



TEXAS HOSPITAL ASSOCIATION

## **THA TAKEAWAYS**

### **RAC Audits are Well-Intentioned but Burdensome**

#### **BACKGROUND**

Begun as a pilot project in three states, the Medicare Recovery Audit Program is now fully operational in all 50 states. Texas implementation began in summer 2009, with Connolly Consulting serving as the recovery audit contractor for Texas.

The intent of the program is to protect Medicare by identifying “improper” payments and referring potential fraud to CMS. Improper payments include both under- and over-payments to Medicare providers. Even though all Medicare providers are subject to RAC audits, hospitals are by far the biggest target, accounting for almost 90 percent of all recovered or returned improper payments.

Hospitals are becoming increasingly critical of RAC audits, calling them costly, unfair, burdensome and inefficient.

#### **PROBLEMS WITH RAC AUDITS**

- RACs are incentivized to pursue large inpatient claims because they are paid on a contingency fee basis.
- RAC audits are costly. According to AHA, 63 percent of hospitals spent at least \$40,000 in 2012 on RAC audits; 46 percent spent more than \$100,000. Costs for rural hospitals are estimated to be between \$150,000 and \$200,000 annually because they have to rely on outside legal and accounting assistance.
- The vast majority of denied claims that are appealed are eventually overturned in favor of the provider. In Texas’ region, in 2013, 72 percent of appealed denials were eventually overturned in the providers’ favor.
- The appeals process is lengthy. There are five required levels. The third – administrative law judge hearing at the Office of Medicare Hearings and Appeals – is experiencing such a backlog of cases that it has suspended assignment of cases to judges for at least 24 months.
- RACs may audit claims going back three years but hospitals may rebill denied claims only that are one-year old or less.



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