Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTrac Survey, 3rd Quarter 2011

November 21, 2011
• Centers for Medicare & Medicaid Services (CMS) Recovery Audit Contractors (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.
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 2011.
  - Survey registration information and RACTrac support can be accessed at ractracsupport@providercs.com or 1-888-722-8712.
- The AHA recently enhanced the RACTrac survey to capture more detailed information on medical necessity review denials and the administrative burden due to problems with the RAC process.
Executive Summary

- 2127 hospitals have participated in RACTrac since data collection began in January of 2010.
- Two-thirds of medical records reviewed by RACs did not contain an improper payment.
- $355 million in denied claims have been reported since the first quarter of 2010.
- 96% of participating hospitals with complex denials cited medically unnecessary as a reason for denial.
- The majority of medical necessity denials reported were for 1-day stays where the care was found to have been provided in the wrong setting, not because the care was not medically necessary.
- Hospitals reported appealing nearly one-third of all RAC denials, with a 77% success rate in the appeals process.
- 81% of hospitals reported appealing at least one RAC denial.
Executive Summary (cont.)

• 71% of participating hospitals reported that RAC impacted their organization this quarter and 51% reported increased administrative costs.

• 57% of respondents indicated they have yet to receive any education related to avoiding payment errors from CMS or its contractors.

• Hospital respondents continue to report problems with untimely demand letters.

• 47% of hospitals reported problems reconciling recoupments due to confusion with multiple postings of the N432 code on the remittance advice.

• 14% of hospitals reported that RACs are rescinding medical record requests after the hospital has already submitted the records.

• The majority of hospital respondents indicated RAC responsiveness and overall communication was “fair” or “good.”

• The average wait time for a RAC response varied significantly, with 15% of hospitals reporting it took 14 days or more to receive a response from their RAC.
There are four RAC regions nationwide. Participation in RACTrac is generally consistent with hospital representation in each of the RAC regions.

Distribution of Hospitals by RAC Region and Hospitals Participating in RACTrac by RAC Region, through 3rd Quarter, 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent of Hospitals Nationwide</th>
<th>Percent of Participating Hospitals by Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Region B</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>Region C</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Region D</td>
<td>26%</td>
<td>24%</td>
</tr>
</tbody>
</table>
RAC Activity
More than four out of five hospitals participating in RACTrac reported experiencing RAC activity through September of 2011.

Percent of Participating Hospitals Experiencing RAC Activity, 3rd Quarter 2011

- Experiencing RAC Activity: 85%
- No RAC Activity: 15%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 2011

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

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Different types and sizes of hospitals reported that they were subject to RAC review.

Percent Reporting RAC Activity vs. No RAC Activity by Type of Participating Hospital, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Type of Hospital</th>
<th>Reporting No RAC Activity</th>
<th>Reporting RAC Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 200 beds</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>200 - 399 beds</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>400+ beds</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>Urban</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Rural</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Teaching</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>Non Teaching</td>
<td>81%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 Region C has the highest number of hospitals reporting RAC activity.

Number of Participating Hospitals Reporting RAC Activity by Region, through 3rd Quarter 2011

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

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 Reviews
Participants continue to report significant increases in RAC denials and medical record requests.

Reported Automated Denials, Complex Denials and Medical Records Requests by Participating Hospitals, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>All activity through Quarter 1, 2011</th>
<th>All activity through Quarter 2, 2011</th>
<th>All activity through Quarter 3, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Denials</td>
<td>23,432</td>
<td>27,506</td>
<td>30,295</td>
</tr>
<tr>
<td>Complex Denials</td>
<td>29,739</td>
<td>45,533</td>
<td>65,623</td>
</tr>
<tr>
<td>Medical Record Requests</td>
<td>173,496</td>
<td>230,311</td>
<td>306,349</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 hospitals are experiencing the greatest volume of medical record requests overall, but Region A is experiencing the highest average number of requests per hospital.

Number of Medical Records Requested from Participating Hospitals With Complex Medical Record RAC Activity, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>All activity through Quarter 2, 2011</th>
<th>All activity through Quarter 3, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>46,537</td>
<td>79,570</td>
</tr>
<tr>
<td>Region B</td>
<td>79,632</td>
<td>91,257</td>
</tr>
<tr>
<td>Region C</td>
<td>55,001</td>
<td>75,578</td>
</tr>
<tr>
<td>Region D</td>
<td>49,141</td>
<td>59,944</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Among participating hospitals, $3.3 billion in Medicare payments were targeted for medical record requests through the 3rd quarter of 2011.

