Ensuring Proper Reimbursement for Hospital-administered Drugs
Table of Contents

Introduction ........................................................................................................... 1

Problems That Prevent Proper Reimbursement for Pharmaceuticals .................. 3

Solutions That Optimize Reimbursement .............................................................. 7

Case Studies ......................................................................................................... 12

References ............................................................................................................ 16
Introduction

Hospitals fail to secure millions of dollars in revenue due to absent, incomplete and incorrect pharmaceutical data in their billing systems. Many are unaware of such losses or belatedly discover the “revenue leakage” — the gap between the amount of revenue providers are entitled to and the amount of reimbursement eventually received. Others attempt to address the problem by manually managing data on drug purchases and reimbursement. Ideally this data would be automatically exchanged between the pharmacy and billing systems; but very few hospitals possess this capability. Moreover, hospital pharmacies have found no practical way to keep data current as billing codes and regulations continually change. As a result, reimbursement and compliance suffer.¹

Though most organizations recognize a need for connectivity between their financial and pharmacy systems, justifying the cost of new technology can be a difficult hurdle to overcome. Many hospital pharmacies are not able to actively improve revenue integrity due to lack of resources, limited time and service demands. However, today’s economic climate, coupled with an increase in healthcare auditors looking for coding errors, and the advent of new technologies that facilitate efficiency, compliance and legitimate reimbursement, make this an opportune time for hospital pharmacy and financial managers to take a proactive approach to proper information and financial management.²

Hospitals face declining reimbursements at a time when their expenditures for prescription drugs continue to climb, albeit at a slower historical rate. From 2006 to 2007, total U.S. drug expenditures increased by 4 percent, with total spending rising from $276 billion to $287 billion. During 2008, hospital drug expenditures increased by nearly 3 percent compared with the same period in 2007, and reported increases were expected to remain at approximately 1 to 3 percent for 2009.³

After moderating for several years, drug prices are again increasing at a rapid rate. In its 2009 Drug Trend Report, pharmacy-benefit manager Medco cited its data that revealed 6 to 8 percent annual price increases for branded drugs from 2004 to 2008, and less than 1 percent increases for generic drugs. For the out years 2009 to 2011, the report predicted continued price increases among traditional branded and biotech drugs that lack generic competition.⁴ Indeed, pharmacy industry data provider IMS Health made an unusual late-year upward revision in its forecast for pharmaceutical industry sales, citing higher U.S. drug prices as a major driver.⁵ And Credit Suisse drug-industry analyst Catherine Arnold released a widely quoted report which found that the eight largest pharmaceutical firms had increased their prices 8.7% from October 2008 to September 2009.⁶
As drug prices increase, however, CMS has reduced its average sales price (ASP) margin from 6 percent to 4 percent for non-pass-through and raised the threshold for separate reimbursement to $65.

Based on recent research and case studies, this paper explores the problems underlying pharmacy-based revenue leakage and presents an effective, affordable solution: establishing and maintaining automated linkage between the hospital’s pharmacy-spend data and its chargemaster. Ensuring optimal pharmaceutical pricing margins and reimbursement obviously results in improved financial performance for the entire organization.

Healthcare providers’ share of national expenditures for healthcare has declined to about 30%. Over the same period, the spending on prescription drugs has risen to about 10% of the total national spend on healthcare. Source: Centers for Medicare & Medicaid Services. Available online at http://www.cms.hhs.gov/nationalhealthexpenddata/
Problems That Prevent Proper Reimbursement for Pharmaceuticals

Hospitals are missing significant amounts of legitimate reimbursement due to revenue leakage related to inefficient or non-sustainable systems and processes. The following problems must be addressed:

- **Revenue leakage due to missing or miscoded data in the chargemaster** – Possibly the most critical area of substantial revenue leakage occurs when separately reimbursable medications are either missing from or miscoded in the chargemaster. This can happen in many ways – even due to something as simple as a typographical error in a dispensing cabinet, or entering an incorrect billing unit of measure (UOM) when the medication is loaded into the chargemaster.

