



How to Increase Savings and Financial Performance with Your Charge Master

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White Paper

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Who is this Document for?

This document is for those who work within a hospital and touch the hospital's purchasing (procurement), billing, and dispensing operations. It is also for anyone who maintains or has contact with the technical systems that support those functions. Management responsible for these areas can also benefit from the content in this document.

What Will Be Covered?

This document seeks to be a comprehensive educational resource that explains what a well-functioning Charge Master looks like, why it exists, why it's important, and how to work within your environment to improve and maintain your Charge Master.

What is a Charge Master?

“The Charge Master is the piece of data that bridges this gap between procurement, dispensing, and billing.”

A Charge Master is a file that a hospital uses to track classes of products, drugs, and materials that are dispensed at a hospital and connect them to specific descriptions and procurement numbers that are used when purchasing those materials and products. In other words, a Charge Master is a data file that relates other data files together. The Charge Master contains all of the “charges” that you can be billed for within a hospital as a patient and is the first step in documenting what happened in the billing process.

As an example: When a doctor is prescribing a drug within the hospital, he may decide a patient needs “Tylenol 500MG.” That doctor doesn't know or need to know that when he prescribes that there are literally more than 100 unique products with different prices and methods of procurement that fit that description. Likewise, when an insurance company is billed for Tylenol 500MG, they're generally not interested in the level of detail that could be sent; they instead look to group that complexity into a simpler menu of payment choices.

However, from the procurement point of view, the specifics matter very much as pricing contracts are negotiated based on the manufacturer, wholesaler availability, and a variety of other factors.

The Charge Master is the piece of data that bridges this gap between procurement, dispensing, and billing. Almost all Charge Masters are proprietary to individual hospitals (or hospital systems).

Typical Charge Master Layout

A typical Charge Master is laid out to reflect its chief function of bridging purchasing, dispensing, and billing data. A Charge Master will normally include the following:

- **Procurement Code** - For drugs this will be the National Drug Code (NDC).
- **Charge Code** - The hospital's proprietary code for that charge.
- **Charge Description** - A description of the charge.
- **HCPCS Code** - The billing code set (these are usually HCPCS or APC codes for outpatient services, DRGs for inpatient or Medicare services).
- **Department Code** - (optional) A code that links the charge to the department where this charge is normally performed/dispensed/provided. These are often internal proprietary codes, but hospitals can use a standard set of locations that are defined by the Centers for Medicare & Medicaid Services (CMS).
- **Revenue Code** - A four-digit code that is required for certain types of older claim formats (such as the UB92 and UB04). Revenue code guidelines vary greatly between payers.

- **Charge Amount** - The amount charged for the service or item in question. It's important to understand that Charge Amount is different from Cost or from the Reimbursement Amount. In the Provider Reimbursement Manual, CMS has issued the following guidance related to Charge Amount:

"Charges refer to the regular rates established by the provider for services rendered to both beneficiaries and to other paying patients. Charges should be related consistently to the cost of the services and uniformly applied to all patients whether inpatient or outpatient."

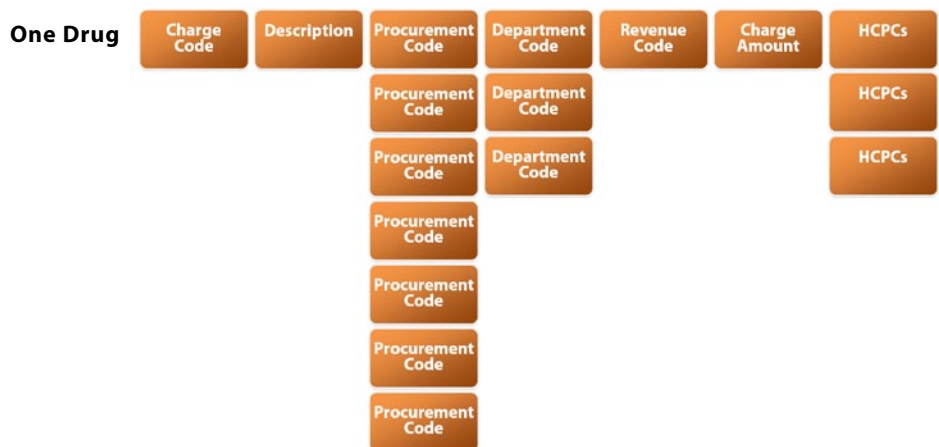
- **Other Codes** – Other custom codes can be added to link Charges to the General Ledger, for example, or may possibly include other state-specific or provider/payer specific codes.

Modeling a Charge Master Correctly

Most hospitals have a Charge Master that includes one line (of the fields listed above) per service, device, or supply. However, the reality is that a Charge Master **is not** a file that looks like this:



Instead, a correctly modeled Charge Master will often include dozens or hundreds of codes that can be linked to a single service or pharmaceutical item, and the reality is that the data in a Charge Master **should** look like this:



In the above example, there are seven different procurement codes that can be used to buy the drug in question, and it can be billed using three different HCPCS codes from three different departments. If you're familiar with a hospital environment, this makes a lot more sense and actually models the reality of how drugs are bought, billed, and used. However, most systems don't support this type of modeling, with the reason being that this type of modeling introduces a lot more complexity that can be much harder to manage.