Medicare Payments Associated with Medical Records Requested from Participating Hospitals, through 3rd Quarter 2011, in Millions

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 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 2011

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Two-thirds of medical records reviewed by RACs did not contain an improper payment.

Percent of Completed Complex Reviews with and without Overpayment or Underpayment Determinations for Participating Hospitals, by Region, through 3rd Quarter 2011

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 Denials
$355 million in denials have been reported, a significant increase from the $226 million in denials reported last quarter.

Dollar Value of Automated and Complex Denials by RAC Region for Participating Hospitals, through 3rd Quarter 2011, Millions

<table>
<thead>
<tr>
<th>Region</th>
<th>All activity through Quarter 1, 2011</th>
<th>All activity through Quarter 2, 2011</th>
<th>All activity through Quarter 3, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>$22.4</td>
<td>$35.7</td>
<td>$62.4</td>
</tr>
<tr>
<td>Region B</td>
<td>$42.5</td>
<td>$56.0</td>
<td>$88.6</td>
</tr>
<tr>
<td>Region C</td>
<td>$51.7</td>
<td>$64.0</td>
<td>$96.1</td>
</tr>
<tr>
<td>Region D</td>
<td>$50.6</td>
<td>$70.6</td>
<td>$108.2</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
97% of denied dollars were complex denials totaling nearly $343 million dollars.

Percent and Dollar Amounts of Automated Denials Versus Complex Denials for Participating Hospitals, through 3rd Quarter 2011

- Complex Medical Record Denials, $342,994,232 (97%)
- Automated Denials, $12,244,307 (3%)

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 denials are spread among all four RAC regions.

Percent of Automated and Complex Denials by RAC Region for Participating Hospitals, through 3rd Quarter 2011

- Region A: 17%
- Region B: 27%
- Region C: 32%
- Region D: 24%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 average dollar value of an automated denial was $408 and the average dollar value of a complex denial was $5,306.

Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>RAC Region</th>
<th>Automated Denial</th>
<th>Complex Denial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>$456</td>
<td>$4,226</td>
</tr>
<tr>
<td>Region B</td>
<td>$313</td>
<td>$5,305</td>
</tr>
<tr>
<td>Region C</td>
<td>$392</td>
<td>$5,458</td>
</tr>
<tr>
<td>Region D</td>
<td>$595</td>
<td>$6,077</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Outpatient services had the largest financial impact through automated activity while inpatient services had the largest financial impact through complex denials.

Percent of Participating Hospitals by Top Service Area for Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011

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

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
RACs are issuing automated denials for many different reasons.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011

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

- Outpatient Billing Error: 41%
- Inpatient Coding Error (MSDRG): 16%
- Duplicate Payment: 12%
- Outpatient Coding Error: 12%
- Incorrect Discharge Status: 6%
- All Other: 5%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 has experienced 46% of all reported automated denials.

Percent and Number of Reported Automated Denials for Participating Hospitals, by Region, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Number of Automated Denials by RAC Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>1,450</td>
</tr>
<tr>
<td>Region B</td>
<td>9,209</td>
</tr>
<tr>
<td>Region C</td>
<td>14,071</td>
</tr>
<tr>
<td>Region D</td>
<td>5,565</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 A: Hospitals more commonly ranked inpatient coding error as the top reason for automated denials than in other regions.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region A

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

- Outpatient Billing Error: 40%
- Inpatient Coding Error (MSDRG): 33%
- Outpatient Coding Error: 7%
- Incorrect Discharge Status: 13%
- All Other: 7%

Only 15 survey participants are represented in this chart.

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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: Outpatient billing error is the top reason for denial.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region B

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

- Outpatient Billing Error: 63%
- Inpatient Coding Error (MSDRG): 9%
- Duplicate Payment: 3%
- Outpatient Coding Error: 3%
- Incorrect Discharge Status: 3%
- All Other: 1%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region C

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

- Outpatient Billing Error: 42%
- Inpatient Coding Error (MSDRG): 11%
- Duplicate Payment: 21%
- Outpatient Coding Error: 17%
- Incorrect Discharge Status: 6%
- All Other: 3%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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: A significant portion of hospitals cited “other” as the top reason for automated denial in Region D.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region D

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

- Outpatient Billing Error: 38%
- Inpatient Coding Error (MS-DRG): 16%
- Duplicate Payment: 6%
- Outpatient Coding Error: 11%
- Incorrect Discharge Status: 11%
- All Other: 18%
Complex RAC Denials
96% of medical/surgical acute care hospitals with RAC activity reported medically unnecessary as a reason for complex denials.