- **Purchasing drugs that cost more than reimbursement** – Without a process for regularly comparing drug spending to reimbursement, hospitals may buy drugs at a higher price than they are being paid by fixed-fee-based payers. Cost-saving opportunities and generic alternatives may be available but are not fully explored.

- **Procedural breakdowns blocking reimbursement** – One of the largest areas of potential risk in capturing revenue for drugs involves the breakdown of established procedures once the medication has left the pharmacy. Procedural breakdowns such as coding errors and failure to charge for medications may go unnoticed for weeks or months until it’s too late to fix them.

- **Linking chargemaster charges with changes in medication costs** – Keeping up with changes in medication costs can be difficult for hospitals that rely on manual processes for updating the price of items in the chargemaster. In addition, prices often fall out of compliance with established mark-up guidelines when acquisition costs aren’t updated, resulting in medications priced significantly above or below the hospital’s approved pricing policies.

- **Keeping up with changes to CMS regulations** – Keeping track of constant changes to drug-related CMS regulations is an ongoing challenge. Few hospitals have an effective means of monitoring these, with the result that both compliance and proper reimbursement are at risk.

- **Labor-intensive workflow** – Most hospitals currently rely on a manual process for building and maintaining medications in their chargemaster. This time-consuming process is managed by extracting data from multiple sources and importing it into spreadsheets. Mistakes here can result in lost revenue and noncompliance.
Most hospitals use separate processes to order drugs, administer them, and process reimbursement. Without linkage between pharmacy expenditures for medications (i.e., spend data) and the chargemaster, ensuring proper charge capture and optimal reimbursement is a challenge. And because hospitals lack the tools to identify charge capture errors precisely when and where they occur, meaningful statistics in terms of revenue loss are very difficult to generate.

Hospitals are often aware that they are missing revenue, but lack the visibility into their own data and business processes to determine how much or why. With the availability of automated tools to improve financial performance, a small body of research is emerging among facilities that have taken a proactive approach with new technology, and the numbers are compelling. For example, an Arizona rural health center identified $2 million in unbilled gross charges and recovered approximately $500,000 in net revenue, while a larger Indiana health system identified an annual gross revenue variance in excess of $10 million after implementing automated tools to establish and maintain a connection between their pharmaceutical purchases and billing.

Pharmacy Data Flow – Purchasing to Reimbursement

A basic understanding of pharmacy data flow provides insight into the problems responsible for revenue leakage, and how they can be identified, addressed, and prevented. The diagram below illustrates the primary systems involved in the cycle, and the types of information contained in each, as medications are purchased, stored, dispensed, administered, billed, and reimbursed. The process begins with procurement of a drug from one of the hospital’s wholesale distributors.

Pharmacy Data Flow – The Ideal Model

<table>
<thead>
<tr>
<th>Procurement</th>
<th>Inventory Clinical Processing</th>
<th>Hospital Accounting Billing</th>
<th>Reimbursement</th>
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<tbody>
<tr>
<td>e.g., Cardinal, McKesson, AmerisourceBergen</td>
<td>e.g., EpicRx Inpatient, GE Centricity, Siemens Pharmacy</td>
<td>e.g., McKesson, Siemens, MEDITECH</td>
<td>e.g., Medicare, Medicaid, The Blues, Commercial Payers</td>
</tr>
</tbody>
</table>

Data Elements

- NDC Description
- Purchase Unit of Measure (UOM)
- Purchase Price
- Generic Alternative Dosage Quantity
- Billing UOM Billing Quantity
- Service Code
- CPT® Code
- Revenue Code
- Billed Quantity
- Billed Price
- Payment Details
Data Flow Breakdown Points

When errors occur at critical points in the flow of data, inaccurate reimbursement is inevitable. The outcome is the “revenue leakage” referenced earlier. The following description depicts breakdown points between the pharmacy spend data and the chargemaster.

Procurement Information Entered Incorrectly into the Pharmacy HIS System

In the procurement phase, information is converted from purchased quantities and pricing to storage UOM and inventory costs. In most cases, information is entered manually, and even when data is uploaded from the wholesale distributor to the pharmacy system, UOM conversions are checked and verified manually. Either way, information entered incorrectly into the pharmacy system causes a breakdown in the initial phase of the cycle. Mistakes made at this point will adversely impact aspects of clinical and revenue cycle going forward.

