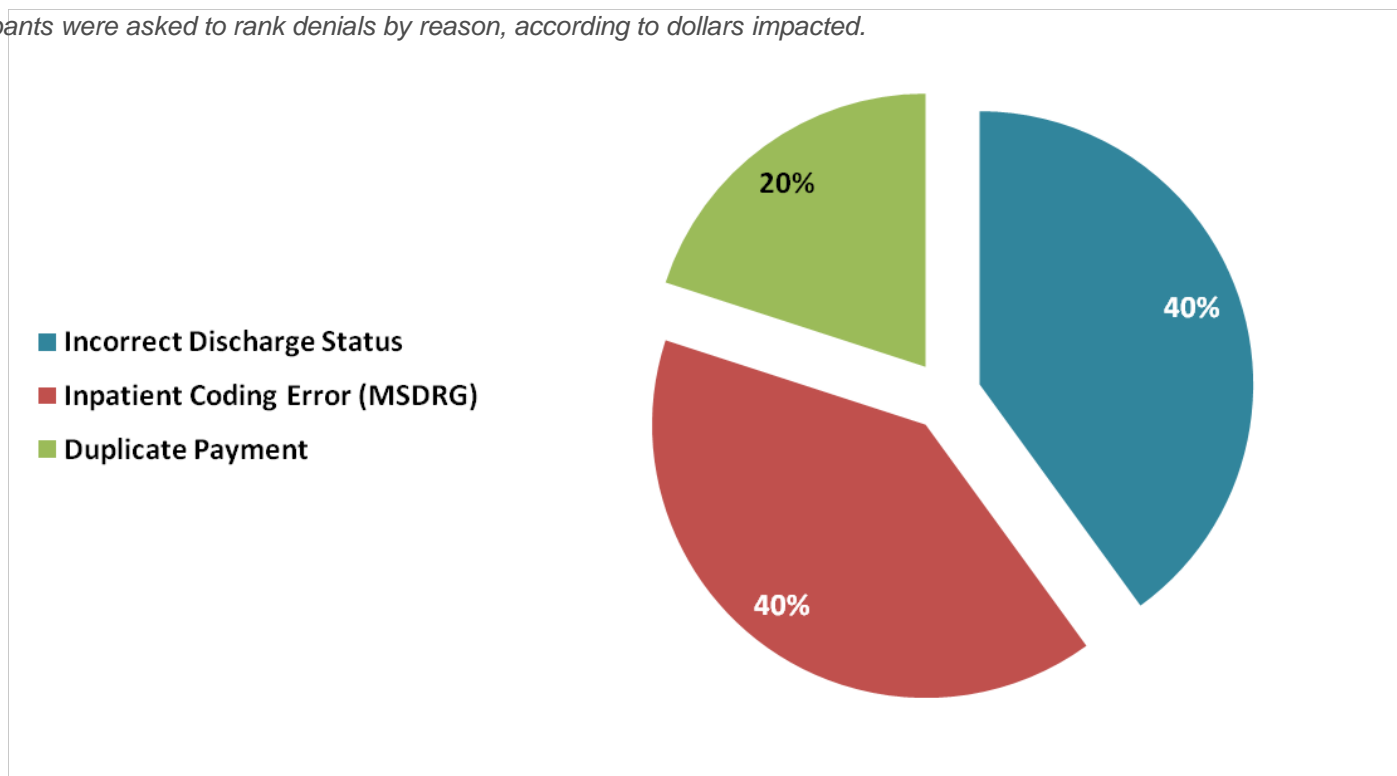


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Region A: No Region A hospitals reported outpatient billing errors as the top reason for automated denials.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region A

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

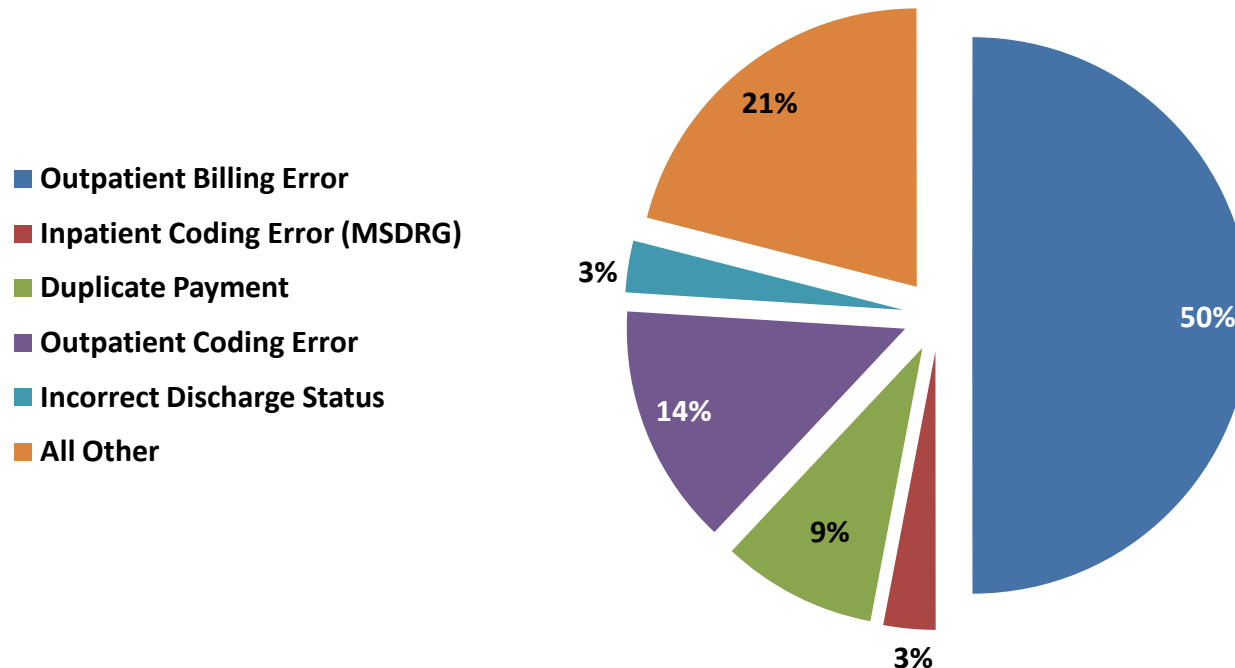


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Region B: With nearly half of all automated denial activity, top denial reasons were consistent with national trend.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region B