Percent of Participating Medical/Surgical Acute Hospitals with RAC Activity Experiencing Complex Denials by Reason, 1st, 2nd and 3rd Quarter 2011

Survey participants were asked to select all reasons for denial.

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Medical necessity denials continue to be the denials with the largest financial impact.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011

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

- **Medical necessity** denials continue to be the denials with the largest financial impact, accounting for 71% of denials.
- **Incorrect MS-DRG or Other Coding Error** denials make up 17% of denials.
- **No or Insufficient Documentation in the Medical Record** denials account for 5% of denials.
- **Medically Unnecessary** denials represent 1% of denials.
- **Incorrect Discharge Status** and **All Other** denials together account for 6% of denials.

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 medical necessity denials were for 1-day stays and were because the care was provided in the wrong setting, not because the care was not medically necessary.

Reason for Medical Necessity Denials by Length of Stay Among Hospitals Reporting Medical Necessity Denials, 3rd Quarter 2011

Not all RACTrac compatible vendors have made accommodations to allow hospitals to answer this question yet. As a result, the volume of medical necessity denials for inappropriate setting may be under-represented in this chart. Furthermore, older RAC claims may not be classified as “inappropriate setting” by the hospital.

Source: AHA. (October 2011). RACTrac Survey
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All regions are now reporting a significant number of complex denials; Region A saw a significant increase over last quarter.

Percent and Number of Reported RAC Complex Denials for Participating Hospitals, by Region, through 1st, 2nd and 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Number of Claims with Overpayment Determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>14,715</td>
</tr>
<tr>
<td>Region B</td>
<td>16,660</td>
</tr>
<tr>
<td>Region C</td>
<td>16,695</td>
</tr>
<tr>
<td>Region D</td>
<td>17,553</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 A: Medically unnecessary was identified by 70% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region A

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

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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: Medically unnecessary was identified by 70% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region B

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

- Incorrect MS-DRG or Other Coding Error: 21%
- No or Insufficient Documentation in the Medical Record: 3%
- Medically Unnecessary: 70%
- Incorrect Discharge Status: 5%
- All Other: 1%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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: Medically unnecessary was identified by 73% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region C

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

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medically Unnecessary</td>
<td>73%</td>
</tr>
<tr>
<td>Incorrect MS-DRG or Other Coding Error</td>
<td>16%</td>
</tr>
<tr>
<td>No or Insufficient Documentation in the Medical Record</td>
<td>6%</td>
</tr>
<tr>
<td>Incorrect Discharge Status</td>
<td>4%</td>
</tr>
<tr>
<td>All Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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: Medically unnecessary was identified by 70% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 3rd Quarter 2011, Region D

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

- Incorrect MS-DRG or Other Coding Error: 14%
- Incorrect APC or Other Outpatient Coding Error: 9%
- No or Insufficient Documentation in the Medical Record: 4%
- Medically Unnecessary: 70%
- All Other: 3%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Syncope & Collapse was a common MS-DRG denied by RACs. Other top denied MS-DRG codes varied significantly among reporting hospitals.

Percent of Overpayment Determinations by Top Five MS-DRG for Medically Unnecessary and all other Complex Denials for Medical/Surgical Acute Participating Hospitals, 3rd Quarter 2011

Survey participants were asked to identify top MS-DRGs, according to dollars impacted.

<table>
<thead>
<tr>
<th>Medical Necessity Denials</th>
<th>All Other Complex Denials</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MS-DRG</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>312</td>
<td>SYNCOPE &amp; COLLAPSE</td>
</tr>
<tr>
<td>247</td>
<td>PERC CARDIOVASC PROC W DRUG-ELUTING STENT W/O MCC</td>
</tr>
<tr>
<td>69</td>
<td>TRANSIENT ISCHEMIA</td>
</tr>
<tr>
<td>313</td>
<td>CHEST PAIN</td>
</tr>
<tr>
<td>249</td>
<td>PERC CARDIOVASC PROC W NON-DRUG-ELUTING STENT W/O MCC</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Underpayments
Three-quarters of participating hospitals nationwide with RAC activity reported receiving at least one underpayment determination.

Percent of Hospitals Reporting Underpayment Determinations, By Region, through 3rd Quarter 2011

Region A: 75%  
Region B: 70%  
Region C: 80%  
Region D: 70%  
NATIONWIDE: 75%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 RAC identified underpayments totaling $52.5 million dollars and nearly 52% of the underpayments were reported in Region C.