Pharmacy Data Flow Breakdown - Wrong Data from the Outset

<table>
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Inventory Clinical Processing to Hospital Accounting and Billing

For optimal financial performance, pharmaceutical quantities must be accurately converted first from purchased amounts to patient-administered amounts, and then to billable amounts. The dosage quantities required for patient use are often quite different from the quantities purchased. Data exchange between pharmacy and patient-focused clinical systems involves converting drug inventory data on quantities purchased to the quantity-levels required for administration to the patient. In addition to the inventory UOM, the clinician and pharmacist must convert dosage, strength, and delivery mechanism for each drug. Mistakes in this phase can have serious clinical and financial consequences.

After the medication-administration process, the drug quantities must be accurately
translated into amounts that are billable according to payers. In other words, drug data must be correctly converted from the quantities residing in clinical systems into the payer-billable quantities appropriate for the financial system or chargemaster. Commonly, units of measure that are appropriate for clinical administration seldom match the units required for billing to a payer. These UOMs must be reconciled to avoid any under- or over-payments. This is a common problem experienced by hospitals, and it exposes them to third-party audits. The accuracy of this process is contingent upon pharmacy staff’s knowledge of the financial information associated with every unique National Drug Code (NDC) item, including: billing units of measure, Medicare APC rates, CPT/HCPCS codes, revenue codes and Medicare descriptions. In most hospitals, extensive research and communication between the pharmacy and chargemaster departments are required to avoid costly errors associated with manual data entry into the chargemaster. The most common errors include:

- Drugs not entered into the chargemaster
- Drugs entered incorrectly into the chargemaster
- Units of measure entered incorrectly
- Patient charges that do not conform to approved markup formulas

Pharmacy Data Flow Breakdown - Missing or Incorrect Coding

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Information is not entered into Chargemaster

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<th>Wholesale Distributor</th>
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<th>Chargemaster</th>
<th>Billing System</th>
<th>Payer</th>
<th>Payment</th>
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<tbody>
<tr>
<td>NDC Description</td>
<td>Purchase Quantity</td>
<td>Purchase Unit of Measure (UOM)</td>
<td>Purchase Price</td>
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<tr>
<td>Generic Alternative</td>
<td>Dosage Quantity</td>
<td>Billing UOM</td>
<td>Billing Quantity</td>
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<td>Billed Price</td>
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<td>CPT® Code</td>
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Information is entered into Chargemaster incorrectly

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Missing or incorrect data in the chargemaster results in negative financial consequences – denied claims, partial reimbursement and compliance risk. In addition to lost revenue, the effort required to resolve these issues represents a significant workflow and financial drain on pharmacy and finance department resources. At this point in the process, missing or miscoded items corrupt the integrity of the data flow to the billing system, preventing and/or delaying proper reimbursement.

**Solutions That Optimize Reimbursement**

**Improving Processes Will Improve Financial Performance**

Optimal organizational performance is achieved through a delicate balance of people, processes, the technology used to support the processes, and a workable environment in which the processes are performed. Changes within any of these areas affect the others and impact overall performance. Industry experts advocate a best-practice approach to this balancing act and expanding pharmacy’s leadership role. According to James E. Jorgenson, executive director of pharmacy services for Clarian Health in Indianapolis, Ind., arriving at a solution begins by addressing the question, “Are pharmacy billing and revenue processes sound and routinely monitored?” His recommended strategy includes the following:

- Develop and maintain an updated drug billing system designed to increase revenue, reduce billing discrepancies, and avoid billing errors that can result in fraud liability.
- Incorporate effective methodologies and processes to ensure accurate billing, regular internal audits, and fiscal reviews of all pharmacy billing.
- Establish pharmacy as a unique and important business partner within the health system, moving the department to a fiscal and clinical position of leadership.

