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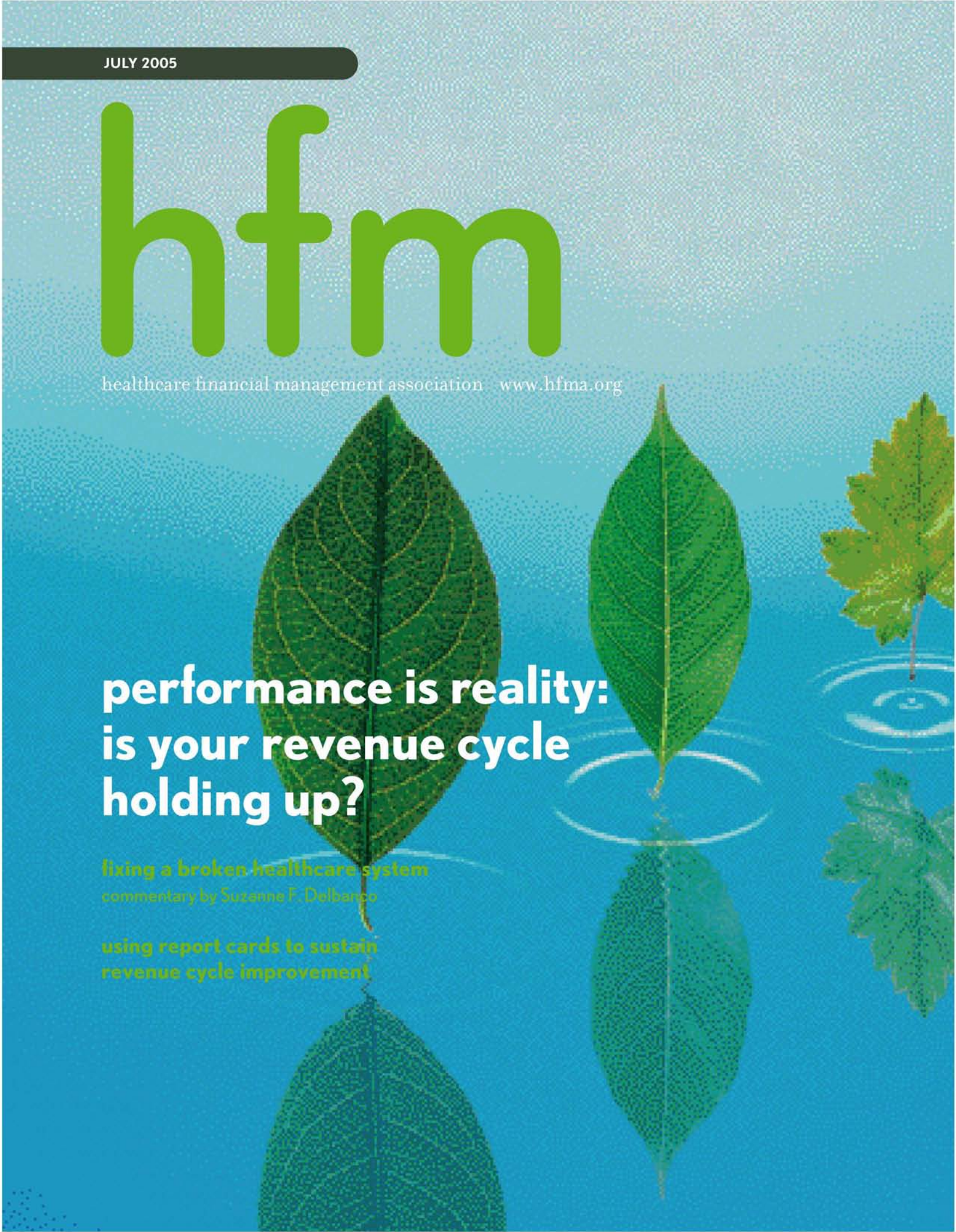

performance is reality: is your revenue cycle holding up?

fixing a broken healthcare system
commentary by Suzanne F. Delbanco

using report cards to sustain revenue cycle improvement

David C. Hammer

performance is reality
how is your revenue cycle holding up?

