



Financial Monitoring for the Health of Your Practice

Steve Williams, CPA

Like your patients, the financial health of your practice requires regular check-ups, monitoring of vital signs, and attention from qualified experts.

Physicians soon realize that running a medical practice involves much more than just practicing medicine. To maintain a successful practice, the financial aspects require day-in, day-out attention.

While physicians are ultimately responsible for the financial health of their practice, many delegate this responsibility to a practice administrator, office manager, or outside certified public accountant (CPA). However, it is essential that physicians periodically monitor several key financial indicators to ensure that their practice stays on a good financial footing.

CASH-FLOW MONITORING

“Cash flow” refers to the cycle of cash inflow and outflow to and from the practice, and determines your solvency. When your practice is growing, you may find your practice in a cash flow “crunch” as you struggle to make ends meet. The problem is the lag time between paying your current debt

(eg, suppliers, employees) and collecting from your patients and providers. The solution is cash-flow management.

Cash flow can be a daily issue, and daily monitoring should include:

- Checking-account balances
- Bank line of credit
- Cash on hand
- Cash received at the time of service
- Receipts
- Disbursements
- Managed care write-offs.

Failing to manage your cash flow will result in overdrawn bank accounts, a negative line of credit, and difficulties in meeting payroll and paying your current accounts receivable. This can lead to unfavorable terms with vendors and suppliers, as well as a bad credit rating. Clearly, effective cash-flow management is critical to the success of your practice. So, how can you better manage your cash flow? The following are some tips that virtually every practice can utilize.

Projecting Cash Flow

It is helpful to prepare cash-flow projections for each month, or—for some practices—on a daily basis. Accurate projection can alert you to early signs of trouble. In preparing projections, you will want to consider patients’ and providers’ payment histories, all anticipated expenditures, and relations with your vendors and suppliers. Be careful not to assume that accounts receivables will continue at the same collection rate as in the past; instead, account for seasonal or cyclical sales fluctuations, and regularly monitor

Steve Williams, CPA, is partner in charge of health care services at HMWC CPAs & Business Advisors in Tustin, Calif, specializing in consulting services to medical practices, as well as tax and financial planning. He may be contacted at steve@hmwccpa.com.

receipt of each receivable item. Also consider expenses such as capital improvements, loan interest and principal payments, and irregular variable expenses.

Improving Billing Collection

Medical billing (receivables) collection is a crucial aspect of cash-flow management. Whether you do this in-house or hire an outside billing and collections firm, the basic idea is to improve and expedite the conversion of receivables into cash. A few tips for working with providers include:

- File claims electronically
- Learn to use modifiers in your *Current Procedural Terminology* coding
- Invest in training your staff
- Use Web-based resources
- File claims in a timely fashion.

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Patient payment activity should be reviewed on a weekly basis. The older these accounts become, the more difficult and costly they are to collect. A once-a-week status report on accounts receivable allows your practice to make timely decisions regarding write-offs or placements with collection agencies.

Collections can be hindered by:

- Incomplete/inadequate diagnosis leading to unnecessary appeals
- Failure to verify a patient's eligibility prior to her appointment
- Failure to verify that insurance copayments have not changed since the last visit, and that all benefits your office provides are covered
- Failure to review your fee schedule annually to ensure that your fees are competitive and consistent with health plan allowances
- Failure to file in a timely fashion with Medicare and other providers
- Failure to check all contracts and addenda carefully
- Failure to collect copayments at the time of service.

If you choose to outsource billing and collections, how can you find an honest and competent firm? It is important to know the right questions to ask in the interview process. The company should meet key qualifications such as:

- Providing active education for physicians and staff about accurate coding and chart documentation
- Specializing in your branch of medicine, or assigning experts who do
- Providing daily or weekly courier service for encounter data and insurance/patient payments
- Using the most current version of its billing software, as well as a practice management software program.

Physicians, health plans, and clearinghouses are "covered entities" under the US Health Insurance Portability and Accountability Act (HIPAA). If a billing service does not act as a clearinghouse for electronic claims submission, be sure that they submit your claims to a clearinghouse that is HIPAA compliant.

Managing Accounts Payable

When you are managing a growing practice, you should monitor expenses carefully. If you notice that expenses are outpacing revenue, examine each expense category to determine ways to cut or control it. Some key tips for managing your accounts payable include:

- Taking advantage of creditor payment terms—eg, if a payment is due in 30 days, pay it on the last day, not the first
- Taking advantage of creditor discounts when cash flow allows, but not putting yourself in a bind if the discount is negligible; take care that the vendor is trustworthy, as this amounts to loaning them funds in certain situations
- Using electronic funds transfer to make payments on the last due date
- Communicating with suppliers to let them know when you will be late with payments and when they can expect payment, as well as the anticipated amount; this will often forestall any poor relations
- Considering factors in addition to price when selecting a supplier—eg, service, product quality, and flexible payment terms.

MONTHLY FINANCIAL STATEMENT REVIEWS

Monthly financial reports provide a broader perspective on the financial health of your medical practice. This entails more than gathering financial data; analyzing these data is the real challenge. If you do not have competent internal resources to do so, hire an outside CPA to help.

An income (profit-and-loss) statement details your revenues and expenses for a given period. It can be set up to provide comparisons to previous months or years, so that you can easily identify any variations from the same period in the past. If there are any significant differences in an income or expense category, these should be examined by your office manager. Also, it is very helpful to obtain “benchmark” data to compare your practice with similar practices across the country. These data will aid you in identifying where you can improve your financial performance.

Because most practices operate on a cash accounting model, accounts receivable and accounts payable are the keys to monitoring your cash flow—ie, your financial health. Accounts receivable and accounts payable ledgers should be reviewed monthly, including:

- Paying special attention to accounts receivable more than 60 days overdue with appeals or corrected claims filed with the payer as quickly as possible
- Analyzing gross and net collections and accounts receivable turnover ratios
- Addressing delinquent accounts payable for reasons, and attending to them promptly.

Your balance sheet is more complicated than other typical periodic financial statements.

Essentially, it is a “moment-in-time” snapshot of your financial standing—ie, assets, liabilities (debt), and net worth. Your assets show how much cash you have available, what you are owed (accounts receivable), and the value of your fixed assets (eg, property, equipment). In terms of liabilities, the balance sheet will show current liabilities (eg, accounts payable), as well as long-term debt (eg, real estate loan on your building).

A qualified financial analyst can help you to understand the financial health of your practice by employing a variety of tools to gauge your current strengths and weaknesses.

Ratios that are commonly used include working capital, current ratio, and debt-to-worth. The financial analyst will also use ratios that combine information from your income statement, such as interest coverage (which banks use to gauge your ability to repay loans and lines of credit), return on average assets, and return on equity.

CONCLUSION

While you may not have been trained in finance or practice management, you need to know how to monitor your practice’s financial health—through either internal resources or outside experts. Failing to do so may eventually result in poor financial performance, or even the failure of your practice.

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