Also, many times hospitals may have two very similar charge codes that can be mapped to identical procurement or HCPCS codes, and this can introduce even greater complexity.

Charge Master Ratios

Another key point in modeling a Charge Master is the fact that many pharmaceuticals, supplies, and other procurement items are billed and charged at different ratios from their units of purchase. In other words, if you buy a bottle of 100 tablets, you will likely charge for the drug in units of 1 tablet, but you may bill for the drug in units of 1/2 tablets.

This introduces additional complexity and necessitates the use of ratios to relate these different units of measure to each other. Small errors in ratios can quickly translate to major financial problems for a hospital, and this kind of vital data relationship magnifies even small mistakes.

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Why Your Charge Master is Important

A hospital's Charge Master (also called a Charge Description Master, Hospital Description Master, or even a Mnemonic File) is one of the single most important pieces of data that exists within a hospital. Contrasted with other key information such as patient records, clinical records, and other detailed records that may exist within a hospital's information systems, the Charge Master is unique in that it can directly and profoundly impact the financial efficiency and performance of the hospital.

Financial Importance

A well-maintained, well-defined Charge Master can mean a difference of millions of dollars in costs or revenue either lost or gained. Think of the Charge Master file as the linchpin piece of data between all of the various systems that deal with the purchasing, dispensing, and financial billing functions of the hospital.

Setting the Stage for Informed Decision Making

In addition to linking together these systems, a well-functioning and up-to-date Charge Master can set the stage for detailed analysis into what and how a hospital is purchasing, dispensing, and billing. This analysis can lead to informed decisions on how to save money, time, and effort at each of those three stages. Without a clean Charge Master, informed decisions in those arenas are simply not possible.

Clinical Importance

Standardization of a Charge Master can be the catalyst to bring different departments and decision makers together to discuss common practices, terminology, and reporting. After standardization, reports can be generated to aid in the development and analysis of benchmarks for evaluating clinical performance and identifying and implementing the most cost-effective delivery modes available.

Importance of Compliance

Standardization improves billing accuracy, training, communications, and implementation across a hospital. Many issues relating to fraud and abuse are driven by errors made within a Charge Master. These inadvertent errors can cause inaccuracies on codes and amounts on claims submitted to a payer.

Inherent Difficulty

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Pharmacies purchase multiple NDCs of the same item at different costs, yet current systems, even barcode-driven systems, translate everything to one NDC at one cost of goods. Since the wholesaler purchase information is not connected, pricing is typically updated once a year at best, even though it may have changed throughout the year on a weekly basis.

Charge Master Maintenance

A Charge Master is essentially out of date as soon as it is created. This is due to the nature of a Charge Master's function: tracking ever-changing purchasing behavior and relating it to constantly updated billing practices. Maintaining an organized and updated Charge Master requires a number of different types of maintenance tasks that need to be performed on an ongoing basis. Some of the key Charge Master maintenance tasks are listed below.

Purchase Updates

Pharmaceuticals, medical supplies, and medical devices all have unique purchasing codes that identify them. For pharmaceuticals, this code is the National Drug Code (NDC), and every manufacturer, drug, and package size has a unique number. In addition, most generic drugs have hundreds of different choices that can be purchased. This means that whenever a buyer changes drugs or manufacturers, the Charge Master needs to be updated. Some hospitals do this manually every day, many don't do it at all, and some use software to aid them in this task. It's often surprising that purchasing behavior changes so often, but in large organizations this can happen just based on different buyers purchasing products at different times, regardless of any kind of price or policy shift.

Charge Updates

Hospitals periodically update their charge codes, and this can happen for a variety of reasons: the introduction of a new service or product, the installation of a new information system, or standardization across a system of hospitals. Sometimes charge codes are updated for safety reasons as well as to ensure that groupings of similar charges don't have similar codes. When charge code updates happen, each system that interfaces with the Charge Master needs to have their own internal tables updated as well.

Billing Updates

Billing codes, billing ratios and billing units get updated quarterly by CMS. These code sets can sometimes contain mistakes or have their ratios modified, and it's important to be aware of these changes and make them available to your systems and personnel. Claims and patient stays can often cross these update boundaries, so systems need to be able to delineate the correct code set for the correct quarter.

Hallmarks of a Successful Charge Master Implementation

A successful Charge Master implementation has a few key characteristics:

1. **Current.** Current means you can pick an item at random, check what has been purchased, and see those procurement codes listed correctly in the master file. The same should be true for billing codes, department codes, etc.
2. **Thorough.** A Charge Master needs to be a true master record for all services, products, and supplies that are billed for and used within a hospital. Charge Masters that aren't thorough introduce risk and inconsistencies, all of which lead to reduced efficiency and greater cost. Thoroughness is different from the previous concept of being "current" in that you can have a Charge mapped to a drug you recently purchased, but still not have all of the various generics you're purchasing added, or you may be missing other billing codes.
3. **A Plan for Maintenance.** Whether you're using software, people, or a combination of the two to keep a Charge Master, you must have a plan for ongoing maintenance. This means periodic reviews based on external factors such as coding or regulator changes, as well as performing updates based on internal factors such as changing a product or purchasing strategy.

