## The ABCs of Electronic Data Interchange

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Ithough electronic data interchange (EDI) has been helpful in such areas as materials management and medical information, it may prove most useful in financial management. EDI is becoming increasingly attractive to providers as a means of cutting costs, streamlining billing processes, and speeding up payments.

EDI is a method by which information is sent between parties using a standard computer format, without paper. The electronic transmission generally occurs over a telephone linkage, although another electronic medium could also be used. This article will explore some basic issues in setting up an EDI system.

## SPEEDING THE PAYMENT PROCESS

A major factor driving installation of EDI systems is the requirement that Medicare Part A claims be submitted electronically to ensure prompt payment. Providers using EDI to send claims must also be equipped to receive payment in electronic form. They should ensure, for example, that the computer on which they process information for their own use is able to communicate with other computers, such as that of the Medicare intermediary. In addition, they should ascertain whether particular payers can provide cleared funds at the same time they post payment information through EDI.

EDI can be particularly helpful for facilities in which billing is viewed as a continuum. EDI works less well in institutions where various steps in the billing process are approached in isolation. Such a fragmented approach gives rise to frequent data errors, making billing by EDI more problematic.

## **EDI IMPLEMENTATION CRITERIA**

To make EDI work smoothly, institutions should as far as possible tailor their data processing systems so they can efficiently capture and retain the data required for billing in the form prescribed by payers. For example, the hospital's definitions of procedures should be the same as those used by payers. Diagnostic language should also conform



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to payers' requirements. Minimizing the discrepancies in such areas will lower the cost of having to rework information to make it usable to the payer.

In addition, providers need to determine which payers they can communicate with via computer, which payers will require an intermediary processor (e.g., a bank), and which payers will require paper submission. They must also calculate how much they are willing to spend on a patient billing system that incorporates EDI. Finally, they should study available systems' strengths and weaknesses—including its compatibility with EDI standards—with an eye to whether they will continue to be useful.

A well-managed cash-posting system with strong internal controls and reporting mechanisms is also essential. Often payments received cannot be properly identified because some information is missing, and sometimes a payment does not belong to the provider that received it. The cash-posting system must operate so that it can "receive" such payments and continue processing information. To this end, the system must be capable of producing exception or error reports that financial managers can check and correct on a timely basis. Without such controls, an EDI system will create more problems than it solves.

## START SLOWLY

Using an EDI system to transmit patient billing information to payers can reduce internal financial management operating costs. However, institutions should not simply assume that such a system will help cut expenses. Instead, they should develop a structured, incremental approach to determining whether EDI is right for them.

For many institutions, the best approach to implementing EDI is to begin in one area. Because it lends itself so well to innovations in data transfer technology, a hospital's accounting department is a good choice for introducing EDI. The lessons financial managers learn in working with EDI can support effective implementation of EDI in other areas of the institution.