Tips to Simplify Medical Practice Accounting at Small to Mid-sized Practices

Learn how back-office efficiency ties to physician productivity.

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After working with a variety of physicians and specialty care groups on back-office functions, we have discovered one universal truth: most physicians prefer serving patients than dealing with accounting. However, staffing, processes and collections are critical to a profitable practice. With more physicians working for small practices or for other physicians than ever before, this whitepaper shares tips for simplifying accounting while also making staffing and processes more efficient to support practice profits and physician productivity.

In an article I wrote for Medical Economics Magazine this year, one of my key points emphasized the importance of high physician productivity. Physicians who spend increasing time on administrative duties can contribute to more than 50 percent of practice losses. It's simple math. If they are not billing time for patient care, then they are not billing.

And yet, math (or accounting as we call it) is often what trips up a small to mid-sized practice group on the path to profits. It's not only the accounting itself, but also the processes and controls in place to manage it. Physician group owners can spend a lot of time worrying over reimbursement from a variety of third-party payor models as well as compliance to support reimbursement, but the building blocks of efficient accounting lie with staffing, processes and accounts receivable. For example:

- *Staffing*: If your administrative staff is not trained on reducing cancellation rates or inviting patients to set up a payment plan, these are potential points of loss.
- *Processes*: Online scheduling options, automated appointment reminders and online bill pay can all help to streamline customer service and cash flow.
- *Accounts Receivable*: Software that combines accounting with your payroll and reporting can help produce reports for partners as well as bankers to review revenue projections and make better business decisions such as the right time to purchase new equipment or buy a building.

We find that streamlined accounting processes on their own can improve practice efficiency and physician productivity. Give your staff the right tools and the autonomy to improve efficiency. Understand your key performance indicators. Track your numbers regularly through simplified reports. Let's look at a few ways this can be accomplished in a small to mid-sized practice.

Simplifying Staffing

Traditionally, physicians groups will hire part-time staff in scheduling and bookkeeping to bookend the practice delivery. The patient gets scheduled, treated and sent a bill. The physicians still wear many hats to oversee the business and also serve patients.

Practice management systems can help to centralize insurance submissions, accounting, billing, payroll and reporting. There are many practice management software solutions available to practices today, and it's important that these systems are cost-effective, user friendly and compatible with other systems in the practice. Problems occur, however, when administrative employees are not properly trained on all of the tools and capabilities of the system, but also if they don't understand the goals of the practice.

For example, the three main areas staff should be focused on include:

- *Risk management.* Make sure referrals and insurance authorizations are checked at registration and that patient co-pays are collected.
- *Claims management.* Make sure all services are billed properly through the system.
- *Scheduling.* Make sure that no-shows are reduced through appointment reminders and rescheduling options as quickly as possible.

If you are limited in administrative staffing — which every small to mid-sized practice should be — consider which back-office functions can be outsourced to professionals who specialize in them, including human resources, payroll administration, performance management and even recruitment. Also, there is IT support, legal expertise and medical billing. The right vendors will be efficient and pass along savings through fewer errors, a third-party perspective on best practices and healthier accounts receivable.

As an exercise, tally up the salary and benefits of a full-time equivalent employee to perform an office function correctly — as well as the cost of system upgrades, training, supplies and office space. Then look at the percentage a vendor will charge to handle the function for you.

We are not advocating that you necessarily terminate or reduce your administrative staff. In fact, by freeing up their time to focus more on patient service and follow-up, you will better leverage internal staff to support efficient scheduling and maintaining the office practice management system. They can also promote patient use of any online self-serve tools you have in place or will soon have in place.

Simplifying Processes

The majority of a medical practice's Key Performance Indicators (or KPIs) will address processes that add to or take away from revenue. By focusing on KPIs, your practice increases practice efficiency and cash flow. Ultimately, you can see who or what is contributing to productivity and losses.

For example, a focus on Work Relative Value Units (wRVUs) per practitioner will show the true work output of each physician or practitioner — creating an opportunity for setting productivity goals. It can also pinpoint real barriers to productivity. Without the baseline measurement, however, you won't know if practitioners need to boost productivity or if perhaps the practice is underpricing services. Tracking wRVUs can also tie into appropriate physician compensation measured against national benchmarks, and also if the practice needs to hire more staff to reduce the administrative burden on physicians.

KPIs can bring to light operational inefficiencies that make a big difference on cash flow. Tracking "charge entry lag" can show how soon charges are entered into the system after the date of service. You can quickly see that a charge entry lag of even three days can lead to an increasing lag on A/R and cash flow over time.

Tracking patient encounters per day against "no show rates" can indicate a breakdown in the appointment reminder process — rather than assuming it's a productivity issue. Tracking new patients as a percentage of total visits can indicate practice growth — or a need to increase marketing to new patients. Tracking denial rates by payors can indicate an issue with coding or perhaps a breakdown in the process of collecting accurate patient information at registration.

