How to evaluate your Revenue Cycle of your Practice

You can use the following calculations to evaluate the current status of your Accounts Receivable. This will be useful in determining whether your organization needs to take corrective action. If your organization has multiple clinics, this exercise should be performed for each location.

Begin by calculating the Average Daily Revenue. (This calculation compensates for the seasonality of revenue experienced by some practices.) Take the total annual revenue and divide by 360 days to determine Average Daily Revenue (ADR). For example, if the total revenue booked for the year 2002 was $1,080,000 then ADR = $1,080,000/360 days, or $3,000 /day.

The Total Accounts Receivable is determined by the amount of credit sales billed. The Aging Report shows amounts billed and the time elapsed since billing. The Aging Schedule is usually divided into monthly (30 day) periods, with sections displaying amounts overdue for periods of 60, 90, 120, etc. days. Receivables due 30 days or less are generally considered "current."

The Average Days Outstanding (ADO) can be determined by taking the total outstanding revenue from the aging report and dividing it by the Average Daily Revenue (ADR). If the organization has a total Accounts Receivable of $330,000, the ADO = $330,000/$3,000, or 110 days.

In this example, it is taking an average of 110 days or almost four months to collect for services provided. The practice may need to obtain money from other sources to pay their expenses during this period. Furthermore, the length of time an account is outstanding increases the possibility that the account will need to be written off as bad debt.

If the ADO for a practice is well beyond the goal or reasonable benchmark, corrective action can be taken. We suggest the following options:

How Do I Calculate A/R Days?

Begin by picking a sample size that exceeds your expected number of A/R Days. If you do not already have some sense of your A/R Days, we recommend using a quarterly sample, as it will help adjust for typical pediatric seasonal fluctuations and, for most practices, a 90 day sample will exceed their A/R Days.

From that 90 day sample, add up your total charges. Divide this figure by the number of days you sampled (in this instance, 90). This gives you your "average daily charge." Divide your Total A/R by your average daily charge and the result is A/R Days.

Tips on Handling Effective Cash Flow Management

Billing Cycle – Initially look at the billing cycle. Some practices bill daily for workers' compensation cases, others bill weekly while some have longer periods between billings. If length of time between billings is long, then the days outstanding will be longer. The sooner the bill goes out the door after the service is provided, the sooner dollars can return to the practice.

Electronic Billing – This is a method of quickly sending bills out to payers in electronic format. Less time is spent preparing invoices and, if the data were entered correctly, the payment should be received promptly.

Clean Claims – If a bill contains erroneous information, such as an incorrect ICD-9 or CPT code, or lacks important information such as progress notes, there will be a delay while the correct information is requested by the payer. Monitor the number of claims that are returned for inaccurate or insufficient information as part of your Process Improvement Program.

Posting Payments – Payments should be posted as soon as possible after being received in order to keep accounting records current.

Posting Adjustments – Adjustments that are accepted should be posted as soon as the decision is made to accept them. This will usually zero out the balance and reduce the total accounts receivable.

Rebilling – Outstanding balances over fifteen to thirty days should be rebilled with the notation 'Balance due over [fifteen or thirty] days.'

Prompt Payment Discount – Offer small discounts to those companies that pay invoices within 30 days. Write off the adjustment right away on receipt of payment.

Collection Policy – A good collection policy sets up a collection procedure that identifies overdue accounts in a timely manner. These accounts must be monitored for payment or sent to a collection agency per your policy.

Bad Debt – Based on a policy decision, write off those accounts where payment is not expected.

Review Credit Policy – Review the credit policy with new clients. Monitor the payment practices of new clients to establish their payment patterns. Monitor existing clients' payment practices and determine if expensive services should be provided to those who are always late in making payments.

Review Service Types in the AR – Check to see if the service types with the longest payment practices are workers' compensation or employer paid. Review the payment requirements for your local workers' compensation program.

What is the Pediatric Benchmark for A/R Days?