Introducing new technology as a means of improving financial performance finds support in a 2009 national survey of health system directors of pharmacy, indicating a continuing long-term trend toward implementing sophisticated technology solutions. No longer can facilities afford to take a “wait and see how technology evolves” position when it comes to automation solutions. While larger hospitals continue to have the highest implementation rates, many smaller hospitals are also adopting more advanced automation systems. The demand for new technology is reflected in increasing automation budgets and a rising number of designated pharmacy “informaticists” on staff. These growth trends are predicted to continue in the future.
Affordable automated solutions are now available to ensure that facility-administered medications are accurately priced, billed and reimbursed at an optimal level. Establishing and maintaining linkage between the hospital’s pharmacy-spend data and the chargemaster is essential to gaining full visibility of reimbursable pharmacy charges. These solutions result in pharmaceutical claims accuracy and proper reimbursement by both government and private insurers.

**A New Approach – Combining Technology and Thought Leadership Drives Business Success**

As innovators in the healthcare industry, Craneware offers a rare combination of technology and thought leadership. The company’s commitment to understanding the healthcare market and their customers’ needs is reflected in their approach to product development and partnership with clients. Thought leadership is an increasingly vital driver of business success, taking people to a new level of awareness of their work and its impact on their organizations. Craneware’s personnel and products embody this concept, forging connections between systems and the people who operate and rely on them. The process instills responsibility for making sure their business is successful and promotes best practices.

Craneware is the only supplier of revenue integrity solutions that provide hospitals with the unique ability to capture revenue they are currently missing due to absent, incomplete, or incorrect pharmacy data in their billing systems. By linking the hospital’s pharmacy spend data with the chargemaster, Pharmacy ChargeLink® improves financial performance for critical access, small and large hospitals, health systems and integrated delivery networks, as well as clinics.

The software flags exceptions to industry-accepted best practices, providing visibility into the root causes of problems. Managing by exception saves time and increases accuracy, and cannot be accomplished with manual methods. Pharmacy ChargeLink effectively bridges the gap between the pharmacy system and the billing system, providing hospitals with the visibility required to compare drug spending with claims for reimbursement, identify additional revenue opportunities, and track the financial impact of purchasing generic alternatives. Additional benefits include improved accuracy, increased operational efficiency, and minimized compliance risk.
The Pharmacy ChargeLink Solution

Problem: Revenue leakage due to missing or miscoded data in the chargemaster

Solution: Pharmacy ChargeLink provides the ability to find lost revenue by identifying items either missing from or miscoded in the chargemaster. For example, consider the impact of a drug that is not coded with the appropriate HCPCS code, or whose revenue code is incorrect in the chargemaster—shifting liability incorrectly to a patient or a payer. Such errors result in the hospital not receiving accurate reimbursement. Worse, CMS may not return a denial error to alert the hospital to the situation. Even if a hospital has invested in an automated dispensing system, along with the best denials management and claim scrubbing software, that hospital would likely not identify these problems. The potential result is tens of thousands of dollars in revenue leakage and compliance risk.

The software uses three methods for identifying missing or miscoded items:

1. Searches for the specific CPT/HCPCS code and the specific revenue code in the chargemaster associated with the selected NDC code in the spend file.
2. Searches for a potential match between a specific NDC number in the spend file and the applicable CPT/HCPCS code in the hospital’s internal database cross-reference.
3. Searches for a match between the descriptions of the drug in the spend file and descriptions in the chargemaster.

Problem: Purchasing drugs that cost more than reimbursement

Solution: The software addresses the gap between the purchase price and the patient charge by identifying the leakage that occurs when the hospital buys drugs at a higher price than it is paid. It provides the ability to effectively compare purchasing with reimbursement data—including quantities purchased and dispensed with billable quantities. In addition, it displays a current list of less costly generic alternatives, providing the basis for cost-reduction initiatives.

Problem: Procedural breakdowns blocking reimbursement

Solution: The software identifies items that are not paid due to procedural errors that occur after drugs have left the pharmacy, such as failure to capture the charge upon administration, or technical issues in dispensing devices.