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

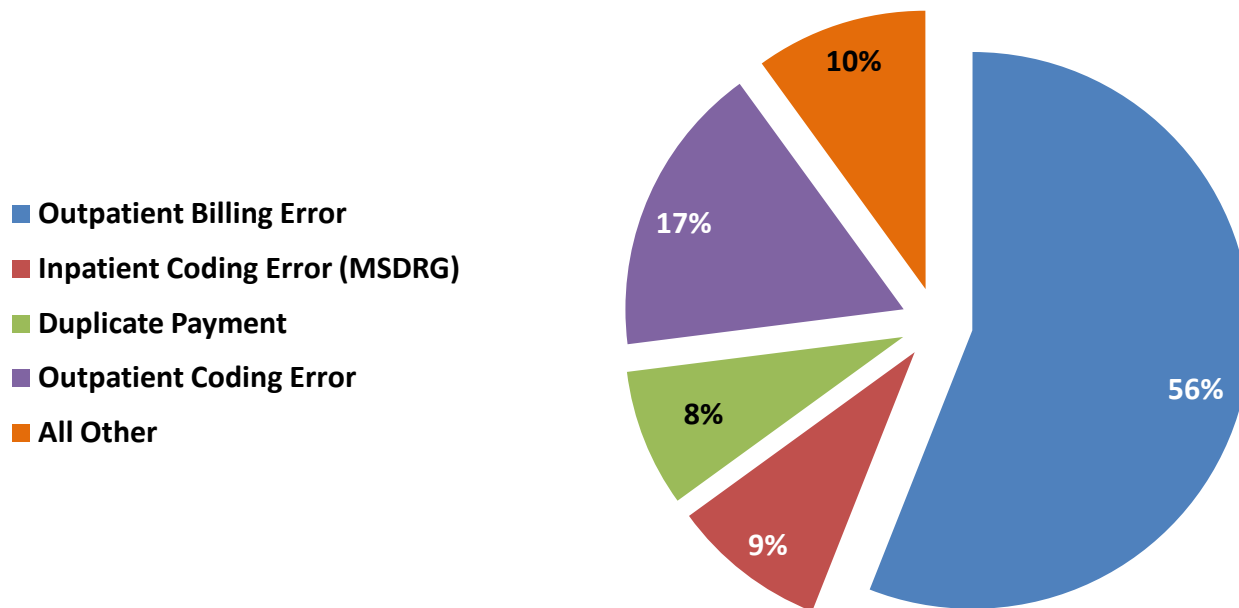


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Region C: Top denial reasons by dollars were more likely to be inpatient coding and outpatient billing errors.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region C

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

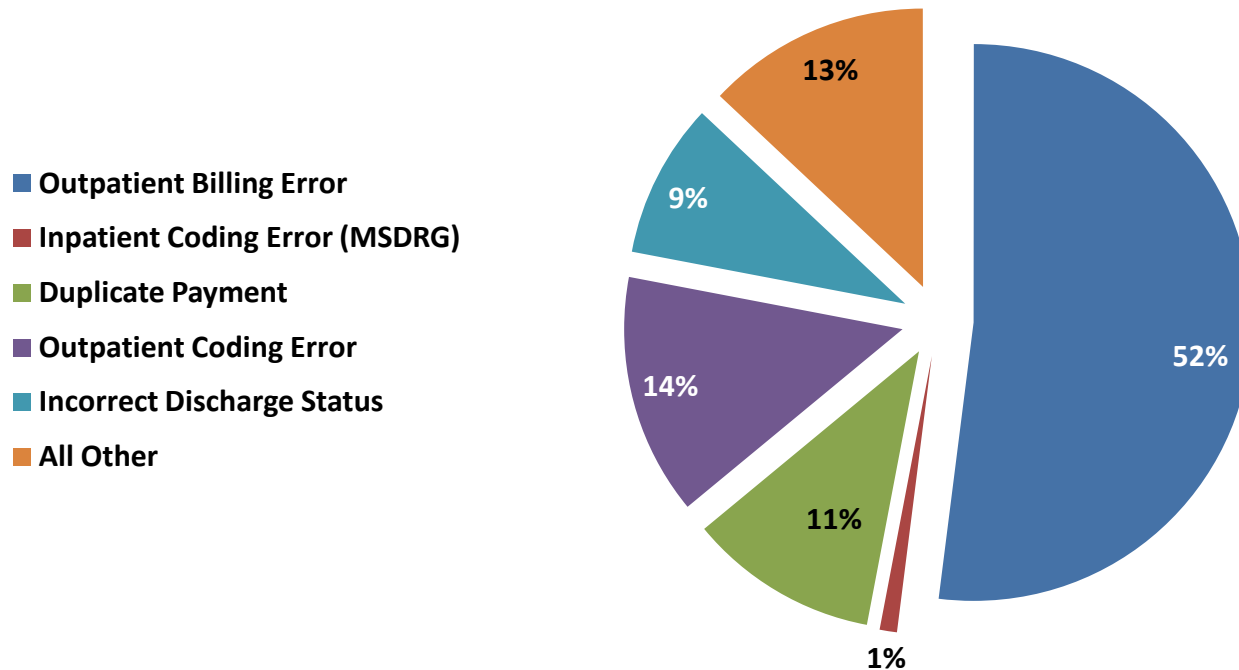


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Region D: Incorrect discharge status was more likely to be cited as a top reason for automated denials.

Top Reason for Automated Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region D

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



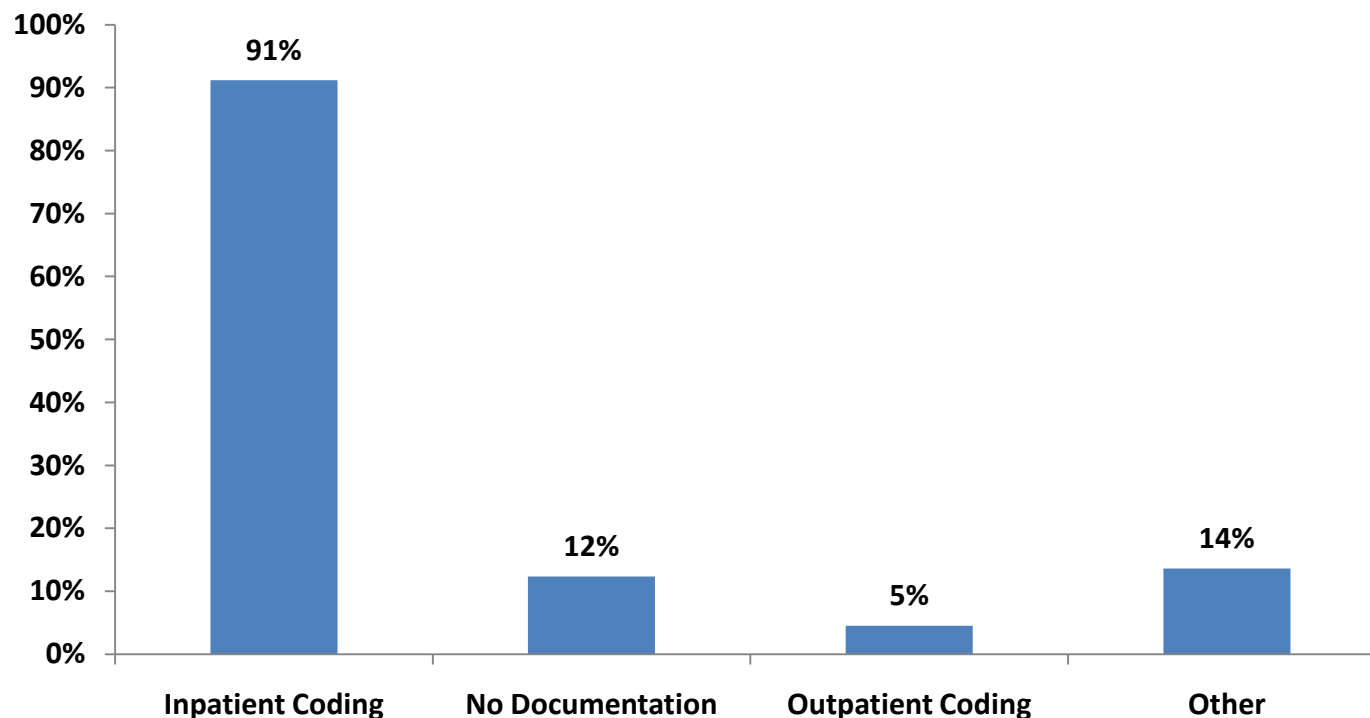
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Complex RAC Denials