These factors combine to provide the foundation for clear information that supports clear decision-making. These decisions can impact an organization in a number of powerful ways.

Financial Impact of a Charge Master

The financial impact of a Charge Master can be felt in each different area it touches: procurement, utilization (or dispensing), and billing. Below are some common areas where the financial impact of a Charge Master can be quickly demonstrated.

Note: It is often difficult to even assess the financial impact of a Charge Master problem without first putting in the work to "set the stage" for the analytical process.

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Missing Charges

Missing charges happen frequently in a hospital and are extremely difficult to detect, predict, and correct. Examples of how charges can be missed include the following:

- External locations that may not be on the same technical systems as the main hospital (e.g. clinics, satellite locations).
- Commonly charged services, drugs, or materials which are low-cost but used frequently.
- Data entry mistakes and typos where a unit such as “1” is entered for a drug, when “10” should have been entered, or when expensive drugs are billed in sub-vial or sub-package increments but a common dose is an entire bottle.
- Areas with high staff turnover where new employees or team members may not be completely familiar with the Charge Master and may unknowingly enter incorrect information.
- System workarounds where reprinting a label is noticeably easier than actually charging a new dose. This can lead to missed charges during heavy workload times.
- Systems that should be connected (like many automation devices such as an IV pump or automated medication dispensing cabinet) can become disconnected for periods of time or have never been hooked in correctly at all.

A common theme among all of these examples is that often everything can appear to be operating correctly when there is actually a serious issue of missing charges. Patients are still getting serviced correctly, and an automated medication dispensing cabinet may look connected since it’s working. To the untrained eye, nothing would appear wrong. However, these mistakes and missed charges can quickly cost hospitals millions of dollars and persist for years.

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Learn how one hospital saved **\$750,000.00** by discovering just 50 missing charges.

Incorrect Charges

Drugs, supplies, and services often appear extremely similar in name and numbering scheme, and most hospital staff members are trained to focus their safety efforts around the physical dispensation of the drug, supply, or service in question, not on the computer entry portion of the task. This inattention can lead to numerous instances where charges are input incorrectly and create issues that are, again, extremely difficult to rectify.

Changing Utilization Behavior

Once you have a Charge Master that can be a platform for analysis, you can bring together decision makers from every department of the hospital to review your utilization behavior and recommend changes that will save money. Subtle differences in practice can lead to significant savings when implemented hospital- or system-wide. Once you’ve implemented a change, you need to monitor the results by tracking your Charge Master and your changes against your subsequent performance.

Changing Procurement Behavior

Changes to procurement behavior based on Charge Master analysis can be profound. Here some examples of procurement behavioral changes that can lead to immediate financial benefits:

- Enforcing purchasing decisions according to contract parameters. By using your Charge Master platform to monitor how purchases are made, you can target your facility’s contract parameters for volume-based discounts, rebates, or any other kind of available financial incentives.

- Modifying the importance of certain buying strategies. It may not always be the cheapest option to buy the cheapest drug if that drug is more expensive to handle or store, or if it introduces safety concerns. Likewise, certain drugs may have enough of a cost benefit to consider introducing different policies so that an organization can begin using them. This information can have tremendous financial impact but can't be fully effective with an outdated Charge Master.
- Standardizing procurement behavior. Standardization in purchasing can lead to more consistent care practices and can also reduce training costs

Evaluation of Tools and Toolkits

There are plenty of tools available to help you manage your Charge Master. When evaluating these offerings, make sure you select a tool that can comprehensively address the needs of your hospital environment. As we've seen before, partial solutions lead to situations that can quickly introduce waste and mistakes with significant financial ramifications.

Here's a checklist of features to look for:

- Ability to map multiple Charges to multiple Items (Drugs, Supplies, etc.)
- Full electronic and automatic procurement and order flow integration with all wholesalers and suppliers.
- Full visibility into the three aspects of the healthcare revenue cycle: Procurement, Utilization, and Billing.
- The ability to measure inputs vs. outputs. In other words, are you buying more than you're dispensing or vice versa?
- Simulation of other procurement strategies and reports on the efficacy of these strategies once they're implemented.

Conclusion

A current, thorough, and well-maintained Charge Master will be a significant operational, financial, and compliance asset. As a critical part of a hospital's information infrastructure, this area warrants significant attention, planning, and investment.

About Sentry

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Sentry Data Systems, Inc. is a healthcare intelligence company offering technology solutions that address a wide variety of workflow, compliance, technical and financial challenges. Sentry's products serve hundreds of hospitals and pharmacies across the country and have saved clients millions of dollars to date. Sentry processes millions of eligibility, financial, clinical, and pharmacy transactions per day on over 15 million patients.

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