Best practices dictate that KPIs are reviewed weekly to help practices make improvements over the short-term. This diligence avoids long-term impact on profits. By the time quarterly financial reports come out, it is too late to make adjustments, and you have little more than a historical record to file under "missed opportunities." Instead, identify the KPIs that are most important for your practice efficiency, and talk to your CPA and practice management software provider about the best ways to track them.

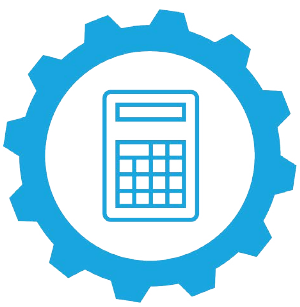
Simplifying Accounts Receivable

Simplifying accounts receivable can only happen after you know the current status of your accounts receivable. There are a couple of numbers or KPIs you can consider when setting a benchmark to accelerate receipt of payment for services and then improve the processes to support that goal.

Compare the status of your current accounts receivable to national benchmarks by the Medical Group Management Association. This can help determine how extensively this accounts receivable is limiting cash flow. A good accounts receivable process may reduce accounts receivable lag time of more than three months old to below the national MGMA benchmarks. According to data from the MGMA, family practices have a median of 1.19 months in A/R, but general surgeons have a median of 1.52 months in A/R. In other words, setting a goal of receiving payment within two months of providing medical services is a reasonable goal for half of practices in the U.S. But you do need to consider your geographic area as well as your payor mix and type of practice. Those factors could shorten or lengthen days in A/R.

Calculating Days in A/R

To calculate the number of days that claims sit in A/R before being paid (e.g. “days in A/R”), you can take your total accounts receivable and divide that by your monthly charges. Then multiply the resulting number by the number of days in a particular month.



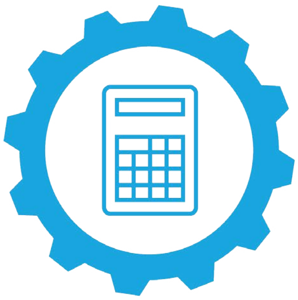
$ 9,000.00 (Total A/R)
÷ $ 180,000.00 (Monthly Service Charges)

.05
X 30.00 Days in the Month

1.5 Days in A/R

Calculating Accounts Receivable Turnover Ratio

Another KPI is your accounts receivable turnover ratio. You can use this to monitor your rate of debt collection and conversion of A/R into cash in a given accounting period. Divide your net credit sales by your average net accounts receivable (the sum of your net A/R at the beginning of the period and at the end of the period, divided by 2).



$ 250,000 NET CREDIT SALES

$ 8,000 NET A/R BEGINNING OF PERIOD
+ $ 10,000 NET A/R END OF PERIO

$ 18,000
÷ 2

$ 9,000

$ 250,000 ÷ $ 9,000 = 27.8% TURNOVER RATIO.

Compare this figure with past accounting periods to note if you are maintaining collection rates or if collection is lagging. One rule of thumb is that your accounts receivable should never exceed 1.5 times your monthly charges, but this is just a baseline. Accounts receivable of 0 to 30 days is considered current A/R while anything 30 to 60 days out from the date of service should be the list of accounts worked by your staff or billing company. The billing department should either work on collecting payments or setting up payment plans. However, if you notice Medicare claims showing up in the 30 to 60 day mark, that is a red flag to look at resolving payor denial issues.

According to three years of results from the American Medical Association's Physician's Practice Benchmark Survey (2012, 2014, 2016), a post-residency physician today is much more likely to work in a small practice. More than 57% of the 3,500 physicians surveyed in 2016 work for practices with 10 or fewer physicians. Only 13% work in practices with 50 or more. Even more interesting, most physicians work for other physicians rather than for a hospital system. In the last two years, hospital acquisitions of practices have flatlined as those systems work to better manage what they have acquired.

Physicians in small practices today are in a great position to innovate on the standards of patient care, use of technology and practice efficiency. The small practice model may even entice more young people to the medical profession once again as they consider the autonomy and equity from owning a practice. By looking at the fundamental systems that support a productive practice — and the tools and specialists available for your success — your practice can be a critical part of this health care renaissance.

Cornwell Jackson's Business Services Department offers a wide range of outsourced financial services to serve small to mid-sized medical and dental practices — including payroll outsourcing and solutions to improve cash flow and productivity. While you focus on care outcomes of your patients, we can address the business side of a healthy practice. Contact us for a consultation or click here to view our whitepaper on medical practice KPIs.

Scott Bates, CPA, is a partner in the audit practice and leads Cornwell Jackson's Business Services Department, which includes a dedicated team for outsourced accounting, bookkeeping and payroll services. He provides consulting to clients in auto, healthcare, real estate, transportation, technology, service, retail and manufacturing and distribution.

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