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

Percent of Responding Hospitals with RAC Activity Experiencing Complex Denials by Reason, through 2nd Quarter 2010



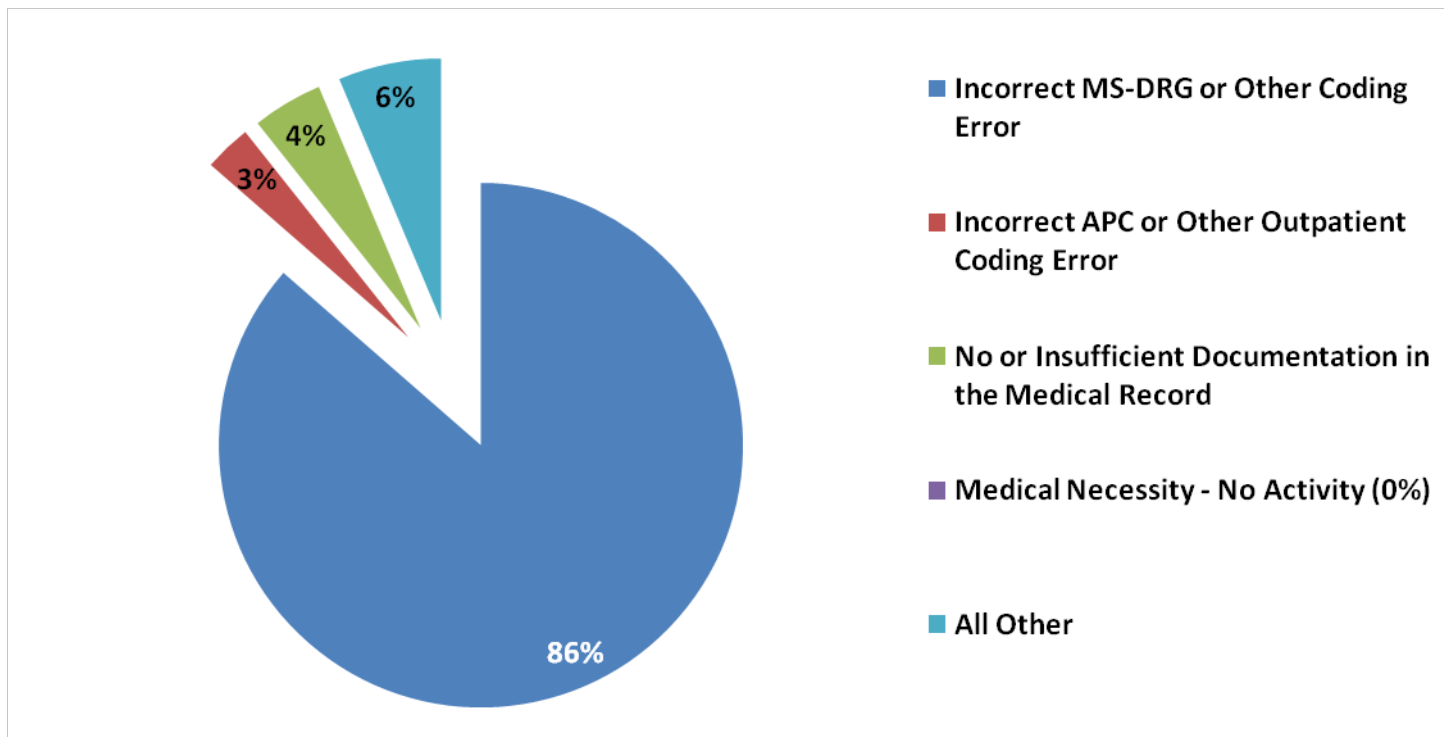
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Incorrect coding of MS-DRGs or other coding errors represented the top reason by dollars for complex denials for 86% of hospitals.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010

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

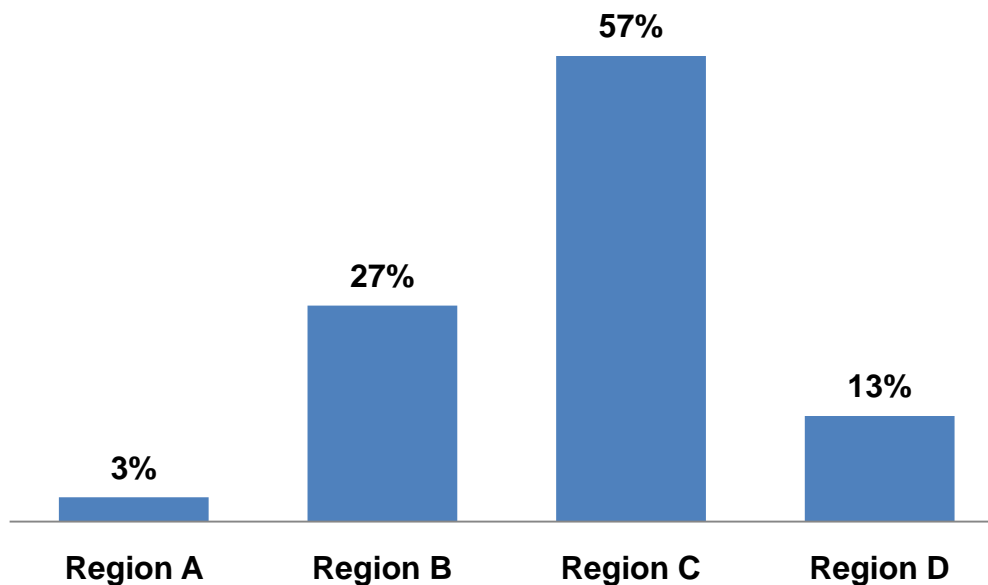


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Region C hospitals reported 57% of all complex denials.

