Cash Flow Is Key to Success for Medical Practices

Executive summary

As a medical practice executive, you are no stranger to management challenges. Changes in payer mix, reimbursement, regulations, technology—to name a few—mean there’s never a dull moment when running a medical practice. Guiding a medical practice through today’s challenges isn’t easy, either, which is why it’s important to pay close attention to money: getting it, managing it and keeping it flowing to support operations.
Challenges

Financing is critical for organizational growth. Your practice needs funds to invest in new medical and information technologies, to expand the practice or upgrade current facilities, and to keep top-notch employees. Short-term financing for monthly cash flow is also important.

At the same time you’re focused on financing, other challenges to your bottom line may arise. Pressures on your cash flow can include:

- Continued uncertainty about medical reimbursement trends
- Ever-changing and more complex coding and reimbursement rules
- Increasing days in accounts receivable as financial responsibility shifts to patients through high-deductible health plans
- Rising bad debt from more uninsured patients
- Consolidation of insurance payers into stronger rate negotiators
- Concerns over regulations and their impact on medical practice revenue

Add in the costs of purchasing, upgrading and maintaining new information technologies, such as an electronic health record (EHR), and the challenges grow further. Maintaining cash flow is crucial to your practice’s resilience in today’s ambiguous climate, and to finding opportunities for success ahead.

Strategies to maintain cash flow

Vigilant oversight of core business strategies is an essential element of a successful medical practice. Perhaps the most important tactic over the short term for any enterprise is maintaining cash flow. Think about cash flow and strategies to manage it by considering these three questions:

- How do I get cash to come in faster?
- How do I reduce the flow of cash going out?
- How do I manage cash in the interim between collecting it and spending (or investing) it?

You can execute several internal processes to speed cash inflow, such as collecting all copayments and outstanding balances at the time of service. Strengthening internal controls helps prevent cash leakage and fraud.

Another critical component of cash management hinges on efficient transfer of cash between your practice and your bank. Banks are more than a source of loans and other financing. They can offer tools to help medical practices reach multiple cash management goals. Such tools support internal controls by removing live (cashable) checks handled by your personnel. They include:

- An image-based lockbox service that quickly translates payments your medical practice receives into cash. It also can reduce the number of staff you use to process checks on site.
• Remote deposit, which offers advantages similar to a lockbox service. Your medical practice can improve cash flow and also reduce bad debt from checks written with insufficient funds.

• Electronic funds transfer (EFT), which accelerates cash flow by facilitating the capture of payments electronically.

• Online bill payment for all expenses, which ensures that your funds are debited on the day you select and helps you monitor and measure cash flow faster and more accurately.

• A sweep account, which allows collected payments to be deposited electronically into your checking account throughout the day. At day’s end, a predetermined amount remains in the account to handle immediate cash needs such as payables; anything above that amount is swept into an interest-bearing account.

Internal issues

Plenty of cash flow bottlenecks can hinder medical practices. While external forces, such as payer rules and administrative red tape, are partly responsible, many of the worst cash flow problems are self-generated. However, they are easy to fix through a cash flow improvement strategy. A relationship with a knowledgeable banking institution can help you gain more insight into your practice’s cash flow by using the tools listed above. These systems can help you monitor your practice’s financial health in real time and identify cash flow bottlenecks more quickly.

Automation and third-party assistance can’t do it all, though. Poor management in a number of areas can cause cash flow obstructions.

Physician compensation formulas

Even when physicians work under a productivity-based income distribution model, some practices may mistakenly promise—or even pay out—more than the organization’s bank balance for payroll guarantees. You must scrutinize your cash flow and physician income distribution to ensure that payroll is covered every month. Be alert for forces that can interrupt it. Close monitoring of practice financials to spot shifts in reimbursement, payer mix, patient volume and costs is critical to avoid a liquidity crisis.

Patient access

The essence of a medical practice is patient care. Maintaining access for patients is a financial imperative because impeded patient access slows cash flow. Breaking down organizational barriers to patient access can be difficult, especially when physicians have historically viewed long wait times as a sign of their popularity. Other cash flow obstructions can result when the medical practice’s scheduling processes create obstacles for patients who wish to be seen on a same-day basis. The lack of coordinated care among physicians—within and between specialties—also contributes to cash flow difficulties.

Physician supply

Ensuring access for patients is a first step, but medical practice executives recognize that balancing patient demand with provider supply is the key to optimizing the practice’s resources. Patient care is the mission of the practice and the driving force of its revenue stream.
Fee schedule maintenance
Medical practices may neglect to match their expected reimbursement to the payments they receive. The complexity of the healthcare reimbursement system makes verifying payments—and immediately alerting the practice to underpayments—essential to optimizing cash flow. Office staff should also watch for any insurance payments that equal the practice’s full charge (listed on the insurer’s explanation of benefits). Full-charge payment is a sign that the insurer has adjusted rates. The practice’s fee now may be lower than the payer’s allowable rate.

Revenue cycle management
A medical practice’s agreements with insurance payers should establish the baseline for cash flow. Unfortunately, many practices fail to negotiate important provisions that affect cash flow, such as timeframes for payment appeals and refund requests from payers, or timely filing extensions when patients provide incorrect information.

Insurance verification
Automatically verifying patients’ insurance coverage and benefits before their appointments enables staff to tell patients the practice’s expectations for payment. It also allows staff to locate other potential coverage sources. Unmet deductibles and balances can be addressed on a pre-encounter basis, thereby increasing cash flow and minimizing bad debt. Many large payers offer online access to this information. Some payers offer real-time adjudication of patients’ accounts that can occur before the patient leaves the office. Top-performing medical practices create cash flow opportunities by engaging appointment schedulers in the revenue cycle to identify and request balances when patients call. Embracing point-of-service price estimator tools allows a medical practice to translate expectation-setting and counseling into cash, because employees gain the knowledge they need to collect payment from patients accurately and promptly.

