The Chargemaster, a Strategic Asset:
Vital Tool Needing Improved Controls

By Sandra J. Rasmussen

Executive Summary

The number of changes to a typical hospital’s chargemaster in an average year is very large and requires well-trained knowledgeable staff to assess and handle them accurately. With up to 40,000 or more line items to be managed errors using a manual maintenance approach will happen. But when and where is unknown. These errors can be expensive in terms of lost revenue; rework (rebilling); training; fines and penalties; and more.

Automated chargemaster maintenance tools hold the promise for greater accuracy and improvement to the overall financial control structure of the organization. Is it time to consider improving the control over one of the organization’s most strategic assets?

Introduction

Hospitals and health systems must contend with numerous big-picture challenges that include industry consolidation; new and complex clinical and financial systems; as well as the accelerating pace of change in government and private-payor regulations. With management devoting much of its attention to such issues, relatively lower-profile priorities do not always get the attention or resources they merit. One of those often neglected priorities is that of leveraging the entity’s chargemaster’s potential. Organizations can enhance both their compliance and their revenue cycle performance when they appreciate their charge description master’s (CDM) role as a key control point.

A principle of internal control holds that controls are most effective when they are closest to the transaction. That is because proximity to the transaction improves the chances that errors will be quickly identified and promptly corrected. No hospital function is closer to charge capture and billing-related transactions than the chargemaster, which is one reason it should be central to the organization’s initiatives to both improve and sustain the accuracy of its revenue capture process. Objective evidence documenting a well-controlled CDM maintenance process is also very important to preparing for audits by agencies and organizations from outside the organization.

Beyond Random Testing

When compared with other internal control points within the revenue cycle, the chargemaster can be a very effective control. The chargemaster is the vehicle through which an organization describes both internally and to the outside world all of its services. The data in the chargemaster is used widely, serving as the basis for systems that measure performance, costs, productivity and even quality. Organizations stand to benefit from designating the chargemaster as a strategic asset rather than merely the placeholder for its charging structure.

To understand the importance of the chargemaster, consider that it has been shown that a large percentage of revenue cycle errors stem from failures to recognize and incorporate change as part of the chargemaster’s day-to-day management. Change within the revenue cycle is a constant in healthcare, whether it is new government regulations such as coding modifications, or new clinical technologies, the redesign of business processes, or implementation of new IT systems, to mention just a few. Staff turnover further complicates the management of change due to a significant portion of charge capture that is dependent on individual knowledge of the CDM and the best effort of recognizing when a billable event occurs.

To manage the change effectively, internal controls must be present and capable of quickly recognizing the impact of a change as it is introduced into a system and also recognizing when staff has not taken the immediate and appropriate action.

To a large extent, it is virtually impossible to fix permanently all the processes associated with capturing charges. It is a dynamic process that has proven to be amorphous over time, and meaningful performance measures have been elusive. Too often, revenue cycle improvement is driven and defined by anecdotal issues identified through random error detection.

By contrast, an effective system of revenue transaction controls moves the

It is virtually impossible to fix permanently all the processes associated with capturing charges.
Many organizations, however, continue to rely on ineffective controls.

An accurate, properly maintained chargemaster allows systematic improvement of the revenue cycle that moves beyond random error detection and correction. Every revenue transaction goes through the chargemaster before it is posted to a patient account. Thus, by their nature, errors in the chargemaster are the underlying cause of systemic issues throughout the revenue cycle. Resulting adverse consequences are often discovered downstream in the billing and collection process, far from the source of the original transaction. When the chargemaster is accurate and properly maintained, however, it generates management data an organization needs to measure systematically not only its revenue capture, but also costs, productivity and quality.

Chargemaster Maintenance is Vital

Because the chargemaster is one of the crucial internal control points in the revenue cycle, effective chargemaster maintenance is essential to ensuring that this application serves its purpose fully and accurately. In many organizations, uncontrolled access to the chargemaster is a major point of errors. It is critical to limit chargemaster access only to those that need it and who have the skills and training to maintain it properly. It is also essential to keep the chargemaster up-to-date with changes to rules and regulations, such as when a billing code is no longer valid to a third-party or government payor. When a HCPCS or CPT code becomes invalid or is assigned to an inappropriate revenue code in the chargemaster, it is a problem.