Percent and Number of Reported RAC Complex Denials, by Region, through 2nd Quarter 2010

	Total Number of Claims with Overpayment Determination
Region A	84
Region B	745
Region C	1,605
Region D	364

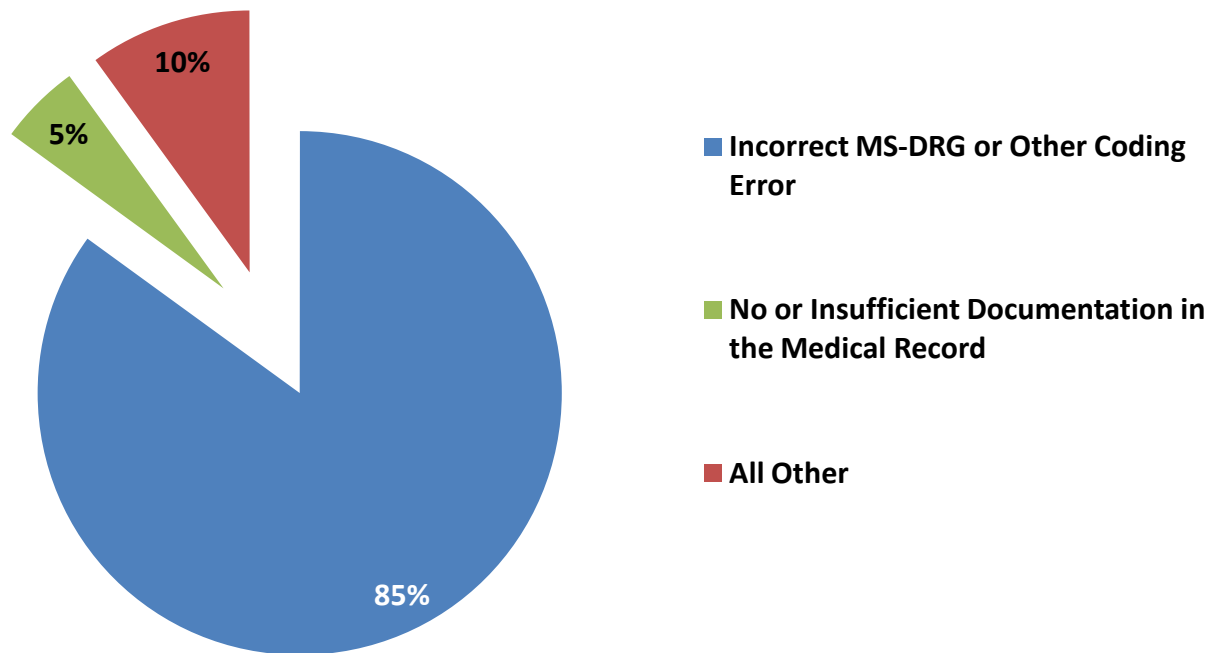


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Region A: By far, the top reason for complex denials was incorrect MS-DRG or other coding errors.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region A

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

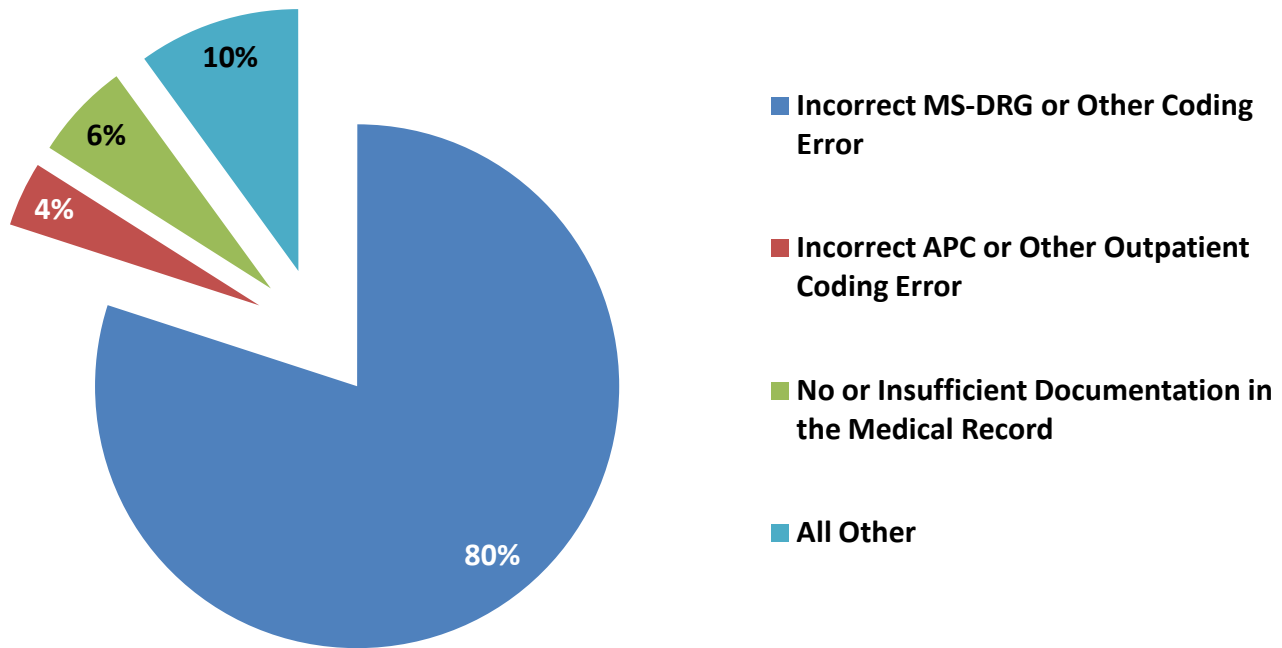


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Region B: Incorrect MS-DRG or other coding error was ranked the top reason for complex denial 80% of the time.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region B