Automated dispensing systems do not check for correct coding when building items into the chargemaster database. Without a volume reconciliation capability, errors due to incorrect coding are missed and charges are not paid.
The software’s volume reconciliation feature identifies errors in two categories:

1. Items purchased and built correctly but that have no billed volume
2. Items where the purchased volume is significantly greater or less than the billing volume

**Problem:** Linking chargemaster charges with changes in medication costs

**Solution:** Pharmacy ChargeLink identifies drugs whose prices fall out of compliance with the facility’s established mark-up guidelines, even as acquisition costs change. The solution is designed to support multiple pricing algorithms and targets under- or over-charging, an indicator of price transparency problems.

**Problem:** Keeping up with changes to CMS regulations

**Solution:** The software provides the ability to monitor CMS regulatory categories, comparing current regulations with those coded in the chargemaster, then reporting on discrepancies. Compliance risk is further minimized through easy access to a current list of compliance issues from which common errors can be selected. Directed emails and news feeds to the user also highlight regulatory changes affecting coding and proper usage/documentation of drug administration.

**Problem:** Labor intensive workflow

**Solution:** The software provides the ability to consolidate various complex data sources into one database. This feature simplifies and streamlines the process of building items into the chargemaster, resulting in significant time savings and improved operational efficiency.
How Automated Linkage Benefits the Hospital at Various Levels

Pharmacy Department
- Identify potential savings based on actual costs of physician order preferences
- Assume a leadership role in promoting financial success of the organization
- Improve operational efficiency by eliminating time-consuming manual processes
- Ensure optimal reimbursement for all hospital-administered pharmaceuticals
- Minimize compliance risk through monitoring and reporting on current regulations
- Identify processes that have broken down, preventing appropriate payment
- Perform root-cause analysis of identified problems

Finance Department
- Reduce delays and denials through verification of correct data required for proper reimbursement
- Mitigate audit issues and financial liability through timely compliance alerts
- Increase time efficiencies through management by exception within pharmacy billing

Senior Level Executives
- Improve financial performance by capturing missed revenue due to absent, incomplete, or incorrect pharmaceutical data in the billing system
- Minimize compliance risks related to billing errors
- Identify performance opportunities through direct access to the drug spend
- Reduce the drug spend through access to alternative pricing data and actual costs of physician order preferences
- As drug prices change, ensure consistency with hospital pricing policies and prices across payers
Case Studies

Kingman Regional Medical Center

In fall 2006, Bruce Latimer, director of pharmacy services, initiated a comprehensive review of the pharmacy department’s financial processes and systems. Because medications represent a significant percentage of the overall supply spend, Latimer sought ways to reduce pharmacy costs and ensure that medications were being accurately billed and reimbursed.

One of the pharmacy’s main challenges was achieving visibility for every facility-administered medication, from purchase through administration to reimbursement. Like most hospitals, Kingman faced the challenge of linking disparate systems for ordering drugs, dispensing and administering them, and processing reimbursement.

Accurate maintenance of the pharmacy chargemaster was a significant issue. Pharmacists were responsible for manually updating the chargemaster as new drugs were introduced to the system, when existing medications were modified, and when payer codes changed. Chargemaster accuracy was monitored with manual reviews and charge audits that took weeks or months to identify errors. These time-consuming, inefficient processes made it difficult to ensure that costs aligned with reimbursement.

To address these challenges, the hospital implemented Craneware’s Pharmacy ChargeLink to establish and maintain a connection between the pharmacy spend data and the chargemaster. Within the first few months of using the system, Kingman began seeing substantial revenue results, identifying more than $400,000 in lost Medicare payments attributed to incorrect billing.

In 2008, Kingman’s pharmacy saw a 6.6 percent decrease in drug costs, a 10.6 percent decrease in overall department expenses, even though the hospital had a 3.8 percent increase in adjusted patient days, and a 12.9 percent increase in net pharmacy department revenue as compared with the previous year.

According to Latimer, achieving sound fiscal pharmacy operation is complex, but entirely possible through the use of automated tools and basic financial principles. “By gaining full visibility of reimbursable pharmacy charges, we have been able to transform pharmacy’s financial management for the better.”

