Kingman Regional Medical Center of Kingman, Ariz., is a 235-bed rural hospital serving a fast-growing community with expanding healthcare needs. Like most hospitals and health systems, Kingman Regional faces the challenge of rising expenses and declining levels of payment. In 2007, the hospital improved its financial performance by correcting widespread procedural and systems issues that were costing the hospital significant revenue. By developing a program to improve revenue integrity, the hospital improved charge capture and billing processes department by department—and has since identified $2 million in unbilled charges and recovered about $500,000 in net revenue.

How Kingman Regional Did It

Careful analysis showed that Kingman Regional tended to react to revenue problems rather than identify and correct them upstream. Specifically, the hospital relied too heavily on payers to alert the hospital that it was being paid incorrectly—or at all—for procedures, medications, and supplies used in treatment. Working backward through each remittance denial to identify a particular problem, usually coding related, was a painstaking, labor-intensive process. Even when the hospital determined the cause of the issue and corrected the claim in question, it took time to correct the systems and processes that produced the error in the first place.

System issues also were impacting Kingman Regional’s bottom line. In particular, inconsistencies between the hospital’s central chargemaster and clinical subsystems sometimes prevented the hospital from generating claims that billed accurately for all charges. As government and private payers updated existing codes or introduced new ones, the hospital had no way of ensuring that codes were appropriately modified in the internal chargemasters within the subsystems. As a result, when subsystems interfaced with the central chargemaster to generate billing information, the codes often did not match. Codes change frequently, of course, which meant that Kingman Regional was forever playing catch-up, trying to manually identify discrepancies within the systems.

Kingman Regional also faced challenges in linking disparate software systems. Most hospital software systems rely on data from other internal systems in order to perform their functions. Kingman Regional relied on manual updates of these systems. For example, the hospital’s pharmacy department manually provided updates from the pharmaceutical purchase history to the hospital’s chargemaster...
on a regular basis. This was a time-consuming process that made it difficult to identify missing charges and medications from the chargemaster and ensure that costs aligned with reimbursement. Too often, manual updates delayed the hospital’s recognition of coding and billing issues until weeks after claims were submitted for payment.

Kingman Regional identified several areas for improvement at the staff level, such as accountability for procedural consistency, training, and communication between the business office and the clinical departments. For example, no one person was responsible for the central tracking of coding changes or ensuring that clinical departments made those changes in their subsystems; each department was responsible for maintaining its own system. Because no one was in charge of ensuring that these systems were being accurately maintained, the hospital experienced frequent inconsistencies between, for example, CPT code descriptions across systems. What’s more, when the hospital wanted to introduce new services, there was no formalized means of communication between the business office and the clinical staff to ensure that codes were set up properly in the relevant subsystems and that all reimbursable items would be identified and properly charged.

Assessing Pharmacy Challenges
In fall 2006, Kingman Regional’s pharmacy department began a complete review and update of its financial systems, and was subsequently designated as the first priority for the hospital’s revenue integrity program. Labor and prescription medications are the two largest expenses for the hospital. Given the significance of drug costs to the hospital’s finances, Kingman Regional made it a priority to establish processes and systems that would:

- Efficiently capture all facility-administered pharmaceutical charges at the appropriate rate
- Enable the efficient administrative oversight of pharmacy procurement, dispensing, and billing
- Automate the transfer of data between the various revenue systems within and outside the pharmacy

When the revenue integrity program began, Kingman’s pharmacy processes were similar to those in other hospitals. Pharmacists ordered medications through a proprietary system supplied by the hospital’s primary pharmaceuticals wholesaler (a process that has remained unchanged). Both then and today, pharmacists have tens of thousands of medication choices that change frequently based on a number of variables, including units of measure, delivery mechanisms, choice of manufacturer, and generic alternatives. Adding to those variables are frequent formulary updates and coding changes issued by government-sponsored medical plans.

Formerly, Kingman Regional’s pharmacists were responsible for manually adjusting the pharmacy chargemaster when new drugs were introduced into the system, when existing medications were modified (e.g., in units of measure, routes of administration, and payer codes), and when government or private payer codes changed. If corresponding adjustments to the pharmacy chargemaster were not made properly, or if a pharmacist made data entry errors when dispensing, a medication charge could be rendered effectively nonpayable. When an incorrect dosing unit or a charge with a missing or inaccurate code is submitted for payment, it will likely be considered packaged or the payment to the hospital will be inaccurate because it is based on an incorrect dosage unit. Although the pharmacy had processes in place to monitor chargemaster accuracy, they were tedious, manual processes performed at the end of each month. Additional manual pharmacy charge audits were also time-consuming. Issues were slow to be identified, sometimes taking weeks or even months.

Pharmacists were using one system to order drugs, dispensing them through another system, and processing reimbursement through a third system. Because these systems were linked, it was a daunting challenge to determine whether medications were being reimbursed properly. More challenging still was evaluating the payment rate in light of the cost of procuring medications. Achieving defensible, transparent pricing—a growing priority arising from both new regulatory requirements and consumer expectations—also was a challenge.

As if procedural and systems challenges weren’t enough, the cost of prescription drugs continues to climb. According to the American Society of
Health-System Pharmacists, the cost of prescription drugs rises 6 percent to 9 percent each year. Kingman Regional needed a way to monitor its expenses, charge capture, and payment more closely if it wanted to try to have full visibility from the point of purchase through payment.