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

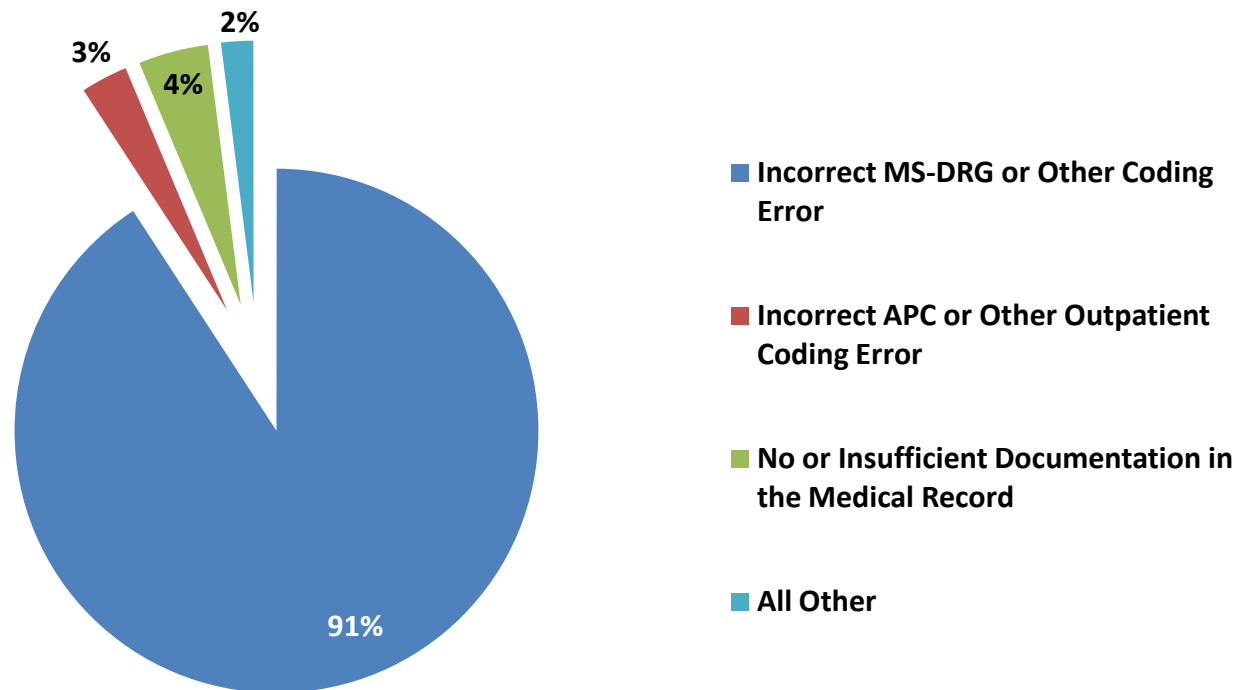


Source: AHA. (August 2010). RACTrac Survey
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity from April to June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

Region C: Incorrect MS-DRG or other coding error was ranked the top reason for complex denial 91% of the time.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region C

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

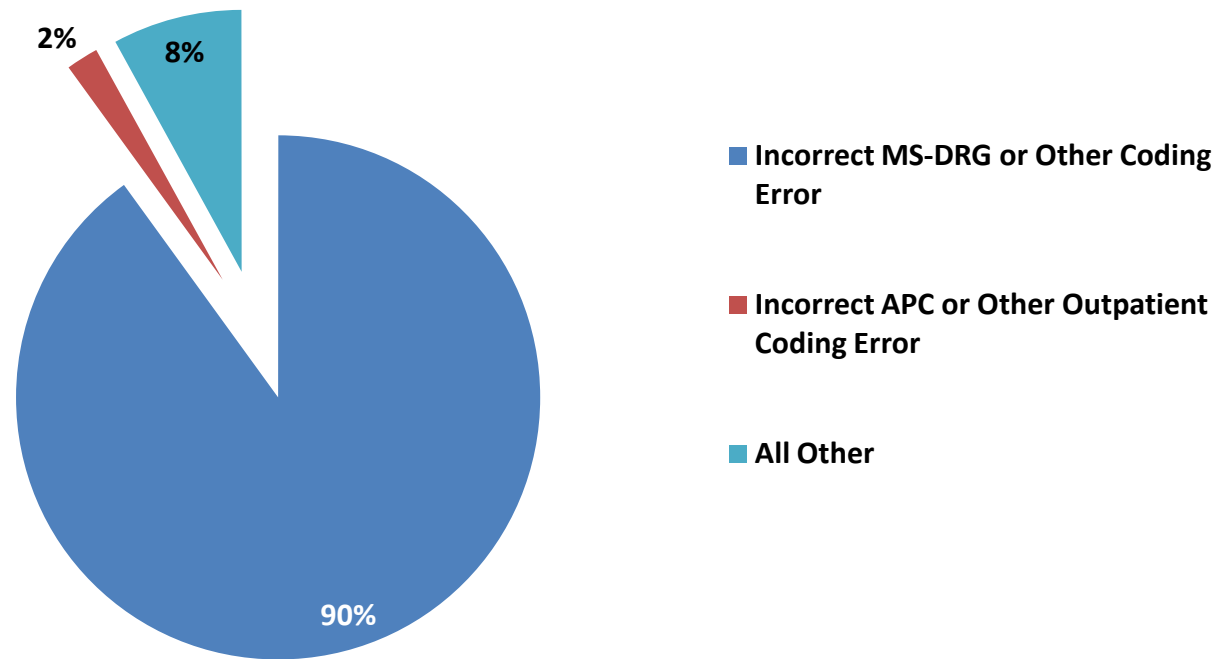


Source: AHA. (August 2010). RACTrac Survey
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity from April to June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

Region D: Incorrect MS-DRG or other coding error was again the top reason for denials with no hospitals reporting lack of documentation as a top reason.

Top Reason for Complex Denials by Dollar Amount for Hospitals with RAC Activity, 2nd Quarter 2010, Region D

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



Source: AHA. (August 2010). RACTrac Survey
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity from April to June 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.

