First Annual RAC Report: Mo is the “Big Winner”

Recently, the Centers for Medicare and Medicaid Services (CMS) issued the first annual report to Congress detailing the findings of the Recovery Audit Contractor (RAC) program. Established in 2003, the RAC program identifies Medicare billing errors with the aim of improving accuracy through efficient and effective operation and increased program transparency. Through a post-payment review of the 2010 Fiscal Year (October 1, 2009 – September 20, 2010), the RAC report presents and analyzes data regarding Medicare reimbursement errors to hospitals, physician offices, medical suppliers, ambulance services, nursing homes, and other providers. The report published the cumulative quality of overpayments and underpayments by each state and found that Missouri providers were owed more than $3 million in underpayments – the most of any state.1

The RAC program identifies improper Medicare payments based on three categories: (1) payment for medically unnecessary services; (2) payment for incorrectly coded services; and, (3) payment for services not supported by sufficient documentation. Medicare payments that require a correction include both overpayments and underpayments to providers.2 An overpayment occurs when the provider is reimbursed an excess amount for a given claim and results in a provider owing Medicare the overpayment back. Conversely, an underpayment occurs when the Medicare reimbursement received by providers is less than the costs of providing care and results in Medicare owing providers extra reimbursement funds.3

Within the 2010 Fiscal Year, the RAC program corrected 191,878 claims, adjusting $92.34 million in reimbursement errors. This included 185,065 claims classified as underpayments, totaling $75.44 million, with an average claim amount of $408, and 6,813 overpayment claims, totaling $16.90 million, with a $2,481 average claim amount.4 After both overpayments and underpayments were accounted for, nationally, CMS was owed approximately $58,535,556.5

Though the report did not include information regarding specific reasons for Medicare reimbursement underpayment errors, it did indicate that Missouri had more errors than any of its Region D counterparts.6 In Missouri, 9,347 claims included Medicare reimbursement errors, involving a total of $5.35 million. Of these claims, 8,309 claims were classified as underpayments with an average claim amount of $280 summing a total of approximately $2.33 million. Missouri underpayments summed a total of $3.02 million, which included 1,038 claims with an average claim amount of $2,912.7

Overall, only six states received payments from CMS for greater underpayments (i.e., the amount owed to providers in a state) then overpayments (i.e., the amount providers within a state owed CMS). When total corrections were taken into account, Missouri providers were owed the greatest amount by CMS (approximately $693,373) followed by providers in the states of Iowa (approximately $240,997); Nebraska (approximately $118,807); Nevada (approximately $39,527); Vermont (approximately $39,371); and, Maine (approximately $14,708). Over the one year period, most states’ providers owed funds to the Medicare program. California owed the most, approximately $6,687,702, followed by Florida (nearly $6,537,578), and Texas (approximately $5,579,543).8

The RAC program aims to make Medicare more accurate. Accurate payment to healthcare workers provides incentives for high quality care and may ease frictions between providers and CMS regarding incorrect payments. Regardless of the overall success of the RAC program, providers express concerns surrounding increased monitoring and expansion of the RAC program.9 While this is likely because majority of states’ providers were required to return substantial overpayments to CMS, the Medicare system as a whole is expected to become more efficient and effective as a result of the RAC Program.


3 Ibid; “Underpayment by Medicare and Medicaid Factsheet” American Hospital Association, December, 2010,
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http://www.aha.org/content/00-10/10medunderpayment.pdf
(Accessed 12/1/11).


6 David Twiddy “Medicare Shortchanges Missouri the Most, Audit Finds,” October 3, 2011.


9 “Letter to CMS from MGMA RE: Medicaid RAC” By William F. Jessee President and CEO-Medical Group Management Association, To Donald Berwick Administrator-Centers for Medicare and Medicaid Services, January 10, 2011.

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Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of HEALTH CAPITAL CONSULTANTS (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: “The U.S. Healthcare Certificate of Need Sourcebook” [2005 – Beard Books], “An Exciting Insight into the Healthcare Industry and Medical Practice Valuation” [2002 – AICPA], and “A Guide to Consulting Services for Emerging Healthcare Organizations” [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious “Shannon Pratt Award in Business Valuation” conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored “Research and Financial Benchmarking in the Healthcare Industry” (ASP Financial Management) and “Healthcare Industry Research and its Application in Financial Consulting” (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Anne P. Sharamitaro, Esq., is the Vice President of HEALTH CAPITAL CONSULTANTS (HCC), where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in “Healthcare Organizations: Financial Management Strategies,” published in 2008.

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