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Meet the Presenter…

Maxine Collins, MBA, CPA,
CMC, CMIS, CMOM

On the topic:

Practice Fitness Test - Use Data to Enhance Your Performance
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Practice Fitness Test—Use Data to Enhance Your Performance

Presented by:
Maxine Collins
MBA, CPA, CMC, CMIS, CMOM
Practice Management Institute®

GOALS OF SESSION

• Reviewing the value of a monthly fitness check-up of your practice.
• Setting practice goals to ensure “Best Practices”
• “Crunching the numbers” to analyze the “key indicators” of practice success and efficiency.
• Realizing how Pay for Quality is impacted by the data you collect.
• Understanding that no matter what position you serve in the medical practice or clinic, you have the opportunity to continue to learn and impact the bottom line and quality of care, as well as the ability to advance your own professional career in the process.
• Refreshing knowledge of “benchmarking.”
• Reviewing useful tools and spreadsheets.
• Having fun with numbers for more effective decision making.
## WHAT DO PHYSICIANS WANT TO KNOW CONCERNING PRACTICE FINANCES?

**THE "BOTTOM LINE" QUESTIONS**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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</thead>
<tbody>
<tr>
<td>How much is being billed out?</td>
<td>CHARGES ?</td>
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<tr>
<td>What % of billed charges are being collected?</td>
<td>CASH ?</td>
</tr>
<tr>
<td>Which services are receiving higher reimbursement?</td>
<td>COMPARATIVE INCOME POSSIBILITIES ?</td>
</tr>
<tr>
<td>What can we realistically expect to collect from outstanding Accounts Receivable?</td>
<td>COLLECTIONS ?</td>
</tr>
<tr>
<td>What is it costing us to provide the services?</td>
<td>COSTS ?</td>
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<tr>
<td>Dr. wants to know - Why am I working harder and receiving less?</td>
<td>CO-EFFICIENCIES ?</td>
</tr>
<tr>
<td>What are my alternatives to increase profitability and work less?</td>
<td>CHOICES ?</td>
</tr>
<tr>
<td>What is changing in the future?</td>
<td>CHANGES ?</td>
</tr>
</tbody>
</table>

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### Revenue Cycle Management

**Steps:**

1. **Patient Registration**
2. **Eligibility Verification**
3. **Capture Charges**
4. **Remittance Posting**
5. **Charge Entry**
6. **Diagnosis & Procedure Coding**
7. **Denial Management**
8. **Accounts Receivable Update**
9. **Generate Reports**
“SOAP IT”

• **SUBJECTIVE:** Ask the pertinent questions:
  - Do we want to increase productivity/number of patients seen, procedures performed?
  - Do we have the space to do so?
  - Do we have the staff necessary?
  - Are we taking care of our current patient load?
  - Will the new procedure be profitable?
  - Do we know the necessary information about our current operations?
  - Have we performed an internal audit? Do we have written Compliance Policies in place? Do we meet the requirements of staff training?
  - Do we review practice’s “key indicators for medical practice fitness” at least on a monthly basis?
  - Do we monitor collection ratios and have an Action Plan for problem areas?
  - Do we monitor our current overhead ratio and continually work on cost-saving processes?
  - How do we compare to published statistics for our size, area, and specialty?

WHAT YOU NEED TO KNOW TO HAVE SUCCESSFUL OPERATIONS

- What are the practice goals & philosophy
- Is your team working together to monitor the practice’s “vitals”?
- What does it cost to perform your most frequently billed procedures/tests?
- What is your average revenue or collections per patient?
- Do you know your average cost per patient?
- Do you know your gross collection ratio?
- Do you know your net collection ratio?
- What is your average overhead %?
- What is your payor mix? Which payor plan is most profitable?
- What is the average no. Of days your accounts are in accounts receivable??
- Where are your managed care contracts? Have you reviewed the provisions lately?
- Do you have a budget in place?
- Do you receive/review monthly financial reports?
- Do you stay up to date on your major carriers’ guidelines and changes and share the information with your staff?
- Do you review the cert findings to get a “heads up” on what is currently being reviewed?
- Do you train consistent with compliance requirements?
MONITORING YOUR PRACTICE FOR SUCCESSFUL OPERATIONS
– OBJECTIVE ANALYSIS OF FITNESS