When a code is erroneous in the chargemaster, every transaction that hits against that particular code will be wrong and will likely result in reimbursement errors and material compliance issues. How would management know if a code in the chargemaster is incorrect? For chargemasters that are maintained manually, there is no effective way to identify such errors until a claim is denied by the payer; even then, the odds are the staff processing the denied claim will simply correct or remove the charge so that the claim will be paid. When the priority, as it often is, is to reduce days in accounts receivables and increase cash collections, the chances of someone investigating for the existence of a systematic error and then correcting the chargemaster are slim. In short, inadequate chargemaster maintenance results in slowdowns in cash flow, write-offs that arise from delays in correcting errors and lost reimbursement that results from not pursuing corrective action. In addition, it can result in overpayments, putting a hospital at risk for non-compliance.

Unfortunately, since organizations often do not grasp the extent of change and possible accumulating inaccuracies in the chargemaster, it is difficult to know when there is a problem. To get an idea of the scope of the issue, consider that each year
there are thousands of changes to coding rules. The typical hospital can have between 15,000 to 40,000 or even more line items in its chargemaster. Further, each line item has many data elements associated with it. With this amount of detail and complexity, maintaining constant accuracy of a chargemaster using manual processes is virtually impossible.

The only possible way to manually maintain a chargemaster with any expectation of accuracy is as follows: A staff member or members would have to read and understand the numerous trade journals on coding, billing and revenue compliance (there are dozens of such publications); constantly review Federal Registers; determine whether each coding change he or she encounters applies to the organization; and then find each place in the chargemaster where those changes should apply. Then, every line item in the chargemaster affected by a change must be properly updated without clerical error; the changes must then be communicated to affected clinical departments. Clearly, this is not a realistic process for maintaining accuracy.

**Benefits of Automation**

Given the centrality of the chargemaster to revenue and compliance initiatives, organizations are increasingly recognizing the importance of automated chargemaster maintenance tools. Well-designed tools can manage the creation, modification and documentation of all line items in the chargemaster for all departments that charge for services and goods across the enterprise, allowing managers to see the immediate impact of every change, the potential issues each may create elsewhere and how to correct such problems.

Such tools automate the process of reviewing every chargemaster line item, flagging potential problems and organizing them into priority actions before problems occur. Effective systems continuously deliver Web-based updates into the tool’s repository of regulatory rules and coding logic, which easily enables staff to stay current with the latest regulatory, coding, and compliance alerts that apply specifically to the facility’s CDM. These updates, together with automated audit trails, can strengthen an organization’s ability to create a clear system of accountability, a sustainable business process beyond an individual’s best efforts and experience, and demonstrate a defensible system of compliance education across dozens and often hundreds of participants in the charge capture process. Beyond coding accuracy, chargemaster maintenance software can assist in assigning coding modifiers, benchmarking prices against payor fee schedules and competitors and reconciling pharmacy purchases with the billing master.

A correct code, however, does not ensure the proper intent of service. Effective tools analyze what an organization meant to charge against what they are actually ready to put into a claim. This helps to ensure proper coding, descriptions, dosages and methods of administration which are compliant and will be billed and correctly paid. In a related vein, the introduction of new services often results in delays between the delivery of care and the creation of a billable service code. Quality tools will check for completeness against best practice CDMs and look for related codes that are absent from the CDM.

In terms of access and collaboration, chargemaster maintenance tools can provide the electronic methods to control user requests for needed changes and additions to the chargemaster and report back upon implementation. The most effective tools are designed for collaboration across the organization, allowing for interdepartmental communications and change approval processes while providing an automated trail of all activities. These features help stakeholders across the clinical care areas, financial department and the health information management function to work together more effectively and efficiently.

**Conclusion**

When considering the potential return on investment offered by chargemaster maintenance software, organizations often look first to additional revenue such tools can help generate. Internal auditors can add value by encouraging management to consider the broader issues of internal control these tools bring which also affect revenue. Importantly, these automated applications are equally valuable for their capacity to help organizations improve internal controls, which is increasingly important for hospitals and health systems. As external agencies and auditors increase expectations of management to provide written acknowledgment of the strength and presence of key internal controls, the potential consequences from negative audit findings are more serious than ever. Leveraging the chargemaster’s potential as a key control point is also an effective means of reducing an organization’s exposure to penalties and administrative costs associated with Revenue Audit Contractors.

It all boils down to a classic cost-benefit analysis: Is the exposure from inadequate internal controls related to the revenue cycle greater than the cost of improving them? For the majority of hospitals and health systems today, the answer is a clear yes.

Sandra J. Rasmussen is vice president of operations with Craneware, a leading developer of financial performance software for healthcare organizations. Drawing on more than 25 years of healthcare financial management experience, Rasmussen operated a healthcare consulting practice and held positions as system controller and vice president of revenue management with Fairview Health Services in Minneapolis before joining Craneware. She may be reached at s.rasmussen@craneware.com.


---

*Experience is not what happens to a man; it is what a man does with what happens to him.*  
—Aldous Huxley