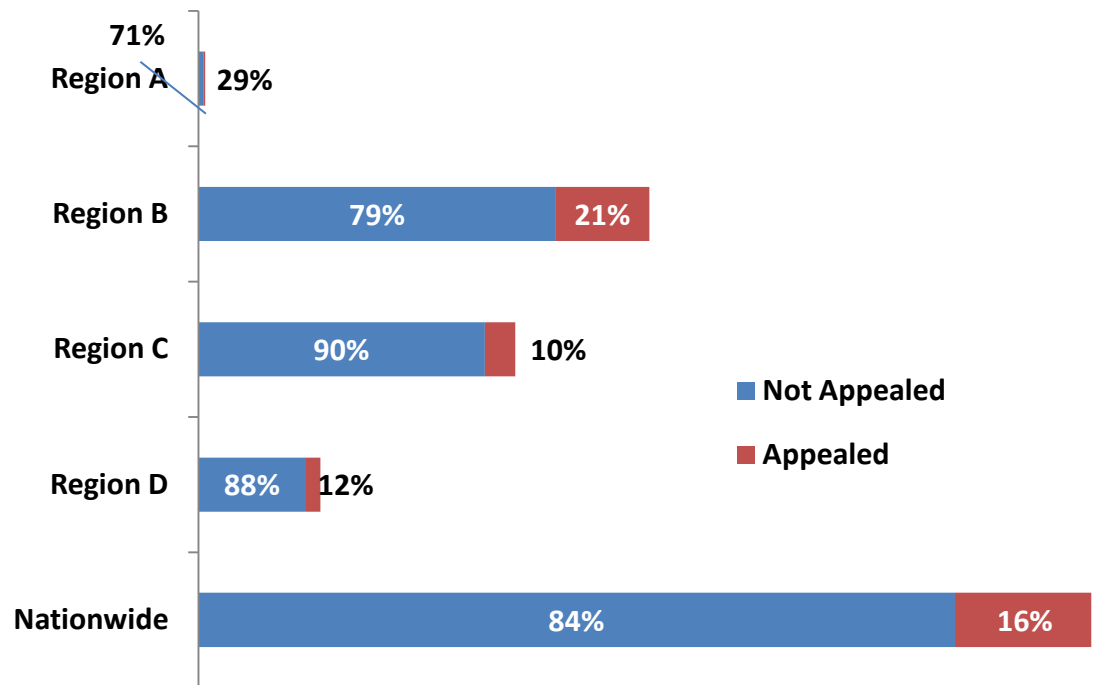


Appeals

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 2nd Quarter 2010

	Total Number of Denials Available for Appeal	Total Number of Appealed Denials
NATIONWIDE	12,090	1,892
Region A	93	27
Region B	6,081	1,261
Region C	4,272	412
Region D	1,644	192



Source: AHA. (August 2010). RACTrac Survey

AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 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.

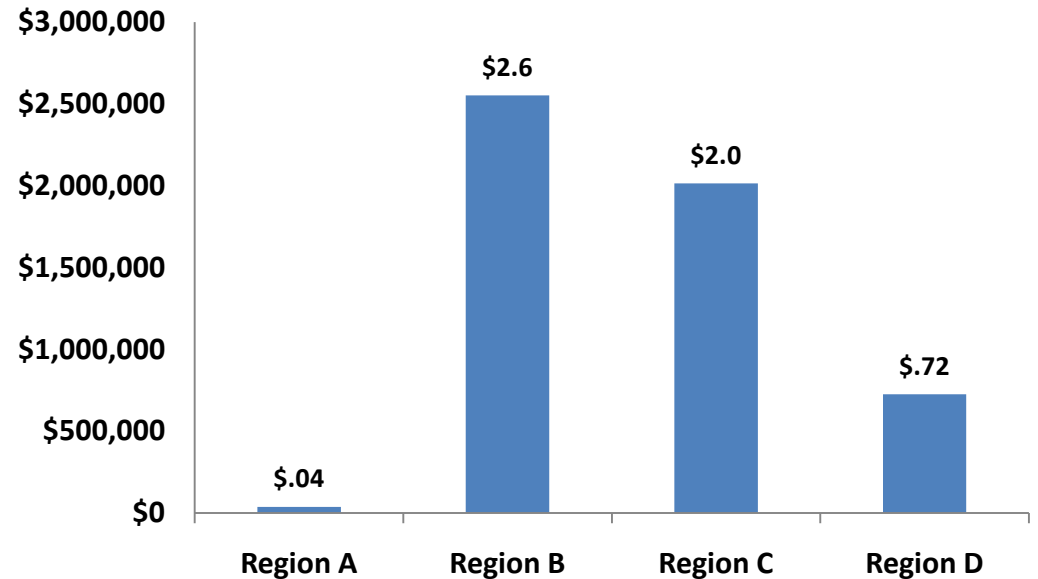
*Available for appeal means that the hospital received a demand letter for this claim, either as a result of automated or complex review.



Hospitals reported appealing denials totaling over \$5 million in value and 39% 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 2nd Quarter 2010, Millions

	Percent of Hospitals with Any Appealed Denials	Average Number of Appealed Denials per Hospital
NATIONWIDE	39%	8.4
Region A	29%	3.9
Region B	54%	14.0
Region C	37%	5.6
Region D	29%	3.6



Source: AHA. (August 2010). RACTrac Survey
 AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 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.

Of the claims that have completed the appeals process, 13% were overturned in favor of the provider. 1,571 of claims are still in the appeals process.

Summary of Appeal Rate and Determinations in Favor of the Provider, for Hospitals with RAC Activity, through 2nd Quarter 2010

	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*	1,892	16%	1,571	61	238	13%
Region A	27	29%	21	3	3	11%
Region B	1261	21%	1,082	15	150	12%
Region C	412	10%	319	40	49	12%
Region D	192	12%	149	3	36	19%

Source: AHA. (August 2010). RACTrac Survey

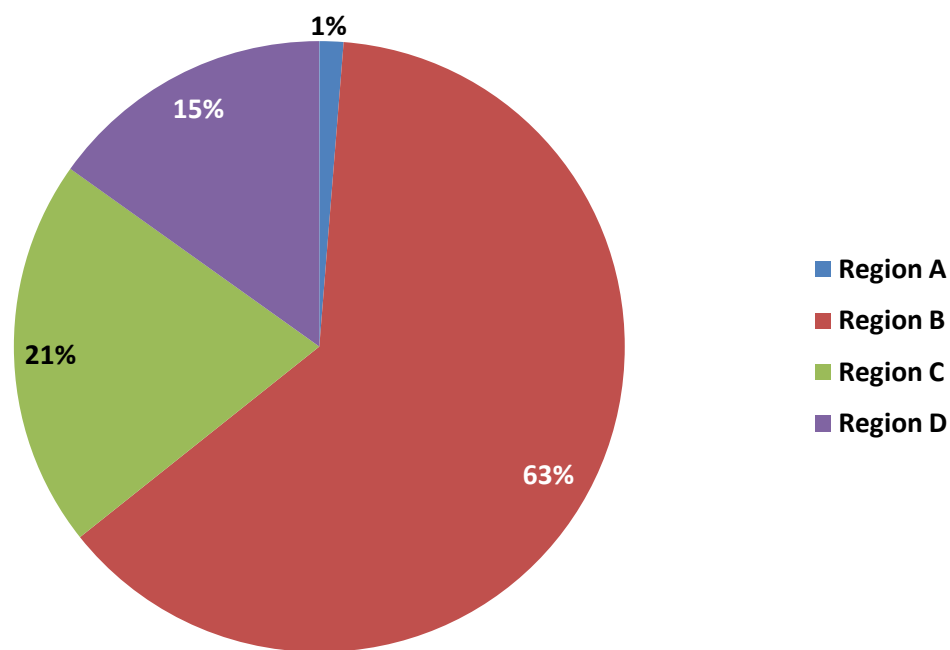
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

Note: 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. *Hospitals did not specify the status of 22 of the appealed claims.



Of the claims that have completed the appeals process, two-thirds of the overturned denials were reported in Region D.

