

# revenue cycle strategist

...insights and actions for successful results

JANUARY 2005

## FEATURED FOCUS

# Electronic Claims Attachment Processing

John Cochran

The business office at Providence Health System-Southern California suffers from the same problem that many others across the country struggle with: paper overload.

Sometimes, staff members feel all they do is chase after and shuffle through the pulped wood, according to Clyde Evans, regional director of business services

for San Pedro, Calif.-based Providence's regional business office, which serves Little Company of Mary Hospital, San Pedro Peninsula Hospital, Providence-St. Joseph of Burbank Hospital, and Providence-Holy Cross Hospital.

The problem is especially onerous when considering healthcare billing and the adjudication and payment

of claims. Claims attachments are of particular concern, because they create much paper and stall the revenue cycle considerably.

Payers can request myriad attachments to help justify a claim, such as a treatment authorization, copy of an insurance card, and even a series of reports out of the hospital medical record. It

is difficult to predict what supporting documentation each payer will want to substantiate claims, often resulting in a paper chase.

### Sizing Up the Paper Problem

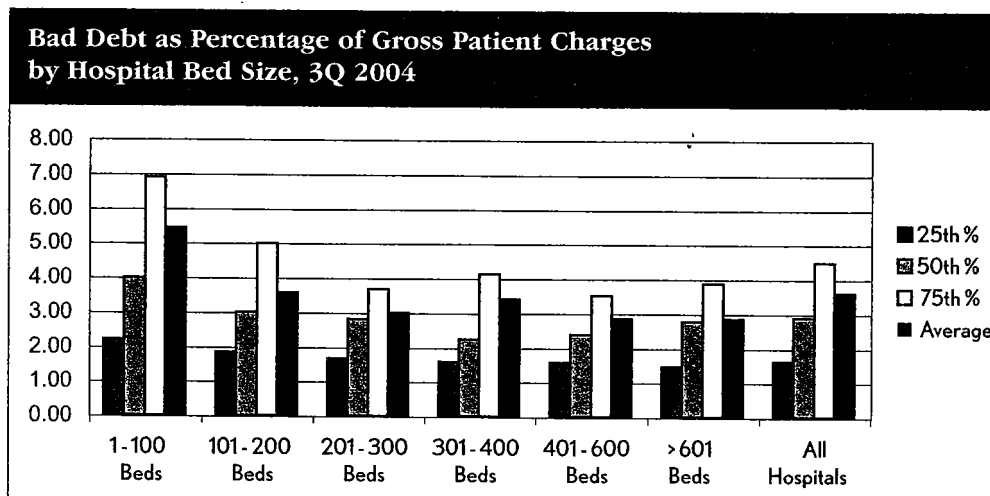
Although Evans has always felt that the piles of paper had to be reduced to significantly improve administrative processes and costs in health care, his gut feeling now is being substantiated by the Hospital Association of Southern California's Business Policy and Process Improvement Committee, a group of payers and providers (of which Evans is a member) that formed about five years ago to address administrative process improvements in the healthcare industry.

The group found it costs providers \$25 to \$30 for each claims attachment set submitted to payers. One major California hospital with an electronic health record has evaluated its cost at \$33 per attachment set.

## Figures at a Glance

Uncompensated care continues to be a major area of attention for healthcare organizations. Average bad debt percentage for all hospitals has increased from 2.48 percent in the third quarter of 2003 to 3.58 percent in the third quarter of 2004.

For more information, contact Phil Gaughan at [pgaughan@solucient.com](mailto:pgaughan@solucient.com) or by phone at (913) 897-9050.



Source: Solucient's ACTION O-ITM database.



hfma  
healthcare financial management association

Sponsored by



Plus, the paper-based claims attachment process takes about 30 to 40 days to complete.

The group identified claims attachments as a revenue cycle issue for providers and a cost/operations issue for payers for the following reasons:

- Providers do not know when or what attachments will be needed, and some payers do not give out that information, fearing providers may gain an "edge."
- Some providers are submitting attachments with large dollar claims or claims by type of service whether or not payers require them.
- There is no standard definition of what type of attachment is being requested by a payer, making it difficult for providers to know what to send.
- Payers have a reputation for losing attachments and re-requesting them without checking to see if another department has already requested the same attachment, thereby causing double and sometimes triple work for providers.
- There are major process

delays on all sides, which have only been mitigated of late by regulatory restrictions.