Do the typical key performance indicators—gross receivables, accounts receivable days, and cash collections—tell you enough about your hospital revenue cycle?

AT A GLANCE

Expanding your organization's revenue cycle performance indicators beyond receivables, cash, and A/R days can help you:

- Keep a record and tell a story
- Benchmark against your goals and industry best practices
- Identify and manage trends, not single-period results
- Illustrate relationships between key performance indicators

> "In business, words are words, explanations are explanations, promises are promises, but only performance is reality."
>
> —*Harold S. Geneen, former president and CEO of ITT*

Ensuring the most effective and efficient revenue cycle is a continuing challenge for most financial managers. Naturally, financial leaders focus on developing plans to both improve performance and reduce costs in an extremely complex healthcare environment. Each month this complexity is often boiled down to only three revenue cycle measurements: gross receivables, accounts receivable days, and cash collections. But are three measurements really enough to tell the comprehensive story of your revenue cycle performance?

Revenue Cycle Performance Indicators: Powerful Benchmarking Tools

One of the most effective ways to improve performance and reduce costs is to expand the definition, measurement, and interpretation of your organization's revenue cycle beyond receivables, cash, and A/R days. Revenue cycle performance indicators are powerful tools for benchmarking against your own goals and against industry practices. They help you obtain a more complete picture of revenue cycle performance.

An expanded set of key indicators is valuable in helping you do the following.

Keep a record and tell a story. How do you know where you're going if you don't know where you've been? By maintaining an archive of key indicators in addition to monthly financial statements, managers can understand and communicate revenue cycle results over time. Revenue cycle performance indicators enable the organization to keep a record, take raw data and turn it into information, and then trend it over time. Trending over time is important because it tends to smooth out the variability of using a relative indicator. Once initial success is achieved, departments and individuals across the organization begin to buy into the story.

Benchmark against your goals and industry best practices. Internal goals may be different from industry standards. For example, in an organization with 100+ A/R days, setting a goal of 60 A/R days might demoralize the staff. Setting a "high-stretch goal" of 80 A/R days, however, could be a good motivator. Once that initial goal is reached, a new high-stretch goal can be established.

Identify and manage trends, not single-period results. Revenue cycle management is a marathon, not a sprint. Therefore, it is important to present goals and results graphically using trend lines so that management can focus on long-term results. When overall results are trending in the proper direction, there is less of a tendency to focus obsessively on any single period's result.

GLOSSARY OF REVENUE CYCLE KEY PERFORMANCE INDICATORS

Key indicators can be divided into hierarchies, or first-, second-, and third-level indicators. Most of these indicators should be relative indicators, i.e., they should illustrate a ratio or other arithmetical relationship.

First Level

Cash collections – Total cash deposited in the bank from all A/R sources: government, nongovernment, self-pay, and bad-debt recovery

Gross and net receivables by component – Total receivables from all A/R components: in-house, DNFB, and final-billed

Net A/R – Total receivables, net of allowances from government, managed care, bad-debt reserve, and other contract payers

In-house and DNFB receivables – Total nondischarged and DNFB A/R

Third-party aging percentage greater than 90 days from discharge – Third-party A/R greater than 90 days divided by total third-party A/R

Cash as a fraction of net revenue – Total A/R cash divided by total net revenue

Cost-to-collect percentage – Total patient access plus patient financial services expense divided by total A/R cash (excludes health information management expense)

Second Level

Net A/R days – Net A/R dollars divided by three-month net average daily revenue

Allowance for doubtful accounts – Bad-debt reserve

Bad debt and charity as a fraction of gross revenue – Bad-debt dollars plus charity dollars divided by gross revenue

Denials as a fraction of gross revenue – Technical and clinical denials dollars divided by gross revenue

Cash as a fraction of cash goal – Total A/R cash divided by cash collection goal

Point-of-service collections as a fraction of goal – Point-of-service cash divided by point-of-service cash goal

Third Level

Credit balance receivables – Total dollars in credit-balance status

Clean claims throughput percentage – Electronic plus paper claims passing edits divided by total claims