Total Dollar Value of Underpayment Determinations for Participating Hospitals, By Region, through 3rd Quarter 2011, Millions

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of RAC Underpayment Determinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONWIDE</td>
<td>13,627</td>
</tr>
<tr>
<td>Region A</td>
<td>1,690</td>
</tr>
<tr>
<td>Region B</td>
<td>1,391</td>
</tr>
<tr>
<td>Region C</td>
<td>7,064</td>
</tr>
<tr>
<td>Region D</td>
<td>3,482</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Dollar Value, Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>$9.0</td>
</tr>
<tr>
<td>Region B</td>
<td>$7.2</td>
</tr>
<tr>
<td>Region C</td>
<td>$22.8</td>
</tr>
<tr>
<td>Region D</td>
<td>$13.5</td>
</tr>
<tr>
<td>NATIONWIDE</td>
<td>$52.5</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
49% of hospitals with underpayment determinations cited discharge disposition as a reason for the underpayment and 43% cited incorrect MS-DRG.

Percent of Participating Hospitals with RAC Activity Experiencing Underpayments by Reason, 3rd Quarter 2011

Survey participants were asked to select all reasons for underpayment.

- Inpatient Discharge Disposition: 49%
- Incorrect MS-DRG: 43%
- Outpatient Coding Error: 6%
- Billing Error: 5%
- Other: 13%
Appeals
More than one-third of participating hospitals report having a denial reversed during the discussion period.

Percent of Participating Hospitals With Denials Overturned During the Discussion Period, National and By Region, 3rd Quarter 2011

Overturned Denials by RAC Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Yes</th>
<th>No</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>39%</td>
<td>52%</td>
<td>9%</td>
</tr>
<tr>
<td>Region B</td>
<td>32%</td>
<td>58%</td>
<td>10%</td>
</tr>
<tr>
<td>Region C</td>
<td>35%</td>
<td>60%</td>
<td>5%</td>
</tr>
<tr>
<td>Region D</td>
<td>30%</td>
<td>59%</td>
<td>11%</td>
</tr>
</tbody>
</table>

The discussion period is intended to be a tool that hospitals may use to reverse denials and avoid the formal Medicare appeals process. All RACs are required to allow a discussion period in which a hospital may share additional information and discuss the denial with the RAC. During the discussion period a hospital may gain more information from the RAC to better understand the cause for the denial and the RAC may receive additional information from the hospital that could potentially result in the RAC reversing its denial.

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
Nationwide hospitals reported appealing nearly one-third of all denials. The appeal rate was highest in Region A.

Total Number and Percent of Automated and Complex Denials Appealed by Hospitals with RAC Activity, by Region, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Number of Denials Available* for Appeal</th>
<th>Percent of Denials Appealed</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONWIDE</td>
<td>95,918</td>
<td>29%</td>
</tr>
<tr>
<td>Region A</td>
<td>16,165</td>
<td>42%</td>
</tr>
<tr>
<td>Region B</td>
<td>25,869</td>
<td>29%</td>
</tr>
<tr>
<td>Region C</td>
<td>30,766</td>
<td>22%</td>
</tr>
<tr>
<td>Region D</td>
<td>23,118</td>
<td>31%</td>
</tr>
</tbody>
</table>

* 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. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
81% of hospitals reported appealing at least one RAC denial. Appealed denials totaled $164 million for reporting hospitals.

Total Dollar Value, Percent and Average Number of Appealed Claims for Hospitals with Automated or Complex RAC Denials, through 3rd Quarter 2011, Millions

<table>
<thead>
<tr>
<th></th>
<th>Percent of Hospitals with Any Appealed Denials</th>
<th>Average Number of Appealed Denials per Hospital</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONWIDE</td>
<td>81%</td>
<td>38.0</td>
</tr>
<tr>
<td>Region A</td>
<td>87%</td>
<td>50.5</td>
</tr>
<tr>
<td>Region B</td>
<td>88%</td>
<td>40.4</td>
</tr>
<tr>
<td>Region C</td>
<td>79%</td>
<td>25.4</td>
</tr>
<tr>
<td>Region D</td>
<td>72%</td>
<td>46.1</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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.
More than two-thirds of all appealed claims are still sitting in the appeals process.

Percent of Appealed Claims Pending Determination for Participating Hospitals, by Region, through 3rd Quarter 2011

Due to survey submission error, total appeals may be greater than the sum of pending/withdrawn/overturned appeals.