- Paper storage and handling costs skyrocket for all, as each defensively documents its position with paper.
- On the provider side, attachments are a major factor affecting payer denials and cause increased contractual write-offs of the account.

These problems hit Providence hard. Like other providers, Providence routinely faces the challenge of providing attachments to payers in support of claims. The claims attachments take a long time to obtain from the information system, frequently go astray in the payer's system, and do not reach the intended party within a reasonable amount of time. Transmitting the attachments via fax can shorten the time it takes for payers to receive attachments, but this approach is expensive and time-consuming.

### Forging an Electronic Solution

Many members of the healthcare community decided a solution to this

problem was needed. Thus, the Business Policy and Process Improvement Committee was formed to support the Hospital Association of Southern California, Los Angeles, in creating a claims attachment processing solution.

Consequently, AllHealthLogic, LLC, was formed in 2002. A wholly owned subsidiary of the association and HealthLogic Systems Corporation, based in Los Angeles, AllHealthLogic administers and markets CADX<sup>®</sup>, a web-based electronic system that provides greater claims attachment processing efficiency and, therefore, substantial cost savings to providers and payers.

The system was designed to help payers and providers communicate critical information to each other in a HIPAA-compliant manner. It is an electronic tool that enables requests for and submission of medical records or other administrative attachments to facilitate health plan review of provider claims. A hospital can use the tool in its business office, medical records, registration, discharge planning, or utilization management departments to scan or upload documents into

CADX<sup>®</sup> for access or transmission to a designated payer or provider.

The CADX<sup>®</sup> tool enables healthcare organizations to request, send, index, access, and archive documents needed for utilization review, medical management, and claims adjudication. Sharing supplemental claims information via a web-based system that uses standardized attachments and processes can potentially streamline the claims attachment process.

But the tool won't work unless both providers and payers embrace it as a new means of communication. Once they have adopted the system, they have to trust each other, while getting rid of "defensive" paper copies. Both providers and payers should examine their business processes to make the most use of the new technology.

The system's reliability enables users to reduce paper. Instead, users can rely on

## NEED HELP?

# Resources for Revenue Cycle Leaders

*HFMA Executive Roundtable: Web-Enabled Billing Systems—Taking the Vision Online*

In this article, several healthcare financial executives discuss online patient billing and scheduling services for healthcare

organizations. ([www.hfma.org/resource/400425.pdf](http://www.hfma.org/resource/400425.pdf))

*Improving Claims Processing and Payment: A Self-Assessment Tool*

This three-page self-assessment tool is designed to

help providers better understand the processes they use to submit and track claims and discover opportunities for process improvement, thereby improving payment. ([www.hfma.org/resource/Form\\_Claims\\_Process.pdf](http://www.hfma.org/resource/Form_Claims_Process.pdf))

Robert Fromberg  
Editor-in-Chief

Carole J. Bolster  
Senior Editor

Amy D. Larsen  
Graphic and Production Designer

REVENUE CYCLE STRATEGIST is published monthly by the Healthcare Financial Management Association, Two Westbrook Corporate Center, Suite 700, Westchester, IL 60154.

Presorted standard postage paid in Chicago, IL 60607. Copyright 2005 Healthcare Financial Management Association.

Volume 2, Number 1

Subscriptions are \$95 for HFMA members and \$165 for other individuals and organizations. To subscribe, call 1-800-252-HFMA, ext. 2.

REVENUE CYCLE STRATEGIST is indexed with Hospital and Health Administration Index and the HealthSTAR database.

ISSN: 1549-0858

the tool's attention to detail, specifically its work list and detail and electronic file of documents. Unlike paper-based claims attachment processing, the tool does not lose or misplace files or records. CADX<sup>®</sup> stores the documents and provides a permanent record of the exchange with date and time stamps for each interaction. Users know when a record was touched and by whom.

