Tools Help Track the Health of Your Bottom Line

BY MARY ELLEN SCHNEIDER
New York Bureau

San Diego — Preparing a budget and regularly updating financial reports are critical for any physician practice to maintain a healthy bottom line, financial experts said at the annual meeting of the American College of Physicians.

“It’s important to keep your eye on your cash flow,” said Margi J. Williams of the ACP’s Practice Management Center in Washington.

A number of standard financial monitoring tools—balance sheets, income statements, budgets, and accounts receivable reports—can help give physicians a clear picture of how their practice is doing and provide early warning of potential problems.

The balance sheet is often misunderstood, said Carl B. Cunningham of the center. For the average physician practice, the balance sheet is mainly useful when trying to sell the practice because it lists the accumulated assets and liabilities. However, because the balance sheet is really just a snapshot of one point in time, it’s not very useful in managing the practice day to day.

A better tool for daily management of the practice is the income statement. Mr. Cunningham said. This allows physicians to measure, over a specific period, the revenues and expenses. He recommends analyzing the income statement monthly.

But the income statement also has a drawback: It describes the financial state of the practice, but it doesn’t help determine how the practice should be performing. That’s where having a budget is so important. A well thought-out budget can be a very valuable tool for any physician practice, said Mr. Cunningham.

By preparing a budget, physicians can sit down in advance and figure out where they want to be financially and what types of expenses and revenue will be needed to get there. This type of budgeting exercise can be done for the whole practice, as well as when evaluating new ancillary services. And because the budget is there to serve as the guideline, it can also help physicians delegate some financial tasks to other staff, Mr. Cunningham said.

For those physicians who are ACP members, the staff of the ACP’s Practice Management Center can provide a one-page summary of the practice’s key financial data. The one-page report includes charges, patient visits, and other data broken down by month and year-to-date. This can be an easy way for a busy physician to quickly evaluate his or her practice, he said.

Accounts receivable management is another area that is critical to monitoring the financial status of your practice,” Ms. Williams said. Accounts receivable, which is the money that is due but has not yet been received, can be a real problem. Physicians coming from the front desk receptionist to the physician can play a role, she said. The goal should be to get things right the first time in terms of getting their clean claims, staying on top of denials, and finding out why claims are being denied.

Continuous monitoring of accounts receivable is also very important. Some of the tools that physicians and their staff can use to oversee this area include tracking the days accounts receivable, to find out how long it takes, and calculating gross and net collection ratios, which show how much is being collected.

The average number of days that charges spend in accounts receivable can be calculated in two steps. First, take the total charges and divide by 365 days to get the average daily charges. Then, take the total accounts receivable balance and divide by the average daily charges.

Collection ratios can be helpful in determining the share of the accounts receivable that has actually been collected. But when calculating collection ratios, keep in mind that the gross collection ratio is an easy way to figure out but is influenced by the fee discount contracted with payers, and so, it is not a pure measure of collection efficiency.

The net collection ratio is a better indicator of performance because it is based on contracted fees that can actually be collected. However, this number is difficult to calculate without access to an automated management system that builds accurate payer fee schedules into the computer, Ms. Williams said.

Information on the ACP Practice Management Center is available online at www.acponline.org/prmc.