Collection agency netback percentage – Agency collections minus fees divided by agency placements

Net revenue – Total revenue, net of allowances from: government, managed care, bad-debt reserve, and other contract payers

Case mix index – Surgical and nonsurgical case mix index

Complaints to administration – Calls and letters logged by administrative secretaries

Total open accounts – Total open accounts from all A/R segments: in-house, DNFB, and final-billed

Illustrate relationships between key indicators. Revenue cycle management is an optimizing function in which many different objectives must be balanced and results must be achieved in a limited-resource environment. Consequently, you cannot maximize collections at the cost of high numbers of complaints, or minimize A/R days at the cost of high bad debt or contractual write-offs. When interrelationships between performance indicators are illustrated, revenue cycle management becomes easier.

The Three Levels of Indicators

Different audiences are interested in different sets of indicators. Simply put, higher levels of the organization are interested in more highly aggregated numbers. As you move through the organization closer to the "desk level," individuals are interested in more detailed views of revenue cycle outcomes. All revenue cycle performance indicators, however, can and should be shared with all interested parties. Therefore, if the finance committee is interested in the total number of open accounts, include that number in the committee's monthly revenue cycle report. In turn, revenue cycle leaders should share the finance committee's numbers with all members of the revenue cycle operation.

This uniformity in reporting promotes goal congruence and improves morale. Based on this concept, key indicators can be divided into three groups, or levels, to be measured and communicated to the organization. The first group should be presented to the finance committee—if not the entire board—every month. The second group should be used by the organization's C-suite leaders with revenue cycle responsibility—the CEO, CFO, and chief revenue officer. Additionally, level 1 and level 2 indicators should be presented at the department head meeting at least quarterly, or every other month, by the chief revenue officer. The third group includes activity level and other indicators that are more meaningful to the revenue cycle operations management team. These indicators are also useful for explaining result variances that are not otherwise readily understood (for example, variations in case mix index that have an impact on cash collections).

The indicators presented in the following sections are shown in their most highly aggregated form—that is, as summary totals for the entire enterprise. Chief revenue officers who apply best practice reporting may often subdivide each performance indicator by

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AND NOW, A WORD FROM OUR DICTIONARY

p ə r-_for-m ə n(t)s

The word *performance* is from the Latin *per*, "thoroughly," and *furnir*, "to complete." The first use of the word dates back to the 15th century.

relevant "sort keys." These sort keys can include multiple sites of service (hospitals, clinics, etc.), patient types (inpatient, outpatient, emergency, recurring), payer and/or insurance plans, etc. Having the ability to "drill down" in this fashion allows managers to more quickly identify areas where processes may require additional scrutiny.

Level 1 Indicators

Included in the first level of indicators are cash collections, gross and net receivables by component, net A/R, in-house and discharged-not-final-billed receivables, third-party aging percentage greater than 90 days from discharge, cash as a fraction of net revenue, and cost-to-collect percentage.

Cash collections. Cash is king. Executives know how much cash is needed each month to meet the organization's obligations, and they need this number on a consistent basis as part of the overall financial story. If your organization cannot report cash deposits, an acceptable substitute is to report A/R payments.

Gross A/R. Taken directly from the aged trial balance, gross A/R is one of the most accessible figures available to you. It should be the sum of three A/R segments—in-house, DNFB, and final-billed receivables. Gross A/R can be a misnomer, however, if your organization posts contractual adjustments at time of final billing. When this occurs, gross A/R may really be blended A/R, with in-house and DNFB stated at gross, and final-billed may be a combination of net A/R for contract payers (Medicare, Medicaid, and managed care) and gross A/R for self-pay, pending Medicaid, and so on.

Net A/R. Net A/R comes from the finance department and is one of the figures the board traditionally sees every month. It is one of your organization's most important assets and should be a key focus item. Be careful, however, to look at it in combination with gross A/R. If your A/R aging is deteriorating, your reserve for uncollectibles may increase and drive down net A/R, even if gross A/R is flat or even increasing.