• Not only are financial ratios important, it is important to track productivity. Here are a few items you might consider in this regard:
  – Unbilled encounters
  – RVU production by provider
  – Items in “hold” category or unclosed
  – Average number of days from date of service to posting date – Normal benchmark should be less than 7 days.
  – % of clean claims to total # of claims – Normal benchmark greater than 95%
  – Claims payment first pass pay rate – Normal should be 85%
  – Posting of cash & contractual allowances – Normal benchmark should be less than 24 hours
  – Denials overturned – Normal benchmark should be 95%
  – Length of time since Encounter form Master has been reviewed and updated – Should be annually; maximum of 2 years.
  – Fee schedule should be updated annually.
  – When were managed care contracts last reviewed? Should be a minimum of annually.
  – Compliance plan should be reviewed and auditing of charts performed – quarterly or at least annually.
  – Unapplied Credits – Should reconcile monthly.


Evaluation & Management of Financial Practice Stats

• Objective: Examination - Let’s look at the facts:
  
  • Gross collection ratio = \( \frac{\text{Collections}}{\text{Gross Charges}} \)
  
  What % of the total charges put on the books are you collecting?
  
  This should be monitored on a monthly basis to note any significant variations.
  
  • Net collection ratio = \( \frac{\text{Collections}}{\text{Gross Charges} - \text{Adjustments}} \)
  
  What % of the net charges (after adjustments) are you collecting?
  
  This will be a more accurate calculation to determine future collections from Accounts Receivables.
Collection Ratio Examples

• **XYZ Medical Clinic – Average Monthly Billing Stats for 2016:**
  - Collections = $180,000
  - Gross charges = $311,693
  - Adjustments = $90,050

• **Gross Collection Ratio** = $180,000 / $311,693 = 58%

• **Net Charges** = $311,693 - $90,050 = $221,643

• **Net Collection Ratio** = $180,000 / $221,643 = 82%

*********************************************************************************

• Review the information on the Medical Practice on the next slide and formulate a summary of what you see happening in the practice from the prior year.

Accounts Receivable Stats

- Gross Charges YTD thru June = $1,602,500
  - Average Monthly Gross Charges per month = 267,083
- Accounts Receivable at 06/30 = 650,000
- Average Months/Days in A/R:
  - Balance in A/R divided by Average Monthly Charges:
    - $650,000 / $267,083 = 2.43
    - 2.43 x 30.4 average days per month = 73.9 days
  - Prompt Pay law in your state?
  - *MGMA (Better Performers Benchmark) = 37.0 days

Practice Fitness – Tools to Use

- TOOLS TO HELP PERFORM SIMPLE, EFFICIENT STATS FOR YOUR PRACTICE.
## Denial/Underpayment Tracking

**Date(S):** March, 2017  
**Dr.:**

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<tr>
<th>Plan</th>
<th>Example</th>
<th>PAT ELIG</th>
<th>POS</th>
<th>MSP</th>
<th>PAT INFO</th>
<th>MED NEC</th>
<th>ICD-9 INVAL</th>
<th>CPT INVAL</th>
<th>MOD ERROR</th>
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<td>BCBS</td>
<td>99223-930</td>
<td>9924-910</td>
<td>9920A-910</td>
<td>93010</td>
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**Totals:**
- PAT ELIG: $350
- POS: $150
- MSP: $109
- PAT INFO: $276
- MED NEC: $675
- ICD-9 INVAL: $350
- CPT INVAL: $2,210
- MOD ERROR: $1,547

**Projected:** $6,766

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<th>Verif.</th>
<th>CK Comp Sys.</th>
<th>Verif/ Data Entry</th>
<th>Front Desk</th>
<th>Docum.</th>
<th>ICD-9</th>
<th>Data Entry</th>
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Using RVUs to calculate costs

Can your practice generate a profit with the conversion factor that the Managed Care Co. is offering? Use the RVUs to find out.

Each time you perform a procedure, you produce a unit – an RVU. Produce a spreadsheet as follows:
1. Column I - List all the CPT Procedure codes for the year. (99202, 99203, .......)
2. Column II - Frequency each code was charged. (Can get from Computer Reports)
3. Column III - Relative Value Unit for each Code. (Established by CMS)
4. Column IV - Frequency x RVU = Units produced for the year for that procedure
5. Add up all of the RVU’s the Practice produced = your production for the year.
6. From your financial statements, determine the total costs of operating your practice for the year.
7. Divide your total costs by your RVU production for the year. This gives you the Cost per RVU. This is your Conversion Factor.
8. Compare this cost to the reimbursement (Conversion Factor) offered per RVU by the Insurance Company.