Profile – A 235-bed rural, non-profit, teaching hospital serving a fast-growing community with expanding healthcare needs in Kingman, Arizona

Challenge – Improve revenue integrity by ensuring complete, accurate pharmacy spend information from purchase through reimbursement

Solution – Craneware’s Pharmacy ChargeLink to link previously disconnected systems, integrating pharmacy spend information with the chargemaster to ensure correct pricing, accurate coding and optimal reimbursement

Results – Identified $2 million in unbilled gross charges and recovered approximately $500,000 in net revenue
Julian Southerland, informatics pharmacist at Kingman for the past nine years, says the team approach, combined with the right software solution, served two key purposes. “We were able to resolve revenue issues and position pharmacy in a collaborative leadership role committed to the overall financial integrity of the organization.”
Several years ago, Parkview Health shifted from capturing pharmacy charges at the point of dispensing to the point of administration via bar code medication administration. Despite making this transition and monitoring financial performance, the system failed to meet revenue capture expectations. The organization had data elements from the drug spend file, the distribution system, the drug master, the chargemaster, and the revenue and usage reports. However, it lacked a method to analyze the data to assess financial performance at a level required to reveal gaps.

The ability to perform variance analysis on charge capture was the impetus behind choosing Pharmacy ChargeLink. Leveraging automation, Parkview quickly identified opportunities to improve revenue capture, coding compliance, and overall data integrity of the interdependent systems and processes. “One of the most compelling findings was the volume reconciliation variance between our drug spend and revenue and usage data,” says Kathy Lytal, Parkview’s director of revenue integrity. “We identified an annual gross revenue variance in excess of $10 million. Identifying the specific sources of the leakage was an incredible value, allowing us to focus on the process and execute action plans in the responsible areas.”

In addition to volume reconciliation variance, performance gap analysis revealed:

- Products purchased but missing from the drug master and the chargemaster
- Products purchased but missing procedure codes in the chargemaster
- Products with invalid NDC values in the spend file and the drug master

With nearly 4,400 active drugs in their formulary, managing by exception is critical to Parkview’s ability to identify specific drugs contributing to volume reconciliation variance and to prioritize process improvement initiatives. “Given the scope of our formulary and the size of our opportunity, we had to identify the pockets of activity that would return the greatest benefit to the organization,” says Lytal. “The first category of drugs we segregated represented $3 million of the total $10 million in lost revenue.”

Parkview’s integrated system supports continuous monitoring of financial performance across interdependent pharmacy systems and processes, allowing the organization to quantify performance gaps, invest in process improvement and optimize revenue capture.
Pharmacy ChargeLink Prevents Revenue Leakage

By establishing and maintaining a link between a hospital’s pharmacy-spend data and its chargemaster, Pharmacy ChargeLink fills the gaps that prevent optimal reimbursement for facility-administered medications. It identifies:

- Drugs purchased but missing from the drug master and/or the chargemaster
- Reimbursable and non-reimbursable drugs purchased but missing procedure codes in the chargemaster
- Drugs with invalid NDC values in the spend file and the drug master
- Variances in which purchased volume differs significantly from claim history in revenue-and-usage reports
- Inconsistencies between actual pricing and pricing policy
- Potential compliance issues based upon CMS-published regulations
- Potential cost savings by using less costly generic alternatives and purchase standardization

By strengthening the integrity of pharmacy billing through full visibility from purchasing to payment, hospitals can more easily manage costs, monitor pricing policies, and recover revenue. Because previously disconnected data is linked, the hospital can ensure that its pharmacy systems are efficiently and effectively capturing the data needed to optimize reimbursement, increase operational efficiency and minimize compliance risk.
References


About Craneware

Craneware (AIM: CRWL) is the leader in automated revenue integrity solutions that improve financial performance for healthcare organizations. Craneware’s market-driven, SaaS solutions help hospitals and other healthcare providers more effectively price, charge, code and retain earned revenue for patient care services and supplies. This optimizes reimbursement, increases operational efficiency and minimizes compliance risk. By partnering with Craneware, clients achieve the visibility required to identify, address and prevent revenue leakage. To learn more, visit craneware.com and stoptheleakage.com.