In-house and DNFB receivables. These vital components of overall A/R should be reported together and receive careful attention. Many situations might cause this A/R segment to require specialized attention—long length-of-stay patients with high-balance accounts, coding backlogs due to process problems or staffing shortages, or compliance issues that prevent final billing. Without focus, these problem areas might get buried in an overall A/R number.

Third-party aging over 90 days. Possibly one of the best single indicators of overall revenue cycle health is the percentage of final-billed third-party A/R aged over 90 days from discharge/date of service. To achieve overall best-practice A/R days results (55 net A/R days or less), you must accelerate third-party collections. Thus, when this indicator goes down, A/R days will decline commensurately.

Cash percentage of net revenue. This is another excellent quick indicator for the health of your overall revenue cycle operation. Especially in turnaround situations, you must collect substantially more than 100 percent of net revenue for a substantial period of time to reduce A/R. Generally accepted accounting principles classify bad debt as a period expense, not a deduction from revenue. Notwithstanding this treatment, however, the goal of your revenue cycle should be to collect 100 percent or more of net revenue over time. After all, do you really know how low your A/R days can go?

One caveat: You violate the matching principle of accounting if you match current month's cash to current month's net revenue. Naturally, you can't collect all this month's revenue in the month in which it is incurred. Over time, the trend line will tell the tale.

Cost to collect. This is one of the great "unsung" revenue cycle performance indicators. How many organizations measure this indicator? Unfortunately, too few. In many organizations, revenue cycle departments represent a large number of FTEs. And revenue cycle employees are sometimes eligible for incentive compensation that others don't receive. Consequently, that can make the revenue cycle a big target. Having an indicator that can demonstrate whether the revenue cycle operation as a whole is doing its job quantifies the value of the revenue cycle function itself.

Level 2 Indicators

Six measurements make up the second level of indicator: net A/R days, allowance for doubtful accounts,

TIPS FOR IMPLEMENTING REFINED KEY INDICATORS

Get started. Open the discussion on indicators, taking time to define and refine them as needed. Gain consensus and commitment from stakeholders on how indicators should be used to effect change. Consider important questions, including: How do we enter data? How do we get reports? How do we use the information we collect? When and why are things out of control? And what do we do about it? Understand, and help others understand, the core processes that generate key indicators.

Benchmark continuously. Learn how your organization is performing compared with regional and national benchmarks. Don't accept average or top-quartile results. Instead, strive to become a better performer, regularly achieving best-practice results. Establish and agree on benchmarks with your board of directors and other key stakeholders, and publish your results to promote continuous quality improvement.

Monitor key metrics and processes. Communicate goals and results to all revenue cycle stakeholders. Educate team members so they understand their roles and contributions. Illustrate results with charts, graphs, and meaningful reports.

Build a performance-oriented culture. Create a culture of accountability and reward that emphasizes the need for adaptation, iteration, and continuous improvement.

bad debt and charity as a fraction of gross revenue, denials as a fraction of gross revenue, cash as a fraction of cash goal, and point-of-service collections as a fraction of goal.

Net A/R days. This is the "old reliable." Because it can receive too much attention at the expense of other key indicators, it appears here with the level 2 indicators. Practically speaking, the finance committee and other constituencies are used to seeing this number. Therefore, it is likely to be included with the group above. Nevertheless, it should not take the place of level 1 indicators.

Allowance for doubtful accounts. This indicator has an inverse relationship with A/R aging, and it has possibly the most powerful effect of any key indicator on profitability. As aging improves, this number declines and profit should increase.

Bad debt and charity as a fraction of gross revenue. It is best to measure this indicator with gross revenue, rather than net, as your divisor. These write-offs almost always take effect against total charges, either in full for pure self-pay accounts or against "first-dollar" deductible and coinsurance accounts.

Denials as a fraction of gross revenue. Take care not to be "in denial" about your denials. A denial is a perfect storm of bad news for your organization. You've spent money to treat the patient—then you have to write off all the revenue, lose the potential profit, and collect zero dollars in cash for your trouble. This indicator is highly aggregated, but any comprehensive denials system will be able to produce reports sorted in as many ways as you can imagine.

