Maximizing Revenues in Troubled Times: Proven Methods of Extracting Water from a Stone

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Learning Objective: Improved Accounts Receivables Can Increase Revenues and Lower Expenses

Action Plan: Focus on Accounts Receivables to Increase Revenues, Diminish Losses

In the current health care environment, we are facing decreased payor reimbursements as the market is generally at Medicare or some comparable rate based on that governmental agency. We are also seeing increased payor claim edits and controls as well as more complicated payment and authorization processing. This has led many health care economists to the conclusion that the billing cycles in physicians' offices are the most complicated revenue cycles in American business today.

Like any other small business, it is vital that a medical practice understands the importance of cash. Practices with a reliable cash flow are healthy ones. It is incumbent to look at how cash flows in and out of your practice in relation to patient service revenues and the payment of salaries and expenses. Changing the direction of cash flow requires diligent and persistent management of the entire process. Areas that you should begin to examine are – accounts payable; inventory; bank services; accounts receivables; and delinquent debt.

You are left with several distinct avenues for potential action in order to increase revenues: see more patients, add new contracts, and provide additional and/or different services. You can try to decrease expenses by cutting personnel costs or cutting operating costs; lastly, but most importantly, you should look at how to maximize your current revenue by collecting more on existing business. I would like to focus the rest of this article on accounts receivable management, review the important aspects of this “tedious financial exercise,” examine methods for monitoring accounts receivables, and demonstrate how to apply these techniques to your practice.

Accounts receivable is money owed to a company by a customer for products and services provided on credit. Cash at the time of transaction is obviously preferred, but competitive pressures force firms to offer credit terms.

Accounts receivable is revenue earned but not collected. A sale or service is treated as a receivable after the payer is sent an invoice. The risk of non-payment increases significantly as time lapses. The problem with accounts receivable is relatively straightforward; if the account is never collected, the revenue is never realized – having adverse financial consequences on your practice. The solution is careful monitoring of the accounts receivable for early detection and intervention in the event of any deterioration in the “quality” of the accounts.

There are three basic ways to monitor accounts receivable: the Average Collection Period (ACP), Aging Schedules, and Payment Pattern Approach.

The Average Collection Period is also referred to as Days Sales Outstanding or Days in Receivables. In other words, on average, how many days does it take to collect receivables? The two methods of calculating ACP are: ACP = Total AR/Average Daily Sales or ACP = Percentage Payment x Days to Payment. In method one the total A/R is the total receivable balance. The Average Daily Sales is the sales total divided by the number of days in that period. In method two, the percentage payment refers to the collection pattern and reflects the percentage of payments received, and the days to payment is the number of days until that payment is received.

There are several factors that can increase or decrease the Average Collection Period. The ACP can see a misleading decrease when the average daily sales increase in greater proportion to the total accounts receivable. There may also be a decrease when a company offers a discount to generate increased collection rates. The ACP will increase when corporations tighten their credit terms.

Aging Schedules break down a firm’s accounts receivable by age of the account. It is derived from the accounts receivables ledger and is usually easily generated with computerized accounts receivable software. Some of the limitations of the average collection period and aging schedules are that they are influenced by levels of sales –
even though the payment behavior may not have changed.

Many times we are really interested in our patients’ payment behavior, or Payment Pattern. This approach often is the preferred method for industries or specialties with seasonal or cyclical variation.

Accounts Receivable: A Quick Review
Average Collection Period and Aging Schedules are useful monitoring tools if sales are constant over time. Payments Pattern Approach is the best method for monitoring aggregate receivables

performance, especially with fluctuations in sales. Comparison of receivables to sales ratios is useful in forecasting next year's financing requirements.

Case Study:
A managing partner of a ten-physician, single-specialty surgical practice was concerned about the decreasing revenue of the firm over the last three months. The practice administrator has not performed an accounts receivable analysis for more than six months.

FMS Financial Solutions prepared a detailed analysis of the practice's accounts receivable which revealed some unusual financial transactions approximately a year before this analysis was done. At that time, the accounts receivable of 150 days or more dropped from 30% of accounts to 12% over a two month period of time. There was no corresponding change in overall outstanding collections noted from this reduction, making this non-contractual "write off" appear very unusual. Further analysis showed that more than 50% of the patients' accounts receivable was over 90 days old, which is two to three times the industry average for this type of practice. The group decided to engage my services as a health care consultant, and I then performed an extensive practice profile, which included a detailed Explanation of Benefits (EOB) review.

The EOB review is used to develop denial pattern analysis and understand any nuances in the fee schedule or billing procedures that need to be addressed. A best practice process review was conducted through interviews with key billing staff, analyzing the billing, posting, and collection activities of the group and comparing them against best practice performers in the region. Beginning with the accounts receivable analysis, this practice was ultimately able to increase revenues by 7%. Improved handling of their delinquent accounts increased their "lost profit" recovery from debt collection efforts ten-fold.

A medical practice needs to take a careful look at its accounts receivable revenue programs to ensure it is actually getting paid for services rendered. For many physicians' practices and hospital departments, growing revenues or decreasing expenses may require a significant change in their business models. Instead, improving the management of its accounts receivable processes, either internally or in partnership with an experienced ARM company, can increase revenues without incurring disproportionate expenses.

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