Percent of Overturned Denials by Region, through 2nd Quarter 2010

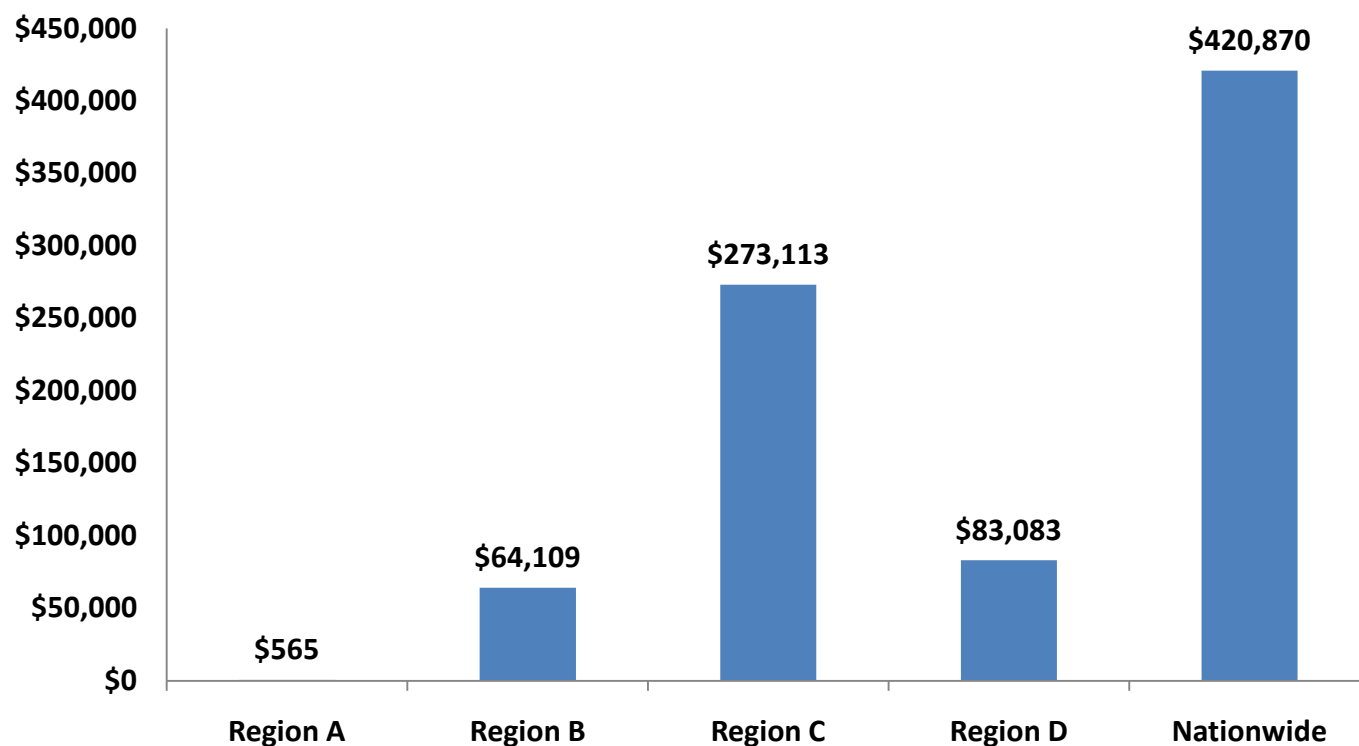


Source: AHA. (August 2010). *RACTrac Survey*
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.
*Note: 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.



Hospitals reported a total of \$420,870 in overturned denials, with \$273,113 in Region C alone.

Total Value of Appeal Determinations in Favor of the Provider, for Hospitals with RAC Activity, through 2nd Quarter 2010



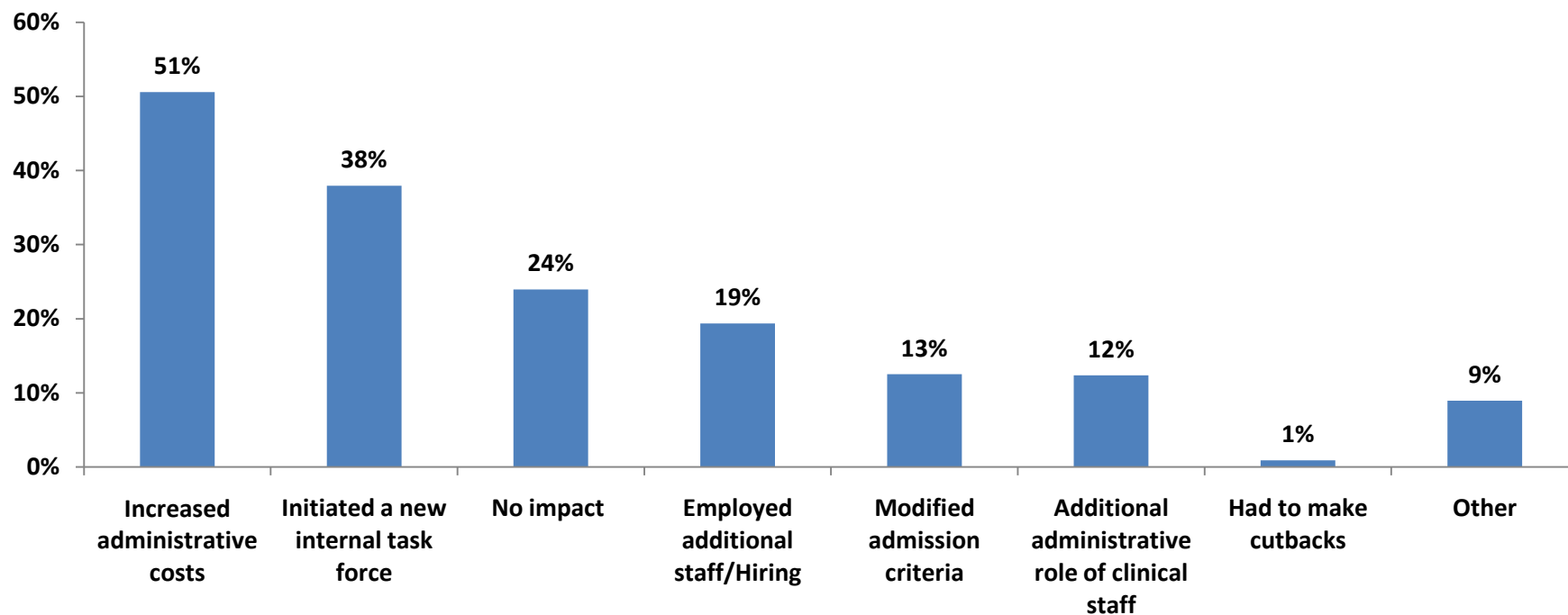
Source: AHA. (August 2010). RACTrac Survey
AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.