> Net revenue is the key indicator that can answer the CFO's question, "Why are collections off this month?"

Cash as a fraction of cash goal. When measuring collections as a fraction of net revenue, results usually arrive at mid-month, once the prior month's books have closed. This key indicator allows managers to get results on the first day of the subsequent month, often by setting the cash goal as 100 percent of 60-day trailing net revenue. Although this indicator violates the matching principle of accounting, when combined with collections as a percent of net revenue, it offers a good indication of your operation's ability to achieve its primary mission: to put cash in the bank!

MUST-DOS FOR REVENUE CYCLE PERFORMANCE INDICATORS

Key indicators can help you obtain a complete picture of revenue cycle and billing/collections performance. Establishing indicators requires that you:

- Define, measure, and interpret indicators that go beyond gross receivables, cash, and A/R days
- Develop a comprehensive set of key indicator graphs to communicate revenue cycle performance with the board, administration, and the revenue cycle management team
- Relate indicators to one another and understand processes that support achievement of results
- Understand best-practice goals, upper and lower control limits, and the importance of managing the trends
- Perform a mini-assessment of your revenue cycle operations using an improved financial indicators checklist as well as related process steps
- Use a rigorous set of metrics to help drive continuous improvement

REVENUE CYCLE BEST-PRACTICE STANDARDS AND PROCESSES

SCHEDULING	Standard
Overall scheduling rate of potentially eligible patients	100%
Scheduling rate for elective and urgent inpatients	100%
Scheduling rate for ambulatory surgery patients	100%
Scheduling rate for high-dollar outpatient diagnostic patients	100%
Scheduled patients' preregistration rate	100%

PREREGISTRATION/PREAUTHORIZATION	Standard
Overall preregistration rate of scheduled patients	≥ 95%
Overall insurance verification rate of preregistered patients	≥ 95%
Deposit request rate for copays and deductibles	≥ 95%
Deposit request rate for elective admissions/procedures	≥ 95%
Deposit request rate for prior unpaid balances	≥ 95%
Data quality compared with pre-established department standards	≥ 98%

INSURANCE VERIFICATION	Standard
Overall insurance verification rate of scheduled patients	≥ 95%
Overall insurance verification rate of preregistered patients	≥ 95%
Insurance verification rate of unscheduled inpatients within one business day	≥ 95%
Insurance verification rate of unscheduled high-dollar outpatients within one business day	≥ 95%
Data quality compared with pre-established department standards	≥ 98%

PATIENT ACCESS/REGISTRATION	Standard
Average registration interview duration	≤ 10 minutes
Average patient wait time	≤ 10 minutes
Average inpatient registrations per registrar/per shift	35
Average outpatient registrations per registrar/per shift	40
Average emergency department registrations per registrar/per shift	40
Data quality compared with pre-established department standards	≥ 98%
Advance beneficiary notices/Medicare secondary payer questionnaires obtained when required	100%
Master patient index duplicates created daily as a percentage of total registrations	≤ 1%

FINANCIAL COUNSELING	Standard
Collection of elective services deposits prior to service	100%
Collection of inpatient patient-pay balances prior to discharge	≥ 65%
Collection of outpatient patient-pay balances prior to service	≥ 75%
Collection of emergency department patient-pay balances prior to departure	≥ 50%
Screening of uninsured inpatients and high-balance outpatients for financial assistance	≥ 95%
Payment arrangements for non-charity-eligible inpatients/high-balance outpatients	≥ 95%
Prompt-payment discount percentage(s)	5-20

HEALTH INFORMATION MANAGEMENT	Standard
Inpatient charts coded per coder/per day	23-26
Observation charts coded per coder/per day	36-40
Ambulatory surgery charts coded per coder/per day	36-40
Outpatient charts coded per coder/per day	150-230
Emergency department charts coded per coder/per day	190-250
Chart delinquency greater than 30 days	≤ 5%
Total chart delinquency	≤ 10%
Health information management "DRG development" greater than late charge hold	≤ 2 A/R days
Copies of medical records pursuant to payers' requests	≤ 2 business days
Transcription rate per line	8-12 cents
Transcription backlog	≤ 1 business day
Chart retrieval pursuant to physicians' requests	≤ 90 minutes
MPI duplicates as a percentage of total MPI entries	≤ 05%