Source: AHA. (October 2011). RACTrac Survey
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Of the claims that have completed the appeals process, 77% were overturned in favor of the provider. 70% of appealed claims are still in process.

Summary of Appeal Rate and Determinations in Favor of the Provider, for Hospitals with RAC Activity, through 3rd Quarter 2011

<table>
<thead>
<tr>
<th></th>
<th>Appealed</th>
<th>Percent of Denials Appealed</th>
<th>Number of Claims Pending Appeals Determination</th>
<th>Number of Claims Withdrawn from Appeals Process</th>
<th>Number of Denials Overturned in the Appeals Process</th>
<th>Percent of Appealed Denials Overturned (as a Percent of Overturned or Withdrawn claims)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONWIDE</td>
<td>28,143</td>
<td>29%</td>
<td>19,537</td>
<td>1,551</td>
<td>5,222</td>
<td>77%</td>
</tr>
<tr>
<td>Region A</td>
<td>6,769</td>
<td>42%</td>
<td>4,654</td>
<td>319</td>
<td>769</td>
<td>71%</td>
</tr>
<tr>
<td>Region B</td>
<td>7,473</td>
<td>29%</td>
<td>4,118</td>
<td>428</td>
<td>2,783</td>
<td>87%</td>
</tr>
<tr>
<td>Region C</td>
<td>6,758</td>
<td>22%</td>
<td>4,751</td>
<td>355</td>
<td>1,237</td>
<td>78%</td>
</tr>
<tr>
<td>Region D</td>
<td>7,143</td>
<td>31%</td>
<td>6,014</td>
<td>449</td>
<td>433</td>
<td>49%</td>
</tr>
</tbody>
</table>

Due to survey submission error, total appeals may be greater than the sum of pending/withdrawn/overturned appeals.

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 87%.

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent of Completed Appeals with Denials Overturned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>71%</td>
</tr>
<tr>
<td>Region B</td>
<td>87%</td>
</tr>
<tr>
<td>Region C</td>
<td>78%</td>
</tr>
<tr>
<td>Region D</td>
<td>49%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>77%</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 $27.2 million in overturned denials, with $13.7 million in Region B alone.

Value of Denials Overturned in the Appeals Process, by Region, through 3rd Quarter 2011, Millions

<table>
<thead>
<tr>
<th>Region</th>
<th>Value (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$3.9</td>
</tr>
<tr>
<td>B</td>
<td>$13.7</td>
</tr>
<tr>
<td>C</td>
<td>$6.4</td>
</tr>
<tr>
<td>D</td>
<td>$3.2</td>
</tr>
<tr>
<td>NATIONWIDE</td>
<td>$27.2</td>
</tr>
</tbody>
</table>

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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
71% of participating hospitals reported that RAC impacted their organization this quarter and 51% reported increased administrative costs.

Impact of RAC on Participating Hospitals* by Type of Impact, 3rd Quarter 2011

* Includes participating hospitals with and without RAC activity

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Nearly 50% of all hospitals reported spending more than $10,000 dealing with the RAC program this quarter.

Percent of Participating Hospitals* Reporting Average Cost Dealing with the RAC Program, 3rd Quarter 2011

* Includes participating hospitals with and without RAC activity

Source: AHA. (October 2011). RACTrac Survey
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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 Participating Hospital* on RAC by Staff Type, 3rd Quarter 2011

*Includes participating hospitals with and without RAC activity

Source: AHA. (October 2011). RACTrac Survey

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Many hospitals report spending on external resources such as outside consultants to deal with the RAC process.

Percent of Participating Hospitals* Using External Resources by Type and Average Dollars Spent this quarter, 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Administrative Burden</th>
<th>Average Dollar Amount This Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilization Management Consultant</td>
<td>$40,883</td>
</tr>
<tr>
<td>Cost of Tracking Software</td>
<td>$8,155</td>
</tr>
<tr>
<td>External Legal Counsel</td>
<td>$7,334</td>
</tr>
<tr>
<td>Medical Record Copying Service</td>
<td>$2,878</td>
</tr>
<tr>
<td>Other</td>
<td>$13,464</td>
</tr>
</tbody>
</table>

Average dollars spent by hospitals that reported utilizing external resources.

* Includes participating hospitals with and without RAC activity

Source: AHA. (October 2011). RACTrac Survey
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57% of respondents indicated they have yet to receive any education related to avoiding payment errors from CMS or its contractors.