Denial prevention
Post-service revenue cycle management opportunities abound, commencing with tools to identify and correct errors before a practice submits claims to insurance payers. Of course, there’s no substitute for an astute business office staff supported by automated processes. Monitoring claim denials to spot trends and fixing problems at their source are keys to sustaining favorable changes in your revenue cycle.

Common, preventable causes of claims denials include:

- Lack of insurance company-required referral or prior authorization
- Inaccurate demographic or insurance information
- Claims not filed in a timely manner
- Incorrect modifier, procedure or diagnosis codes

A commitment to a fair-but-unwavering collections cycle, with tools such as online bill payment for patients, rounds out post-encounter revenue cycle management opportunities.
Fraud

Steps to improve accuracy and efficiency will do little good if cash leaks out through fraud or poor management. Busy medical practices collect large amounts of cash from patients, which can prove too tempting for some employees. It only takes one dishonest worker to seriously disrupt cash flow.

To prevent theft by fraud, start by implementing a hiring process designed to root out unscrupulous candidates. Bond all employees who have access to funds. Make sure your practice’s compliance plan explains how employees can report suspected wrongdoing, including fraud.

Get rid of signature stamps and avoid using electronic images of signatures. Make it a rule that a financial officer reviews every check written. Follow security recommendations when using digital signatures. Consider paying your vendors with a business credit card instead of checks. Banks offer business credit cards to medical practices for internal use, as well as credit card merchant processing for payments. A card vendor should be able to provide online reviews of card activity and liability insurance for card misuse.

Segregate various banking duties among staff so more than one person has access to the medical practice’s bank accounts. Along the same lines, never let one employee control both posting and adjustments. Splitting these duties prevents an employee from collecting one amount while posting a lower payment, and pocketing the difference by recording an adjustment that covers his or her tracks.

Ask your bank to send account statements directly to your accountant. Limit online banking access to the physician president, a chief financial officer or other trusted financial managers. Ask your bank about account reconcilement services so you can match check serial numbers and amounts and then generate a report listing paid checks, outstanding checks and checks that were voided or had stop payment requests.

Watch for the common scams that frequently hit medical practices. These include sham companies set up by a dishonest employee to purchase supplies and services that are never delivered and/or refunds for those mythical purchases. Such sham companies can be anything from a temporary staffing agency to a medical supply company.

Put strong cash controls in place. Log all funds collected on site and total them at the end of each work shift. Require staff to issue receipts to every patient who makes a payment (cash, check or charge) and keep a copy that can be matched to the daily patient log.

Savvy medical practices also invest in periodic audits of their internal controls. These can be performed by an accountant or an auditor who specializes in detecting business fraud. Because all practices are different, it is important to consult a financial adviser on how to detect and prevent fraud. An accounting firm can serve as a vital part of your compliance strategy by providing a fresh set of eyes at audit time. An audit is much less expensive than being defrauded. Your bank can also play an important role in preventing fraud that can swiftly empty accounts or slowly bleed them.
Look for tools to prevent check fraud by third parties. Ask your bank if it can perform a daily automatic comparison of the numbers, payees and amounts of all the checks submitted for payment from your account against the register of written checks you submit electronically to the bank.

Also look for opportunities to detect fraudulent electronic transactions in payables and other disbursements, a common source of criminal loss. One key prevention goal is an automated early warning system that spots questionable electronic checks. A bank can also block or filter payables by the amount and/or payee to detect unfamiliar payees or questionable amounts.

Conclusion

Maintaining sufficient cash flow in your medical practice hinges on comprehensive, streamlined revenue cycle management. This includes strong internal controls to avoid losses from fraud, and regular review of administrative processes for patient registration, insurance verification, billing and collections. Finding the right bank is critical for your medical practice to maintain a stream of cash to meet day-to-day needs. The right bank will offer an array of tools to help you speed up cash input, reduce cash leakage and manage cash holdings more wisely.

Medical practice executives recognize that successful business outcomes rest on seizing cash flow opportunities and guarding against potential problems. This approach is strengthened by forging a relationship with a bank experienced in supporting the finances of medical practices.
Finding the right bank

When choosing a bank, look for a partner that offers security, a rock-solid reputation and expertise in the healthcare industry. Most banks offer cash tools such as EFT, remote deposit and lockbox. But to get the most from these tools, you need a bank that understands the challenges medical practices face.

Look for a bank that has been in the market for many years. Using a sailing metaphor, the waters can be more treacherous than they appear from shore. You are better off working with someone who has helped others sail those waters successfully.

Your bank also should understand that no two medical practices are alike. Your practice has enough needs that require custom solutions. Your bank should also recognize the challenges—and opportunities—facing the healthcare industry today. For example, the government’s HITECH Act offers up to $63,750 for eligible healthcare professionals who adopt an EHR. The payout is generous, but capturing it necessitates an upfront financial commitment to an EHR system—or at least gearing up for one.

Buying an EHR that meets your needs requires careful selection and planning. It can require ready cash to deal with unanticipated expenses, such as more hardware or software than anticipated, or disruptions to physician production. A medical practice should secure credit facilities (or a line of credit) and have access to equipment financing with favorable terms before implementing an EHR or taking other major steps, such as adding a physician to the practice.

For more information about Bank of America Merrill Lynch healthcare financial solutions, go to bankofamerica.com/healthcare.