After some delay, Medicare’s program to have outside companies audit claims is getting underway. The companies, called recovery audit contractors (RACs), will be checking to see that claims filed by hospitals, physicians, and other providers follow Medicare policies and procedures.

*OR Manager* asked Keith Siddel, MBA, an expert on health care business operations, to give readers an introduction to RACs. Siddel is CEO of HRM Consulting, Creede, Colorado.

**Q Why did the government decide to go with the RAC approach?**

**Siddel:** The RAC program was mandated by Congress in 2006. Medicare decided to use third-party companies to see if by paying incentives, the RACs could do a better job of identifying claims problems than fiscal intermediaries (FIs). (FIs are private companies that process Medicare claims and perform other services.) Over the years, the FIs have become more focused on adjudicating claims and addressing medical necessity than on targeting areas to audit.

RACs, which were selected by competitive bidding, will be paid a contingency fee for finding claims that were overpaid and underpaid. For the most part, the RACs are not health care companies but companies that audit businesses like grocery stores or Home Depot.

In a 3-year pilot study of RACs in 6 states (California, Florida, New York, Massachusetts, South Carolina, and Arizona), the government says it collected over $900 million in overpayments and identified nearly $38 million in underpayments.

**Q What is the status of RACs?**

**Siddel:** The RAC program was held up by a protest over the contract awards. The final protests were settled in February 2009. The program is now going forward and is being expanded to all 50 states. The country has been divided into 4 regions with a RAC for each one. A map and other information are at www.cms.hhs.gov/RAC

Outreach in all 4 regions is being conducted this spring and summer. About half the states were to be phased in by March 1, 2009, with the rest to follow.

**Q How will RACs look for problem claims?**

**Siddel:** RACs take basically 2 approaches. The first approach is to data
mine. They take millions of claims and analyze them using computers to look for trends and problem areas. On the basis of the analysis, they will do an audit.

The second approach is to send hospitals a letter asking for copies of a certain number of medical records that the RAC will examine for problems. RAC auditors can go back only to October 2007.

During the pilot study, hospitals protested that the record requests were burdensome. Medicare has now restricted the number of records a RAC can request in a 30-day period based on the hospital’s volume of patients.

**Q** What will happen when a RAC finds a problem?

_Siddel:_ If a problem is found, such as coding for wound care, where the RAC believes it can recover money, it may contact all of the hospitals in the area asking for these types of records.

If the RAC determines the case is clear-cut, and the hospital shouldn’t have been paid, it will request that the money be taken back and will not bother requesting the records. The hospital will then get a letter from the FI saying it has taken the money back on a group of claims and explaining the reason. The hospital then has a certain period of time to appeal the RAC’s decision.

**Q** What types of surgical issues are the RACs looking at?

_Siddel:_ The problems deal mostly with coding. There have been some coding issues with inpatient-only procedures. These are procedures that are supposed to be done on an inpatient basis but slip through and are done in the outpatient setting. Most of the time, the FI catches this but not always.

Documentation is an area to focus on because coding is supported by documentation. OR managers will want to make sure nursing documentation conforms with hospital policy and regulatory requirements.

It also makes sense to make sure coding guidelines are coordinated between your hospital’s health information management (HIM) department and the physicians’ offices. Inconsistent coding between hospitals and physician practices will become easier to spot as Medicare transitions from FIs to Medicare Administrative Contractors (MACs). The MACs will handle claims for both Part A and Part B, so there will be an easy place for Medicare and RACs to go to see if there is consistency between hospital and physician claims.

**Q** How should we be getting ready?

_Siddel:_ Every hospital should have a RAC team. The team should identify where RACs were successful in taking payments back during the pilot study and review claims in those areas. If the team identifies a problem, let’s say with pneumonia coding, the team should do an audit and resubmit the claims so the hospital doesn’t have to deal with RAC auditors.

One caution—there are a lot of vendors trying to sell databases and tracking software. You have to be careful where you spend money. There is software that will track all of your claims and send you a daily report on which claims are at risk based on the RAC demonstration project. What it doesn’t tell you is that some of the information from the demonstration may have been overturned or shown to be wrong. I would caution about spending a
lot of money on software until the RAC program really gets going, and the hospital can see what best fits its needs.

**Q** Medicare rules on coding and claims are complicated and sometimes unclear. How will these issues be resolved?

**Siddel:** We saw in the demonstrations that in these cases, the RAC would say, “This is our interpretation.” Then the hospital had to fight it. There is supposed to be education. But it is not really in the RACs’ interest to tell you quickly what your problems are. They make money by taking payments back when you haven’t solved the problems.

So the education has to come from within the hospital and the hospital industry. With the first notice you get from a RAC saying, “We want these 10 accounts,” your RAC team should be saying, “Ah ha. This is what they are looking for.” Then the RAC team should gather the forces and tackle the problem.

**Q** What are the penalties for claims problems?

**Siddel:** The RACs will not *per se* assign penalties. They will just request the money back. But the fact that the RAC has identified a problem area means it would be naïve to think that the Health and Human Services Office of Inspector General or whistleblowers would not grab that issue and perhaps argue for penalties. This action would not come specifically from the RACs, but it certainly is a potential effect from the RAC process.

*More about the RAC program is at www.cms.hhs.gov/RAC/*