The system's out-of-band requests feature also helps save time and money. For example, when a payer contacts Providence with an oral, fax, or letter request for attachments, the business office uses CADX<sup>®</sup> to answer the request. The system then creates a permanent record of the request, the answer, and the documents submitted. Providence no longer has to keep paper copies of what was sent as a back-up. Instead, all the information resides on the web-based system.

Providence also takes advantage of the system's fax

delivery feature, which enables providers to send attachments from CADX<sup>®</sup> to a payer's or provider's fax machine. CADX<sup>®</sup> carries a standard list of major payer fax numbers, which providers can supplement with their own lists of recipient fax numbers.

Each fax record is at a patient level, and all interactions are date- and time-stamped, just like all other CADX<sup>®</sup> processes. Because all fax documents permanently reside on the system, problems such as payers losing faxes or receiving faxes but running out of paper are mitigated by the web-based system's storage capability. Anything sent electronically can be easily retrieved and re-sent if needed.

### Implementation

The system has a simple design and is user-friendly, so implementation can take place in a short amount of time. Staff typically can be trained to send documents and answer requests in an hour or less.

Results include less time spent copying, mailing, and transmitting documents for providers and less time spent requesting, receiving, and entering key documents for payers. Providers have reduced the time taken to submit documents to payers from 30 to 40 days to three to five days.

Additional results include:

- The elimination of duplicate claims attachment requests and lost attachments, a common problem with the manual method
- A 15- to 30-day reduction in revenue cycle time for clean claims and a 10-day reduction in hospital accounts receivable time on claims needing attachments
- A claims processing cost reduction opportunity equal to more than \$21 per claim for providers

Such results plus the elimination of the paper chase have made Evans an advocate of electronic claims attachment processing. And the system will become

### Revenue Cycle Strategist on the Web

For annual indexes of articles, subscription information, and writer's guidelines, visit *Revenue Cycle Strategist* online at [www.hfma.org/rcs](http://www.hfma.org/rcs).

even more valuable as more payers sign on.

As of December 2004, CADX<sup>®</sup> is installed in two health plans, with several others in various phases of installation. Hospitals are using the tool to send documents to an additional 48 health plans using its fax utility. In addition, system transactions are being submitted to 200 hospitals. A national expansion of CADX<sup>®</sup> will begin in 2005 when major payers in the Southeast go live with their CADX<sup>®</sup> installations.

Electronic claims attachment processing can have a positive impact on the nation's overall healthcare costs. While individual hospitals and health systems will notice an immediate cost impact when using an electronic system such as CADX<sup>®</sup>, the benefits will multiply as usage grows, thereby lowering the country's aggregate healthcare costs. CADX<sup>®</sup> is the one major initiative where both payers and hospitals have come together to create a standard means to share information. ■

John Cochran is president, AllHealth, the business services subsidiary of the Hospital Association of Southern California, Los Angeles. His e-mail address is [jcochran@hasc.org](mailto:jcochran@hasc.org).

### FAST FACTS

## Medicare Cost Report Indicators

Financial indicators for all U.S. hospitals from Medicare cost reports include the following median values:

- Average payment period, 49.8 in 2002, 55.0 in 2000, and 51.3 in 1998
- Days cash on hand, short-term sources, 14.2 in 2002, 11.6 in 2000, and 13.0 in 1998
- Days cash on hand, all sources, 38.4 in 2002, 31.9 in 2000, and 34.1 in 1998
- Days in accounts receivable, 65.5 in 2002, 74.0 in 2000, and 66.8 in 1998
- Medicare length of stay, 5.1 in 2002, 5.2 in 2000, and 5.3 in 1998
- Medicare percentage—discharges, 43.9 in 2002, 43.8 in 2000, and 43.7 in 1998
- Medicare percentage—days, 49.3 in 2002, 50.0 in 2000, and 50.9 in 1998
- Outpatient revenue percentage, 42.0 in 2002, 41.0 in 2000, and 39.1 in 1998
- Inpatient revenue percentage, 57.3 in 2002, 58.0 in 2000, and 61.0 in 1998

Source: Ingenix, 2004 Almanac of Hospital Financial and Operating Indicators.