- If you accept a conversion factor from a managed care company less than your cost per RVU, you will lose money each time you bill that company for that CPT.
- Can your Practice generate a profit with the fee schedule proposed in the Contract?
How Can We Use The Formula To Our Advantage?

- Important that we understand the current way we are reimbursed
- Important that we understand any future changes
- Government is determining what it costs our Practice to perform our procedures
- Do you calculate what the actual costs are for each procedure you perform?
- Many Drs. are paid based on RVU production
- We can also use RVUs to compute our Practice’s production. Dividing Practice costs by total production will yield cost per RVU which can be used for comparison to Government’s conversion factor.

Benchmarking Your Accounts Receivable for Success

- SMART Goals: Specific, Measurable, Attainable, Relevant, Time-bound
Measurements & Monitoring Outcomes – Setting Goals!!

- **S** – **Specific**: Be clear and unambiguous when setting your goal. Don’t leave room for guessing.
- **M** – **Measurable**: Set a goal that allows you measurement toward your goals progress.
- **A** – **Attainable**: Ask yourself, “Is this realistic and attainable?” If not, back to the drawing board.
- **R** – **Relevant**: Create a goal with importance and meaning. Make sure the effort is worth it to you.
- **T** – **Time-bound**: Commit to a deadline. Open-ended goals tend to go forgotten.

**KEY PERFORMANCE INDICATORS FOR A/R OVER 120 DAYS – “BEST PRACTICES”**

<table>
<thead>
<tr>
<th>SPECIALTY</th>
<th>% OF TOTAL A/R in the 120+ DAYS BUCKET (BETTER PERFORMERS PER MGMA REPORT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Care</td>
<td>10.34%</td>
</tr>
<tr>
<td>Medicine Specialties</td>
<td>9.52%</td>
</tr>
<tr>
<td>Surgical Specialties</td>
<td>9.02%</td>
</tr>
<tr>
<td>Multispecialty Practice</td>
<td>10.23%</td>
</tr>
</tbody>
</table>

Source: Medical Group Management Association(®), Performance and Practices of Successful Medical Groups; 2010 Report Based on 2009 (Englewood, CO; Medical Group Management Association, 2010).
LOOKING AT PRACTICE COSTS – How Much Does It Cost?

- **Fixed Cost** – Those costs that do not vary in the short-term. If you are operating as a “going concern,” these will exist whether you see 1 patient or 1,000 patients during the month. You can count on paying the building rent, insurance, utilities, telephone service, etc. each month that you are in practice. This cost will not vary, but will remain constant in the short-term.
How Much Extra Will It Cost?

- **Variable Cost** – Those costs that vary in direct proportion to the number of patients seen. These include the costs of medical supplies and administrative supplies that will increase as the number of patients served increases. In management decision-making, these are the relevant costs for making decisions such as adding new services, new providers, etc. The Fixed Costs will be there regardless, but the variable costs are the ones that we have to consider in making a decision.

Is The Service Profitable?

- **Contribution Margin** – This is the difference between the Revenue or Collections received for a pertinent period of time that is produced from the services of the Revenue Center less the Direct Costs of earning the funds. The amount left over is a margin of profit/loss that can be applied (hopefully) to the allocated Fixed Cost to finally determine the actual Net Profit from the service.
Let's Look at the Formula

- **Lab Dept. statistics – February, 2016**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (Collections)</td>
<td>$ 18,000</td>
</tr>
<tr>
<td>Less: Direct Cost</td>
<td>- 14,000</td>
</tr>
<tr>
<td>Contribution Margin</td>
<td>$ 4,000</td>
</tr>
<tr>
<td>Less: * Allocation of Indirect Costs</td>
<td>- 2,000</td>
</tr>
</tbody>
</table>

Lab Profit for the month of Feb.: $ 2,000

*Allocation based on Sq Footage of Space occupied by Lab.

Break-even Analysis

- In order to make a profit, you must cover both the Fixed and the Variable Cost. **This is the “Break-even Point.”**

- Example:
  - A kit can be purchased for $ 200. It can perform 100 test = $ 2.00 ea.
  - Additional Variable Cost for Test = $ 8.00
  - Total Variable Cost = $10.00

- Fixed Cost have been calculated to be $ 2000. How many tests do we have to perform to break-even if we charge $ 50 per test?