**Breaking Down and Automating Processes**

At its core, Kingman Regional’s revenue integrity program is based on continuously evaluating and rethinking the fundamental assumptions behind the hospital’s processes and systems. In the pharmacy, the hospital’s plan was to break down the revenue systems to their baseline functionalities and rebuild them so that, going forward, they would automatically identify and capture revenue opportunities.

In the course of rebuilding revenue processes and systems, Kingman Regional determined that for many medications, there was a mismatch between how drugs were administered and the proper coding for payment. To rectify that situation, the hospital reviewed and updated problematic medications in the drug master file of the pharmacy computer system and set appropriate parameters for dispensing.

The six- to eight-week process entailed the complete reconstruction of the pharmacy chargemaster. Kingman Regional’s overriding goal was to reduce the prevalence of post-billing adjustments. Therefore, the hospital focused on modifying its pharmacy systems so that when a pharmacist fills a physician order, the order will be placed in the appropriate billing unit. Although the process of rebuilding the chargemaster was a tedious one, once the codes were built in and the pharmacists educated, pharmacists adhered well to the correct billing processes.

Yet even though the chargemaster had been rebuilt, the pharmacy still had to use manual processes to reconcile pharmacy spending against dispensing, billing data, and codes used on the main hospital chargemaster. The process of drilling down into the data to capture all of the necessary information to evaluate costs against revenue took four to five days. To streamline this task, the hospital implemented software in May 2007 that establishes and maintains a connection between the pharmaceutical purchase history and the central chargemaster. This eliminates the need for manual pharmacy charge audits and helps the hospital achieve appropriate pricing, accurate billing, and optimal payment.

By strengthening the integrity of its pharmacy billing policies and procedures and having full visibility from purchasing to payment, Kingman Regional is more easily able to manage costs, monitor internal pricing policies, and recover revenue. Because the once-disconnected systems are now linked, the hospital can quickly perform the analysis necessary to ensure that its pharmacy systems are accurately capturing the data needed to bill for all reimbursable items. The software’s pharmacy “dashboard” provides predefined filters to quickly review data queries to support decisions that ultimately enhance pharmacy financial performance.

As for the software’s impact on pharmacy processes and revenue integrity, Kingman Regional’s business office and revenue integrity team are now actively
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involved whenever a new drug enters the system or an existing drug is changed. The system facilitates data analysis by pharmacy and revenue integrity personnel, which confirms appropriate drug billing information and whether the drug should be packaged or separately reimbursed.

Kingman Regional’s revenue integrity program has had a substantial effect in the area of pharmacy services. In FY08, the pharmacy recorded a 2 percent decrease in overall department expenses, in spite of a 9.8 percent increase in adjusted patient days, with a 28 percent increase in income from operations over the previous fiscal year.

Generating a Strong ROI

Kingman Regional’s revenue integrity program has had significant benefits for the hospital, having identified $2 million in unbilled gross charges in less than a year. That revenue comes primarily from items provided or procedures performed that had previously not been charged for, in addition to corrections of coding errors that previously resulted in underpayments from Medicare. As of September 2008, the hospital had recovered about $500,000 in net revenue. The program is more than covering its costs, and Kingman Regional anticipates it will experience substantial benefits from the initiative in the future.

It is important to note that Kingman Regional’s revenue integrity program relies on collaboration with ancillary departments. The goal of the program is to identify overlooked revenue opportunities and correct the processes and systems that lead to those lost opportunities. This is a cyclical process in which hospital administrators and department managers must revisit procedures even after they have been corrected. With changing financial conditions and billing requirements, even rebuilt systems can quickly become out of date. However, as shown through Kingman Regional’s experience in strengthening the integrity of its pharmacy processes, automated tools make it significantly easier to monitor and, when necessary, revisit and adjust the modified processes.

Today, results of the revenue integrity initiative are regularly reported to Kingman Regional’s board of directors, who monitor the program’s progress and help determine next steps. The program now evaluates and, where necessary, modifies every hospital system and process related to the procurement, dispensing, pricing, and billing of items used in treatment. The hospital’s goal is ambitious but vital: to make sure that every procedure and reimbursable item is captured and billed according to the terms of government guidelines and private payer contracts.

Kingman Regional’s revenue integrity program also supports other important objectives, such as compliance. Specifically, the program is designed to support the consistently accurate use of ambulatory patient classification (APC) codes across the hospital. Aside from being a vital means of achieving revenue capture goals, improving the use of APC codes across the clinical departments improves compliance and internal controls.

Additionally, Kingman Regional’s revenue integrity program has focused on helping clinical departments introduce new services, including a pain management program and wound care treatment. Revenue integrity staff members meet with the staff involved in new service offerings, including ancillary department staff, and educate them on best practices in capturing and generating charges. Revenue integrity staff serve as a resource for other staff members to ensure that new services will be financially viable for the hospital.

The commitment of Kingman Regional to providing staff with the tools, resources, and time necessary to improve revenue integrity have all combined to help the hospital increase revenue while lowering costs. Ultimately, this has enabled the hospital to allocate more funds toward patient care and better serve its mission in the community.

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