# Management Reporting: A Primer

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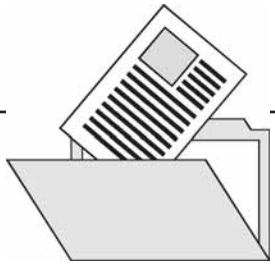

How do you assess the performance of your billing staff/department? How can you be sure that your accounts receivable is getting the appropriate attention? Do you know which insurers bring in the highest revenue? Which CPT codes bring in the highest revenue?

Medical practices spend tens of thousands of dollars on software to perform their daily appointment scheduling and billing functions, but frequently neglect to use the output from that valuable software investment to design meaningful management reports.

Why are management reports important? Whenever I am called to assist a medical practice with a "billing problem," I commonly find that the physicians or practice manager have a minimal understanding of the billing department's focus. Physicians seldom have a straightforward means to track billing performance or monitor the aspects of reimbursement that are important to the financial health of their practice.

Every physician should know what to expect in revenue each month, which activities the billing staff is focused upon, and on what basis adjustments are made to the accounts receivable. That level of knowledge and understanding is possible when physicians have a well-defined, timely and meaningful set of monthly reports.

Medical billing is not, nor should it ever be, a mystery to the physicians. Medical billing IS complex. However, if a practice can identify the billing/reimbursement information that physicians care about and design monthly reports around that information, physicians will be more closely engaged in the billing process—the financial heart of their practice—a process that is critical to achieving continued practice profitability.

Often I find that the physicians have never been asked about what data is important to them. Or if they have been asked, reports are then generated but the management/physician team never takes the time to ensure that all parties understand or are satisfied with the final report set.

Management reports from the billing system are an effective way to provide feedback to the physicians so that they can quickly and accurately–sometimes at a glance—know how they earned their revenue on a monthly and year-to-date basis. The reports inform the physicians with basic data that then allow them to ask questions and "drill down" to a more detailed level if necessary.

Every practice has unique requirements regarding the level of detail and sort order for the reports. Here is what I have found to be the most common data requirements for a set of end-of-month management reports:

$ Charges, $ Payments and $ Adjustments
- by Financial Class (Commercial, Blue Shield, Medicare, Medical Assistance, Workers Comp, Self-Pay)
- by Physician
- by CPT Code or CPT Code "Group"
- by Office and/or Hospital Location
- % of dollars in each category, as a percentage of total

Accounts Receivable—Aged
- by Financial Class
- by Physician
- by CPT Code "Group"
- by Location
- % of A/R in each aging category, as a percentage of the total A/R

Adjustments by Type (Contractual, Physician Requested, Timely Filing, Bundled, Multiple Surgery Reduction)
- by Financial Class

With this data, it is important that selected benchmarks be calculated and included on the reports, so that physicians, staff and managers have a tool for measuring performance.

Benchmarks may be utilized as goals for the billing department or practice. Benchmarks are also used to compare your practice with others in the same specialty. Here are a few benchmarks I calculate and how they are used to judge performance:

*Charge Mix and/or Payer Mix:* The percentage of charges/payments by Financial Class. As you compare your practice's collection ratio with others, this will allow to you evaluate whether your charge/payer mix is similar to those of the benchmarked data source. For example, a practice with a higher level of Medical Assistance may not be able to achieve the benchmarked collection ratios.

*Gross Collection Ratio:* Payments divided by Total Charges. Depending upon how you set your fees, and if you know your reimbursement rates by payer, this ratio can tell you whether your billing department is collecting at the expected rate.

*Net Collection Ratio:* Payments divided by [Total Charges minus Contractual Adjustments]. This lets you know how much money you collected of the money you could have collected. This rate may be compared to other practices in your specialty, because it negates the effect of fee variations and payer mix fluctuations.

*Days in A/R:* Total A/R divided by Average Daily Charge. The length of time it takes to collect a day's worth of charges. The typical goal is to be under 60 days.

*Percentage of A/R that is Over 120 Days:* Because today's dollar is more valuable than a dollar in the future, this benchmark is an important aspect of A/R management. Additionally, the longer that A/R ages, the more difficult it is to collect the balance due. An acceptable performance indicator is having 15 to 18 percent of A/R that is over 120 days old.

If this data, with chosen benchmarks, are trended from month-to-month and year-to-year, you can quickly evaluate whether the current month's work is an improvement or a decline.

The trend report should include, for the current year and two to five years' history: (1) the monthly average for $ charges, $ payments and $ adjustments; (2) Total A/R; (3) Days in A/R; and (4) Gross and Net Collection Ratios.

A practice can get creative with the output. Much of this information is more user-friendly if it is presented in graph form: Bar graphs in color nicely distinguish charges, payments and adjustments by month; a line graph displays your A/R progression throughout the year; a pie chart can easily contrast adjustments by type. Charts and graphs are great visual feedback tools that allow for communications without divulging actual numbers, especially if confidentiality is a concern for your practice when communicating with staff.

Much more data can be tracked and monitored to ensure practice efficacy in its billing process. It is important to note that the few reports and measurements discussed here represent only lagging indicators of performance.

However, if you start with these basics, you'll understand exactly how your practice revenue is generated, identify where blockages in the revenue stream exist and begin to proactively intervene to keep the cash flowing—regularly, predictably and strongly.

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