- Calculation: $ \frac{2000.00 \text{ Fixed Cost}}{50.00 \text{ (Price)} - 10.00 \text{ (Total Variable Cost) or } 40} = 50 \text{ tests to break-even}
  51 tests to make a profit
GET THE PICTURE?
Fixed vs. Variable

COSTS

EXPENSE

# OF PATIENTS SEEN OR PROCEDURES PERFORMED

VARIABLE COSTS

BREAK-EVEN

FIXED COSTS

Put The “Pencil” To It
One Easy Calculation

• Total Cost per Patient =
  \[
  \frac{\text{Total Exp. (Annual)}}{\text{Total # Patients (Ann.)}}
  \]
• Gives an average overall cost of providing services per patient
• Can be used for basic comparisons of Collections per Patient vs. Cost
• Can be calculated and monitored weekly/monthly/annually
Analysis By Item/Service

- Create Cost Sheets for major procedures
- Complete for each service to computer analyze
- Monitors the direct costs for procedure performed frequently
- Indicates areas of waste or inefficiency
- Create a Purchase Order system to save on costs – purchase in quantity, etc..
- Appoint someone to be responsible for monitoring and improving both quality and cost

Injection Charge Sheet

Patient:________________ Date:____________ Ticket #:________

<table>
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<tr>
<th>Vials/ Supplies</th>
<th>Package</th>
<th>Dose</th>
<th>Used</th>
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<td>Dexametors</td>
<td>10mg/kg</td>
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<tr>
<td>Heparin 10</td>
<td>4000iu/1000mg</td>
<td>2 ml vials</td>
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<tr>
<td>Versed</td>
<td>5mg(1/10mg/ml)</td>
<td>2 ml vials</td>
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<tr>
<td>Lidoconine</td>
<td>2% Solves</td>
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<tr>
<td>Sterile water</td>
<td>50 ml vials</td>
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<tr>
<td>4x4 gauze sponge</td>
<td>10 in box</td>
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<td>Sphen Needle 3 ½” 5”</td>
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<td>Etc.</td>
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Assessment & Plan

- **If you don’t have a plan** for your Practice in these turbulent times, you are probably planning to fail.
- We are continuing to see the cost of practice operations **increase**, while reimbursement is **declining**.
- If your Physician is working harder while collections are declining, it may be time to focus in on **exactly what is going on in the Practice**.
- If you do not have a good understanding of the ratios that we have reviewed as well as the RBRVS system and your Managed Care contracts - you may have trouble **operating efficiently** in the future.
- **Preparing a Budget is a 1st step in organizing and planning.** It is challenging to forecast the future of the Practice.

Understanding Leads To Knowledge

- **Knowledge leads to $$**
- The more we understand about reimbursement, the more knowledge we will have to negotiate managed care contracts, read and understand fee schedules, and implement procedures that will insure better reimbursement and more efficient operations!
Importance Of The Budget To Control And Monitor

Do you Like Preparing the Budget?

*Everything we do each day at work impacts the Budget in some meaningful way.*

- If new in practice, prepare “Pro-Forma’s” indicating projections of cash in and cash out over the upcoming year.
- If practice has been in operation for a few years, use the last 3 years of income/expense information as a basis to note annual trends and factor in possible changes to come up with a budget for the upcoming year.
- The Budget provides a “map” or directions for the Practice based on past operational trends factored in with the goals for the future.
- Physician must “buy-in” and participate in the planning
- Regular, simple reporting is a must

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Budget Worksheets

- An opportunity to “dig in” and look at individual items
- Where is the money going and for what?
- A time to “step-back” and get a new perspective
- Creates a rewarding challenge to find avenues for reducing cost and improving services

Monthly Telephone Expense – LINE #1

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JULY</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
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### IT'S 10:00 AM! – DO YOU KNOW WHERE YOUR MANAGED CARE CONTRACTS ARE?

- **Why** is this so important for Office Managers and Billing/Front Desk personnel?
- Important Contract **provisions** affect reimbursement!
- A **contract** is a **legally binding document** – if breached, you could be liable for “breach of contract law”!
- **IPAs** etc. cannot set fee schedules. Dr. must make decision on signing! Review that contract!
- Many Physicians sign without knowing provisions contained in the contract!
- Often we are duplicating efforts with appeals for denials for an item that is being denied because of contract provisions that we do not know about!

### Total Telephone Expense Analysis By Month

<table>
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<th>LINE</th>
<th>JAN</th>
<th>FEB</th>
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Benchmarking

• After calculating some of the more important ratios, you can compare your indicators with some of the national benchmark comparisons.

• Medical Group Management Association – has cost surveys available. For non-members, the cost could run around $450-$500.