CHARGE ENTRY/REVENUE PROTECTION	Standard
Late charge hold period	2-4 days
Late charges as a percentage of total charges	≤ 2%
Lost charges as a percentage of total charges	≤ 1%
Chargemaster duplicate items	0
Chargemaster incorrect/missing HCPCS/CPT-4 codes	0
Chargemaster incorrect/invalid revenue codes	0
Chargemaster revenue code lacks necessary HCPCS/CPT-4 code	0
Chargemaster item has invalid/incorrect modifier	0
Chargemaster item has missing modifier	0

Point-of-service collections as a fraction of goal. Now more than ever, healthcare organizations must focus on point-of-service collections to ensure financial health. This indicator can be measured in several ways. Some organizations compare point-of-service collections with net revenue, pointing toward 2 percent to 3 percent. Others compare with potential collections, with a goal of collecting 50 percent or more of total self-pay (deductibles and copayments on insurance accounts, and total charges on elective services and pure self-pay accounts).

Level 3 Indicators

Level 3 comprises credit balance receivables, clean claims throughput percentage, collection agency netback percentage, net revenue, case mix index, complaints to administration, and total open accounts.

Credit balance receivables. Credit balance accounts represent a liability to the organization. Also, if they are too high, they can artificially improve revenue cycle results. Consequently, some organizations look only at debit balance A/R when measuring A/R turnover. Nonetheless, you should always have a handle on credits and strive to keep them as low as possible.

Clean claims throughput percentage. In today's Healthcare Insurance Portability and Accountability Act environment, this is one indicator that should start to approach 100 percent. The most stringent way to measure this quality indicator is to calculate the

Chargemaster item price less than hospital outpatient prospective payment system ambulatory payment classification rate	0
Chargemaster item price is $0	0
Chargemaster item description is "miscellaneous"	0
Chargemaster item description/price is editable online	0

BILLING/CLAIM SUBMISSION	Standard
HIPAA-compliant electronic claim submission rate	100%
Final-billed/claim-not-submitted backlog	≤ 1 A/R day
Medicare supplement insurance billing following adjudication	≤ 2 business days
Non-Medicare coordination-of-benefits priority-2 insurance billing following COB-1 payment	≤ 2 business days
Medicare return-to-provider denials rate	≤ 3%
Outsourced guarantor statement cost to produce/mail	20-25 cents

THIRD-PARTY AND GUARANTOR FOLLOW-UP	Standard
Insurance A/R aged more than 90 days from service/discharge	≤ 15%-20%
Insurance A/R aged more than 180 days from service/discharge	≤ 5%
Insurance A/R aged more than 365 days from service/discharge	≤ 2%
Bad-debt write-offs as a percentage of gross revenue	≤ 3%
Charity write-offs as a percentage of gross revenue	≤ 3%
Cost-to-collect ([patient access + patient financial services + agency expenses] ÷ cash)	≤ 3%
Patient cash as a percentage of net revenue	≥ 100%
In-house A/R days	≤ average length of stay
DNFB A/R days (includes late charge hold period + HIM "DRG development")	≤ 5-6 A/R days
Net A/R days	≤ 55 A/R days
Patient cash as a percentage of cash goal	≥ 100%
Total point-of-service cash as a percentage of cash goal	≥ 2%

CASHIERING, REFUNDS, ADJUSTED POSTING	Standard
HIPAA-compliant electronic payment posting percentage	100%
Transaction posting backlog (during the month)	≤ 1 business day
Transaction posting backlog (end of the month)	0 business days
Credit-balance A/R days (gross)	≤ 2 A/R days
Medicare credit-balance report submission timeliness	≤ due date

DENIALS	Standard
Overall denials rate	≤ 4%
Clinical denials rate	≤ 5%
Technical denials rate	≤ 3%
Underpayments additional collection rate	≥ 75%
Appeals overturned rate	40%-60%
Electronic eligibility rate	≥ 75%
Physician precertification double-check rate	100%
Case managers' time spent securing authorizations rate	≤ 20%
Total denial reason codes	≤ 25

CUSTOMER SERVICE	Standard
Correspondence backlog	≤ 1 business day
Walk-in patients' wait time	≤ 5 minutes
Automatic call distribution system average hold time	≤ 2 minutes
ACD system abandoned call percentage of calls on hold ≥ 30 seconds	≤ 2%
ACD system percentage of calls resolved in ≤ 5 minutes	≥ 85%
ACD system percentage of calls not resolved in ≥ 10 minutes	≤ 5%
Calls resolved in unit, without complaint/referral to director of patient financial services	≥ 95%

COLLECTIONS/OUTSOURCING VENDORS	Standard
Bad debt netback ([collections – fees] ÷ placements) percentage	7-11
Bad debt fee percentage	15-18
Third-party extended business office fee percentage	6-10
Self-pay extended business office fee percentage	10-12
Legal collections fee percentage	20-30
Medicaid eligibility assistance fee percentage	12-18

fraction of accounts accepted by payers' computers without being intercepted by your compliance scrubbing system or being cleaned by a biller. When your front-end operations are achieving best practice results, this indicator will rise accordingly.

Collection agency netback percentage. Would you pay more to get better results? Most organizations would, and that is why netback is the only valid measure of outsourced vendor performance. In a situation where two vendors split your business, this measurement can put them on an equal footing, even if their fee rates are different.

Net revenue. You have to know this number because it is the divisor of so many other indicators. This is the key indicator that can answer the CFO's question, "Why are collections off this month?" When replying, it helps to know that net revenue was down two months ago, for example.

Case mix index. This is one of the hidden influencers of collections. Your case mix, particularly related to diagnosis-related group pairs, can dramatically influence colections, independent of other factors in revenue cycle operations. If case mix declines, cash falls, and vice versa. Again, it helps to answer the question, "What is happening with collections?" It is helpful to know, for example, that your highest-admitting cardiac surgeon was on vacation for three weeks during the previous month.

MORE VIEWS ON IMPROVEMENT

Strategies for Improving the Revenue Cycle: Industry Views provides insight into how financial executives are implementing measurable performance improvements in their revenue cycle. Go to www.hfma.org/resource/400417.pdf

Complaints to administration. Don't make the mistake of thinking that this indicator should be zero. If your collections aren't assertive enough to generate a few calls to administration each month, you may be leaving too much for your collection agencies. It is a good idea to categorize complaints to identify root causes. You want to fix broken processes while remaining true to your prime objective: collecting cash. This is one of the areas where you can truly see that revenue cycle management is an optimizing function.

Total open accounts. This is a very good secondary indicator. Usually, less is more. If, however, you have recently changed recurring outpatient account policies to discharge and readmit every month, this number will increase for a while. This indicator should be analyzed in comparison with the number of new accounts generated each month. If your collection cycle averages 60 days, you should have roughly two months' worth of open accounts on your books.

An Organizational Perspective

Increasingly, CFOs are realizing the importance of giving revenue cycle leaders a chance to present performance indicator results to key organizational constituencies. The chief revenue officer and/or revenue cycle management team should be invited to present to the finance committee, or at least to their peers, every quarter at a minimum to explain the revenue cycle concept, illustrate important trends, and highlight new occurrences. Organizations that have already elevated the revenue cycle position to the level of senior management are ahead of the game in understanding and disseminating the numbers and trends that tell the story of the organization's health. It's important for all employees to be cognizant of their roles and responsibilities as members of the wider revenue cycle team.

Certainly, having the numbers alone is not enough. When coupled with a good understanding of industry standards and the process management skills needed to help achieve them, your numbers can tell a story of financial wellness, complete with key indicators that are trended across time.

Remember: How do you know where you're going if you don't know where you've been? ●

About the author

David C. Hammer, FHFMA is vice president, revenue cycle solutions, McKesson Provider Technologies, Fort Lauderdale, Fla., and a member of HFMA's Florida Chapter. Questions or comments about this article may be sent to him at david.hammer@mckesson.com.