Percent of Participating Hospitals Reporting they Received Education from CMS or its Contractors, National and by Region, 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Yes</th>
<th>No</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>31%</td>
<td>54%</td>
<td>15%</td>
</tr>
<tr>
<td>Region B</td>
<td>22%</td>
<td>61%</td>
<td>17%</td>
</tr>
<tr>
<td>Region C</td>
<td>28%</td>
<td>52%</td>
<td>20%</td>
</tr>
<tr>
<td>Region D</td>
<td>27%</td>
<td>61%</td>
<td>12%</td>
</tr>
</tbody>
</table>

* Includes participating hospitals with and without RAC activity

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48% of hospital respondents reported waiting more than 30 days after receipt of a review results letter to receive a demand letter. Problems reconciling recoupments persist.

Percent of Participating Hospitals Reporting RAC Process Issues, by Issue, 3rd Quarter 2011

- Long lag (greater than 30 days) between date on review results letter and receipt of demand letter: 48%
- Problems reconciling pending and actual recoupment due to insufficient or confusing information on the remittance advice: 47%
- RAC not meeting 60-day deadline to make a determination on a claim: 41%
- Receiving a demand letter announcing a RAC denial and pending recoupment AFTER the denial has been reported on the remittance: 39%
- Not receiving a demand letter informing the hospital of a RAC denial: 37%
- Problems with remittance advice RAC code N432: 26%
- Demand letters lack a detailed explanation of the RAC's rationale for denying the claim: 23%

* Includes participating hospitals with and without RAC activity

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Hospitals continue to report that they are receiving demand letters late and that RACs are rescinding medical record requests after the hospital has already submitted the records.

Percent of Participating Hospitals Reporting RAC Process Issues, by Issue, 2nd Quarter 2011

- Long lag (greater than 15 days) between date on demand letter and receipt of demand letter: 21%
- RAC is rescinding medical record requests after you have already submitted the records: 14%
- Problems with postage reimbursement: 11%
- RAC is mailing medical record requests to wrong hospital or wrong contact at your hospital: 8%
- RACs auditing claims that are older than the 3 year look-back period: 4%
- RAC is auditing a particular MS-DRG or type of claim that is not approved by CMS: 3%
- RAC is issuing more than one medical record request within a 45-day period: 2%
- Other issues/problems (include box): 17%

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The majority of hospital respondents indicated RAC responsiveness and overall communication was “fair” or “good.”

Participating Hospitals Rating of RAC Responsiveness and Overall Communication, 3rd Quarter 2011

- Excellent: 5%
- Fair: 32%
- Good: 31%
- No Opinion: 19%
- Poor: 13%

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Participating hospitals rated RAC responsiveness and communication lowest in Region B.

Participating Hospital Rating of RAC Responsiveness and Overall Communication, by Region, 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>12%</td>
<td>43%</td>
<td>21%</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>Region B</td>
<td>1%</td>
<td>25%</td>
<td>42%</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>Region C</td>
<td>2%</td>
<td>34%</td>
<td>31%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Region D</td>
<td>10%</td>
<td>25%</td>
<td>33%</td>
<td>12%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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The average wait time for a RAC response varied significantly, with 15% of hospitals reporting it took 14 days or more to receive a response from their RAC.

Average Number of Days it Took RACs to Respond to Hospital Inquiries for Participating Hospitals, 3rd Quarter 2011

- 24 hours: 16%
- 1-3 days: 39%
- 7 days: 13%
- 14 or more days: 15%
- No response received: 17%

Source: AHA. (October 2011). RACTrac Survey
AHA analysis of survey data collected from 2,127 hospitals: 1,733 reporting activity, 394 reporting no activity through September 2011. 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 response time varied by region. Most significantly, Regions A and D performed better than Regions B and C.

Average Number of Days For RACs to Respond to Hospital Inquiries for Participating Hospitals, by Region, 3rd Quarter 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>24 hours</th>
<th>1-3 days</th>
<th>7 days</th>
<th>14 or more days</th>
<th>No Response Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region A</td>
<td>24%</td>
<td>44%</td>
<td>3%</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Region B</td>
<td>5%</td>
<td>32%</td>
<td>22%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>Region C</td>
<td>13%</td>
<td>45%</td>
<td>12%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Region D</td>
<td>28%</td>
<td>29%</td>
<td>14%</td>
<td>14%</td>
<td>15%</td>
</tr>
</tbody>
</table>

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For more information visit AHA’s RACTrac website:

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