Administrative Burden

76% of responding hospitals reported that RACs impacted their organization during the second quarter of 2010 and 51% reported increased administrative costs.

Impact of RAC on Responding Hospitals* by Type, through 2nd Quarter 2010



*Includes responding hospitals with and without RAC activity

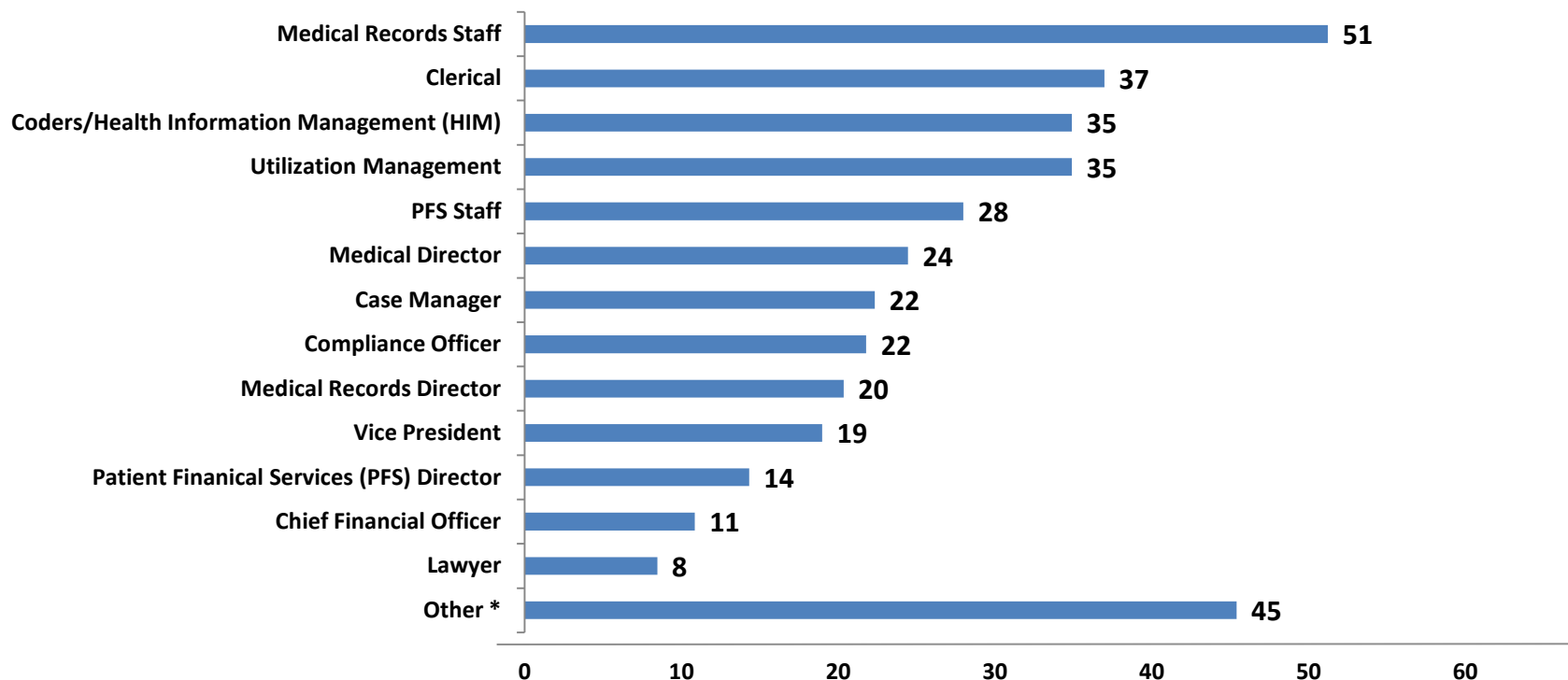
Source: AHA. (August 2010). *RACTrac Survey*

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

Average Hours of Staff Time Spent Per Responding Hospital* on RAC by Staff Type, 2nd Quarter 2010



*Includes responding hospitals with and without RAC activity

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

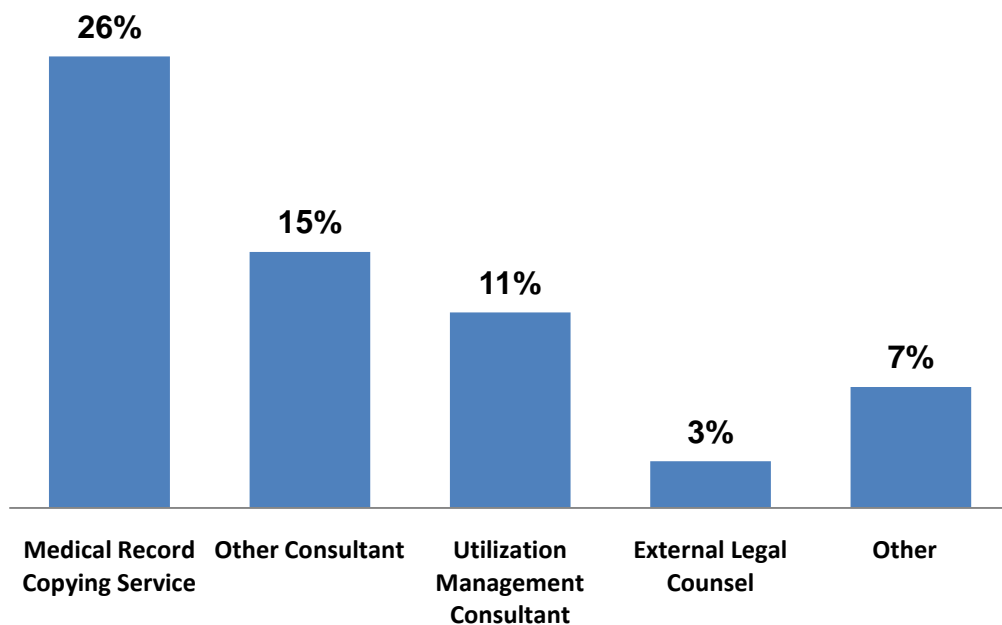
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*Other includes other types of hospital staff, including RAC Coordinator and IT Department.



Those hospitals (11%) using external resources reported spending an average of \$48,770 to hire an external utilization management consultant

Percent of Hospitals Using External Resources by Type and Average Dollars* Spent *this quarter*, 2nd Quarter 2010



Administrative Burden	Average Dollar Amount This Quarter
Medical Record Copying Service	\$2,088
Other Consultant	\$12,902
Utilization Management Consultant	\$48,770
External Legal Counsel	\$2,480
Other	\$6,119



Source: AHA. (August 2010). RACTrac Survey
 AHA analysis of survey data collected from 1,389 hospitals: 972 reporting activity, 417 reporting no activity through June 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.
 *Average dollars spent for hospitals indicating that type of expense.



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

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