• American Medical Association - produces information on physician characteristics and on medical groups. These publications will also cost around $150 - $300 for non-members.

• Practice Support Resources, Inc. – publishes “practice management stats quick reference” for individual specialties – also for a price.

• Of course, there are many variables that affect each practice and the “benchmarks” produced are for comparison purposes only. However, the comparison may point out areas where you could improve in efficiency or indicate that you are doing better than the average in your specialty. Either way, you may find areas that need further scrutiny.

SOURCE: AMERICAN ACADEMY OF FAMILY PHYSICIANS, “HOW MANY STAFF MEMBERS DO YOU NEED”, SEPTEMBER, 2002

Published “BENCHMARKS” for Some Specialties

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<tr>
<th>INDICATOR</th>
<th>F.P.-NON-H</th>
<th>F.P.-HOSP</th>
<th>NT.MED</th>
<th>OB/GYN</th>
<th>PEDS</th>
<th>GASTRO</th>
<th>ORTHO</th>
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<td>1.0</td>
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<td>Gross FFS Cell Ratio</td>
<td>75%</td>
<td>66%</td>
<td>66%</td>
<td>65%</td>
<td>82%</td>
<td>56%</td>
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<tr>
<td>Net FFS Cell Ratio</td>
<td>98%</td>
<td>97%</td>
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<td>Days in AR</td>
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<td>72.5</td>
<td>54.3</td>
<td>61.7</td>
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<td>62.1</td>
<td>74.8</td>
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<td>% AR&gt;120 days</td>
<td>33%</td>
<td>38%</td>
<td>25%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
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<tr>
<td>FTE’S per Provider</td>
<td>3.93</td>
<td>3.13</td>
<td>4.20</td>
<td>3.37</td>
<td>3.28</td>
<td>3.40</td>
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<tr>
<td>Staff Salary + Benefits to Oper. Exp</td>
<td>37.2%</td>
<td>40.3%</td>
<td>30.5%</td>
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<td>32.9%</td>
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<td>Avg RVU per Visit</td>
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<td>.83</td>
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<td>Overhead * Averages only</td>
<td>56.7%</td>
<td>60.6%</td>
<td>58.0%</td>
<td>51.0%</td>
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Turn Negatives Into Positives

• **I**mprove training
• **N**ote changes in coverage’s and guidelines
• **C**ommunicate and encourage cooperation among departments and with Providers
• **O**ngoing monitoring of claim denials and underpayments
• **M**ake a Managed Care “Bible”
• **E**ndurance – never give up on a denial or underpayment until all efforts are exhausted.

THE PROBLEMS / THE SOLUTIONS

• Declining reimbursement
• Pay-for-Performance/MIPS/MACRA
• Technology
• Increasing Practice Costs
• Complexities of managed care
• Aging population
• Growth of Consumer-driven healthcare – Patient Satisfaction and Patient Safety Measures is and will affect Physician reimbursement more in future by all payors
• Increasing stress on both Providers, Clinical and Administrative Staff as need for research and continual update in knowledge and information increases.
• Potential shortage of Providers and Nurses in some areas of the U.S.

Let’s jump the hurdles together!
Financial Reporting

• Physicians are overwhelmed with patient care and the increasing documentation and quality of care guidelines; must now wear “many hats”

• Physicians understand “cash in” and “cash out” – therefore, reports must be simple – monthly “flash reports” that will enable them to file away the important stats in their mind

• Reports must be meaningful and capture the important information your physicians want to monitor

• Reports must be furnished on a regular basis; timely, easy-to-read; and accurate

• Financial management is not boring; learn to have fun with numbers, improve practice performance and achieve personal success!

• Employees are the key in providing and monitoring internal controls that lead to greater practice efficiencies.

• You play an important role in achieving “best practices”!

ASSIGNMENT

• FOR THOSE OF YOU THAT ENJOY A CHALLENGE AND ARE REALLY INTO THE NUMBERS GAME.

• HAVE FUN!
CALCULATING COSTS PER VISIT

“HANDS-ON” WORK EXAMPLE

Benefits of Analyzing Costs

• Setting fees
• Negotiating managed care contracts
• Planning for the future
• Evaluating costs in the practice
• Determining unit costs for services
• Important tool for practice
  – Developing budget
  – Planning future expansion
  – Comparing to current reimbursement per unit
Unit of Service

- What service cost do you want to analyze (for internal purposes only)
  - Office visits
  - Adult physicals
  - Diabetes check-ups/counseling
  - Well-child exams
  - Consultations
  - Procedures

How to Define Unit of Service?

