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How to Assess *Financial Health*

As you struggle to stay on top of what's going on in today's health care market, the single most important thing you can do is to know what's going on in your own practice. And most often, it's assessing the financial health of their practice that eludes many physicians.

Timely, accurate financial reports can be invaluable tools for assessing your practice's financial health. Different reports used on a daily, weekly and monthly basis provide vital information for day-to-day management of your practice.

Daily reports

Daily reports will help you keep an eye on your practice's cash flow. Cash flow projections updated for daily receipts and disbursements provide essential information that will help you manage cash needs. Your staff should be able to calculate daily totals and percentages for cash received at the time of service. Setting goals and daily monitoring will motivate your staff to collect as much as possible at the time of service, when it's least costly to collect.

Also make sure your accounting system can generate daily reports that show each contractual write-off that exceeds a predetermined percentage of charges. Keeping up to date on this information means you can quickly issue an appeal letter for any third-party payor write-off that exceeds what you think is reasonable.

Weekly reports

Dips in production usually result in dips in collections. By monitoring charges, payments and adjustments each week, you'll be in a better position to know your short-term cash flow.

A status report for all precollection accounts should also be reviewed weekly. The older these accounts get, the less likely you'll be able to collect and you'll spend more time trying! Plus, if you review patient payment activity each week, you'll be able to make timely decisions regarding their write-off or placement with a collection agency.

Monthly reports

Monthly financial statements are a must for monitoring your practice's overall financial health. By comparing your year-to-date income statements to last year's, for example, you can determine if your income and expenses are increasing or decreasing, and make strategic decisions to correct any negative trends.

Another monthly tool is the accounts receivable aging report. Review it closely for any accounts that are over 60 days and follow up with third-party payors or Medicare as needed.

Finally, the information you can glean about gross collections, net collections and accounts receivable turnover ratios will give you even more insight on your

practice's collections. You also may want to consider more sophisticated financial monitoring tools — see "Electronic dashboards: The latest gadget for measuring practice performance" for one alternative.

Employ good old-fashioned budgeting

A well-thought-out budget also can be used to evaluate your practice's financial health. How? With a budget you have a benchmark of what you're supposed to be making and spending. If, through your budgeting process, you determine that revenues will be insufficient to cover anticipated costs, you can pursue other patient markets or managed care contracts to generate more revenue or you can rein in expenditures.

If a comparison of actual revenues to budgeted revenues indicates that revenues are falling off, it can signal that the practice isn't properly billing and collecting for its services. A budget can also help you predict future financial results and, therefore, facilitate effective decision making on allocating excess earnings.

To get started on creating a realistic budget, you should:

- Write down what you expect monthly collections to be from patient services, "moonlighting" income, ER coverage and sales of products at your office,
- Write down all your monthly expenses,
- Break down expenses into fixed (such as rent) and variable (such as medical supplies), and
- Adjust income and/or expenses to make the net income come out to what you want to earn each month.

This process will reveal whether you need to work more hours, cut expenses or both.

Study your practice regularly

It's crucial that doctors keep up to date on the ever-changing conditions in the health care profession. But many practitioners simply don't realize that the financial information needed to keep current is at their fingertips. Studying this financial data and developing a solid budget will help you better manage your cash flow, increase productivity and make your practice more profitable.