- Meaningful/useful to your practice
- By time
- Direct cost
- Indirect cost
- Break-even
- Chronic disease patients
CASE STUDY

1. Define the unit of service to be analyzed. Calculate cost of providing an adult physical examination.

2. Determine the # of times service estimated to be provided for a specific time period.
   Assumptions: average 2,000 exams over a one year period.

3. Calculate the direct costs of providing exam:
   - Physician cost: Salary & Benefits $150,000 annual
     - 50 work weeks per year
     - 40 hours per work week/60 minutes per hr
     - Exam takes 15 minutes of physician time
   - Nurse cost: Salary & Benefits $45,000 annual
     - Same work weeks and hours as physician
     - Exam requires 10 minutes of Nurse’s time
   - Receptionist cost: Salary & Benefits $25,000 annual
     - Same work week data
     - Processing patient requires 10 Minutes of time
   - Estimated other admin. costs required for exam $2.50 each patient
   - Estimated other clinical costs required for exam $3.00 each patient
   - Estimated Laboratory tests costs per typical charge $15.00 each patient

4. Calculate the total direct cost per unit of service.

CASE STUDY, CONTINUED

5. Calculate and allocate the indirect costs:
   - Rent, utilities, etc. $60,000 ann.
   - Administrative salaries/benefits $40,000 ann.
   - Insurance $90,000 ann.
   - Other $10,000 ann.

   - Assumptions:
     - Basis of Allocation = % of Total Visits
     - Allocations rate = 20% of patient visits last year were for Adult Physical exams
     - Data based on history on number of exams 2,000

6. Calculate indirect costs per unit of service.
7. Calculate depreciation on practice equipment utilized
   - Assumptions:
     - Initial Cost $50,000
     - Less Resale value at End of useful life - $10,000
     - Total $40,000
   » Estimated years Practice will use: 10 yrs
   » Basis of Allocation: Ratio of total visits
   » 20% of last years visits were for Adult
     - Physical exams

8. Calculate total depreciation

9. Calculate the unit cost:
   - Total from Step No. 4 $
   - Total from Step No. 6 $
   - Total from Step No. 8 $

10. Add to calculate total
    - Unit cost to provide exam $
    - Compare to average reimbursement
      - Per exam $
CASE STUDY - CONCLUSION

• Need for accurate cost information has never been more important than today
• Unit cost for services provided can provide information to improve efficiency and planning
• Information is need to make sound decisions and survive in a tough economical climate


CASE STUDY ANSWER SHEET

1. DIRECT COST:
   - Physician - $150,000/50 wks/ 40 hrs/ 60 min = $ 1.25 X 15 min. = $ 18.75
   - Nurse's - $ 45,000/50 wks/ 40 hrs/ 60 min = $ 0.375 x 10 min = $ 3.75
   - Receptionist's $ 25,000/50wks/ 40 hrs/60 min= $ 0.208 x 10 min = $ 2.08
   - Other Administrative Costs = $ 2.00
   - Other Clinical Costs = $ 3.50
   - Laboratory Costs per charge = $ 15.00
   TOTAL DIRECT COSTS: = $ 45.08

2. INDIRECT COST:
   - Rent, utilities, etc. $ 60,000
   - Adm. Salaries/benefits $ 40,000
   - Insurance $ 90,000
   - Other $ 10,000
     • Total $ 200,000
     • X .20 = $ 40,000 / 2,000
   TOTAL INDIRECT COSTS: = $ 20.00
### CASE STUDY ANSWER SHEET

3. WRITE OFF OF EQUIPMENT COSTS – DEPRECIATION:
   - NET VALUE AT END OF USEFUL LIFE OF EQUIPMENT: $40,000
   - DIVIDED BY USEFUL LIFE / 10 YRS
   - PER YEAR – DEPRECIATION PER UNIT OF SERVICE
     $$\frac{4,000 \times 20\%}{2000} = $ \, .40$$

4. ADD UP
   - STEP ONE: DIRECT COSTS $45.08
   - STEP TWO: INDIRECT COSTS $20.00
   - STEP THREE: DEPRECIATION $40
   - TOTAL COST PER UNIT OF SERVICE $65.48

5. COMPARE TO REIMBURSEMENT/SET FEES/ANALYZE COSTS

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### Questions?

- Thank you for your attendance!

- Get your questions answered on PMI's Discussion Forum: