

hfma[™]

healthcare financial management association

**Strategies for
Improving the
Revenue Cycle:
Industry Views**

Synopsis

This report highlights the perspectives of 254 financial executives and revenue cycle leaders who responded to the Healthcare Financial Management Association's 2004 Revenue Cycle Survey.

**This white paper was made possible
by an educational grant from
Stockamp & Associates, Inc.**

About HFMA

HFMA is the nation's leading membership organization for more than 32,000 healthcare financial management professionals employed by hospitals, integrated delivery systems, managed care organizations, ambulatory and long-term care facilities, physician practices, accounting and consulting firms, and insurance companies. Examples of members' titles include chief executive officer, chief financial officer, controller, patient accounts manager, accountant, and consultant. HFMA offers educational and professional development opportunities, information on key issues, technical data and networking opportunities, with the ultimate goal being to create a more supportive environment in which members do their business. For more information, visit the Association's web site at www.hfma.org.

Contact: Janice Wiitala, Director of Research, HFMA (jwiitala@hfma.org, 1-800-252-4362, x 365)

Executive Summary

Overview

This white paper provides insight into how members of the healthcare financial services industry are implementing measurable improvements to their revenue cycle. The views expressed in this paper were compiled as part of a Revenue Cycle Survey conducted by the Healthcare Financial Management Association. Two hundred and fifty four people responded to the survey, including 163 financial executives and 91 revenue cycle leaders. Respondents provided valuable feedback on various areas of the revenue cycle – ranging from how environmental issues will impact their organization’s revenue cycle, to future opportunities that will improve net patient revenues.

What the survey reveals is that financial executives and revenue cycle leaders are beginning to take advantage of the many opportunities to improve their organization’s revenue cycle, but there are many more opportunities within the revenue cycle that remain largely untapped.

Tapping into such opportunities requires effective strategies, such as changing the reporting structure of managers involved in the revenue cycle, or increasing point of service collections. This report aims to provide members of the healthcare financial services industry with tools and strategies to help them improve their revenue cycle, leading to better financials, happier employees, and more satisfied patients.

“Revamping and being aggressive on contracting strategies, including push on charge-based or DRG methodology, carve-out for various high dollar services, separate payments for implants, lower dollar thresholds for outliers, etc., has resulted in about \$15M of increased reimbursement. We found we only were taken seriously when we terminated contracts. You have to be willing to walk.”
— 2004 Revenue Cycle Survey Respondent

“A review of our chargemaster assisted us in correcting coding problems, and a compliance checker system helps to keep us from performing unpaid tests or procedures for Medicare. Fast turnaround of coding and billing helps to minimize bad debts and improve collectibility, as well as improve cash flow. Net days in A/R currently are at 50.8, which is about \$1,000,000 below our system guideline.”
— 2004 Revenue Cycle Survey Respondent

“We just posted the highest cash collections in the hospital’s history and the lowest gross bad debt in our history by reengineering our revenue cycle. We added 13 FTEs, purchased technology, and are in the process of outsourcing self-pay collections and low-balance third party accounts. This has been a massive project involving multiple steps.”
— 2004 Revenue Cycle Survey Respondent

Business Challenge

The revenue cycle is at a crossroads. According to survey results, respondents indicate moderate one-time revenue gains, income statement improvements, and annual recurring improvements, as well as modest future opportunity for one-time income statement improvement and annual recurring improvement. Where respondents see the most area for opportunity, however, is annual, recurring improvements.

“When we consider the survey results, most hospitals have found ways in which to capture one-time improvements to their revenue cycle, or the low hanging fruit of the revenue cycle, and they find themselves in a position to move beyond one-time opportunities and capture recurring improvements.”
— Janice Wiitala, Director of Research, HFMA

HFMA is also observing trends in measures of revenue cycle performance. When asked to rate the most important measures of revenue cycle performance, respondents indicated: revenue/cash flow, receivables/days in AR, bad debt/write-offs, denials/underpayments, and performance by payer/contract performance as the measures that are most important to their organization.

Additionally, financial executives were most likely to cite receivables or days in AR as their top measure, whereas revenue cycle leaders were more likely to cite revenue or cash flow as most important.

“We haven’t gone to cash realization as a replacement for days in AR, in part because days in AR has been a problem for a long, long time. So if I said, “We’re not going to measure days in AR anymore,” I don’t think that that would go over too well. Maybe at some point when we have a better level of days in AR and we want to move to another measure I could do that, but for right now I’ve got to report days in AR.”
– Roger Roux, CPA, chief financial officer at Children’s Hospital and Health Center

It’s also interesting to note what efforts are having the most impact on the revenue cycle. When asked to rate level of impact, respondents indicated that process improvements/reengineering in targeted areas and training/personal development were the most likely to have had a high, measurable impact on their revenue cycle performance. Forty-seven percent of respondents, for example, indicated that providing staff in-service and training has helped to increase staff competencies, in turn benefiting the overall revenue cycle.

“Staff training and cross-training has helped to ensure that the front-end registrars understand the back-end collections, and vice-versa.”
– 2004 Revenue Cycle Survey Respondent

“Our billers have all been trained to look at claims and identify possible missing charges and then work with the departments to get charges added.”
– 2004 Revenue Cycle Survey Respondent

In the future, maximizing the revenue cycle will require organizations to integrate their revenue cycles, bringing together the clinical and financial sides, and moving beyond the “low-hanging fruit” of the revenue cycle and into more sustainable operations.

For many organizations, this will present a challenge.

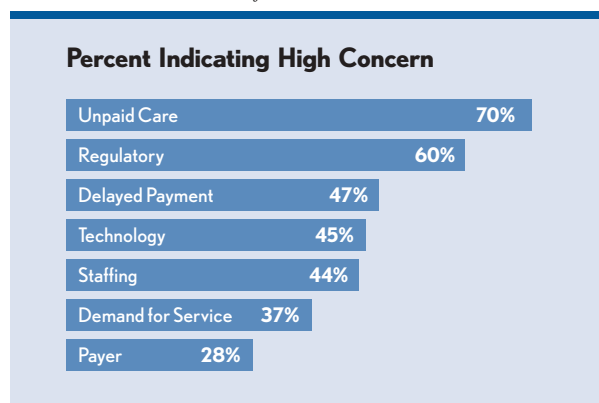
Concerns

Revenue cycle leaders are struggling with tighter budgets, increasing scrutiny over billing and collection practices, new legislation, rapidly evolving technology, and payers’ changing rules. Dealing with rising uninsured and underinsured patients, shrinking reimbursements, and rising costs will amplify this challenge.

According to respondents, environmental issues that are most likely to impact their organization over the next five years include unpaid care (e.g., write-offs, bad debt), policy/regulatory issues, and delayed payment for services.

Issues that are of lesser concern to respondents include changes in the payer market, and recruiting and retaining quality staff.

Exhibit 1. Future Trends of Concern

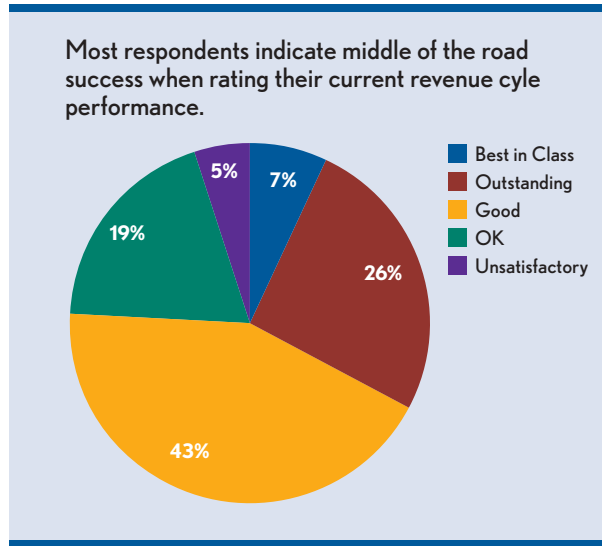


Solutions

In Their Own View

When asked to rate their organization's current revenue cycle performance, the majority of respondents (76 percent) rated themselves as good, outstanding or best in class, whereas only 24 percent rated themselves as OK or unsatisfactory.

Exhibit 2. Self Assessment



Furthermore, revenue cycle leaders rated their recent success as only slightly higher than financial executives, and respondents working in larger hospitals were more likely to rate their revenue cycle performance higher than those in smaller hospitals.

Exhibit 3. Revenue Cycle Leaders Rated Recent Success Only Slightly Higher than Financial Executives

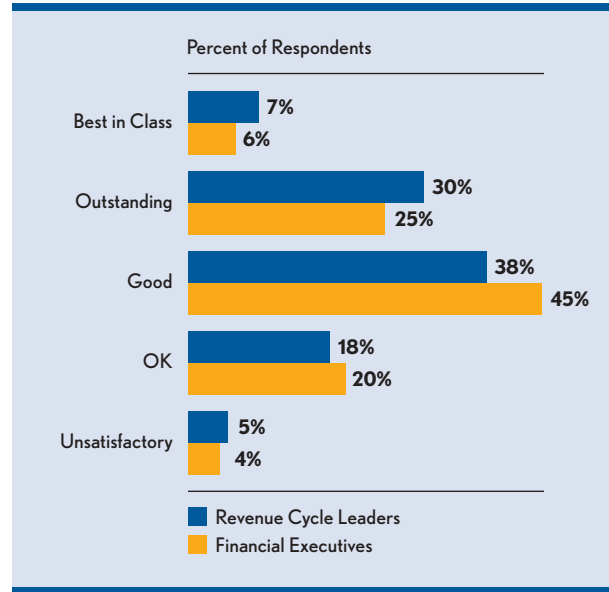
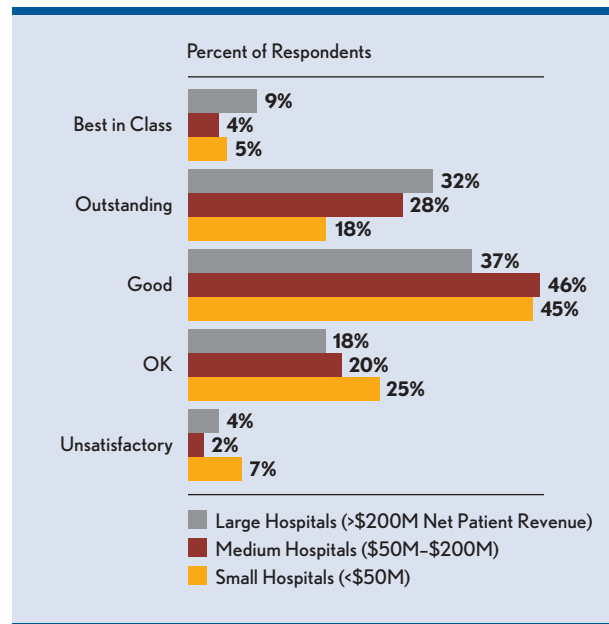


Exhibit 4. Respondents in Larger Hospitals were More Likely to Rate their Revenue Cycle Performance Higher than Smaller Hospitals



These findings indicate that mid- to large-sized hospitals' performance is tied to their access to a broader pool of resources than smaller sized hospitals, making it more likely that they will implement necessary improvements to their revenue cycle.

It is also evident from the survey results that the size of a hospital impacts the areas of the revenue cycle where revenue cycle leaders and financial executives place their focus. Larger hospitals are more likely to focus on overall effort, whereas mid-sized hospitals are more likely to focus on things such as revenue capture and pricing.

Exhibit 5. Future Areas of Focus

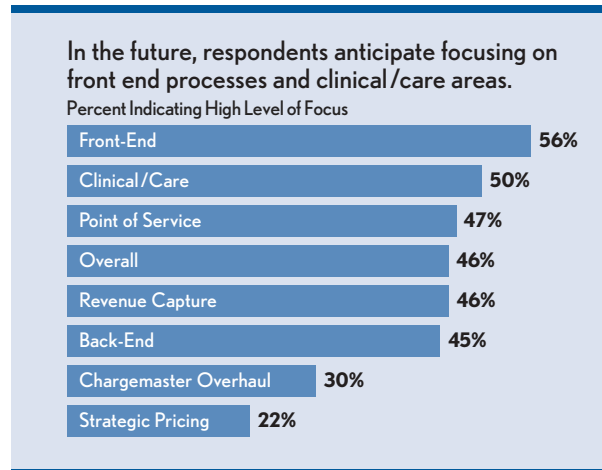
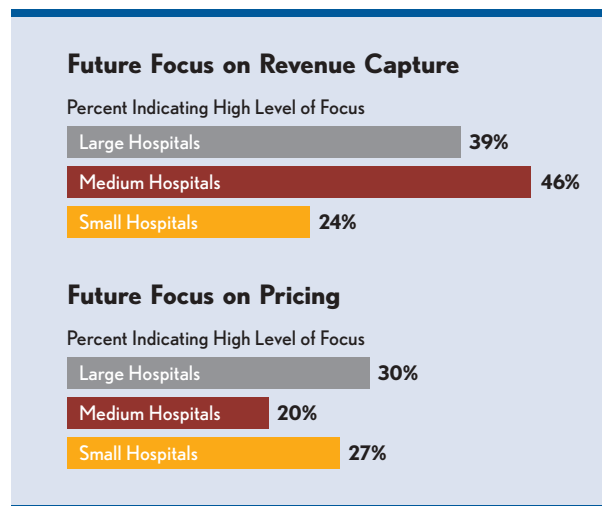


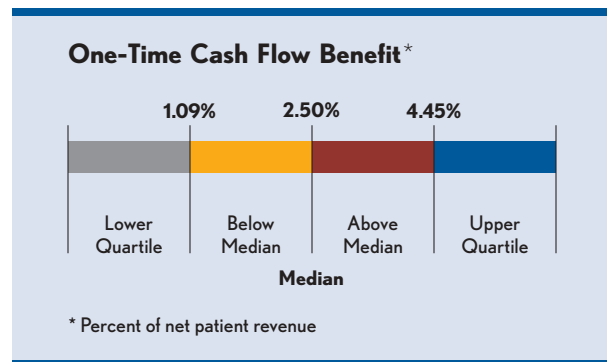
Exhibit 6. Size Impacts Area of Focus



Financial Successes

Over the last three years, revenue cycle leaders and financial executives indicated moderate one-time revenue gains. The median response to the one-time cash flow benefit (as a percent of net patient revenue from revenue cycle improvements) was 2.5 percent.

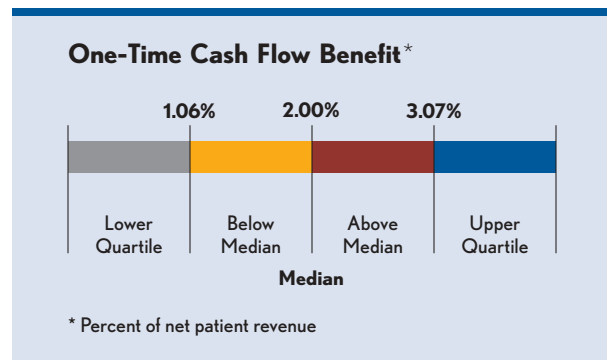
Exhibit 7. One-Time Cash Flow Benefit as a Percent of Net Patient Revenue



Note: Lower quartile is not necessarily lower performance. It is more likely that those who are measuring or focusing on metrics are higher performers comparatively.

On a similar note, respondents indicated moderate one-time income statement improvements and annual recurring improvements. One-time income statement improvements (as a percent of net patient revenue) generated a median response of 1.27 percent, whereas annual recurring improvement (as a percent of net patient revenue) resulted in a median response of 0.83 percent.

Exhibit 8. Future Opportunity



Respondents were also asked to estimate future opportunities to improve net patient revenue over the next one to three years. Here, also, respondents estimated moderate future opportunities for one-time cash flow, one-time income statement, and annual recurring statement to improve their net patient revenue.

“It’s startling that the majority of respondents did not provide data on income statement improvement achieved to date and anticipated future income statement improvements. Organizations should be paying attention to, measuring, and building accountabilities here. In our experience, those who are focusing on improvements to the income statement are experiencing a recurring benefit equal to 2-4% of their annual net revenue.”
 – Dale Stockamp, President, Stockamp and Associates

Revenue Cycle Challenges

Respondents also noted that they have struggled with implementing certain projects aimed at improving the revenue cycle. Implementing an IT or vendor solution without the resources required to support processes/ systems, adequate return on investment, and appropriate selection process, for example, is one area where respondents reported concern.

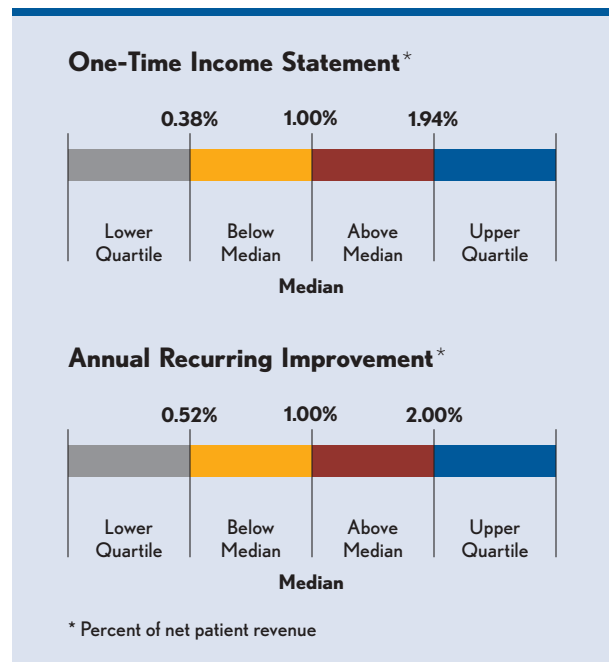
Implementing registration or check-out procedures in the ER has also been problematic for some, primarily because it can be difficult to build clinical, physician, or other stakeholder buy-in, and due to resource constraints (e.g., staffing.)

Other areas where respondents cited unsuccessful efforts or projects included structural changes, and building clinical, physician, or other stakeholder buy-in to process improvements.

Future Opportunity

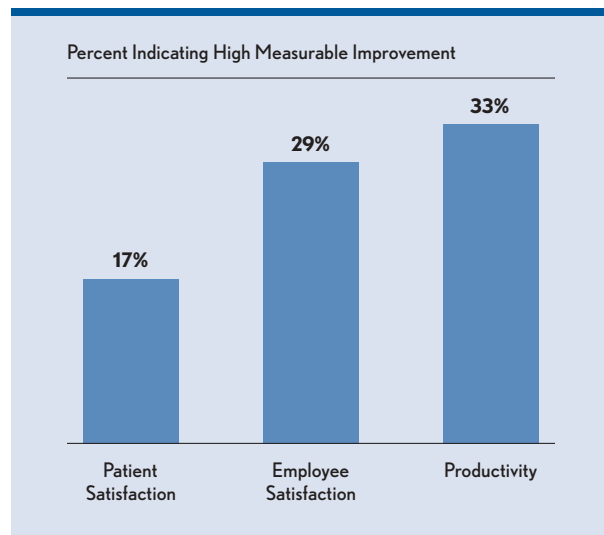
Whereas respondents see less opportunity for future improvement in one-time cash flow and one-time income statement improvements, they see more opportunity for annual, recurring improvements. The data supports this finding: the median response for actual one-time cash flow benefit was 2.5 percent, whereas the median response for future opportunity was 2 percent. However, the median response for actual recurring income statement was .83 percent, whereas the median response for future opportunity was 1 percent.

Exhibit 9. Future Opportunity



Respondents also indicated higher measurable impact in productivity measures versus satisfaction measures.

Exhibit 10. *Other Measurable Success*



Greatest Measures of Revenue Cycle Improvement

We know that there are many ways in which to measure improvements to the revenue cycle. Respondents cite the following as the most important:

- Receivables/Days in AR
- Revenue/Cash Flow
- Bad Debt/Write-Offs
- Denials/Underpayments
- Point of Service Collections
- Discharge Final Not Billed
- Productivity
- Access/Registration Performance
- Performance by Payer/Contract Performance
- HIM/Records Performance

From an industry perspective, we are noting more performance measurement by area. For example, more people are considering patient access and registration performance as factors in revenue cycle improvement. They are looking at the accuracy and completeness of information captured at the front-end of the revenue cycle, which impacts their ability to capture charges. Whereas managing AR used to mean managing receivables, today it entails managing the revenue cycle.

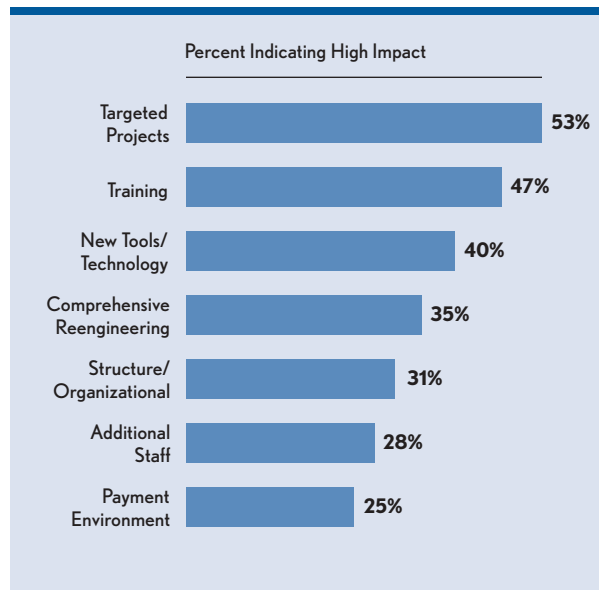
“I report the cash collections from all the different units. It’s been an amazing thing once it’s published out to the entire leadership, it gets so much attention. This past year we just blew out cash collections goals that we never thought we would make.”

– Melanie Van Winkle, CPA, corporate controller for Palomar Pomerado Health

Efforts Leading to Impact

Various approaches, ranging from training and development to new technology and tools, are impacting revenue cycle operations. When asked to rate the impact of varying approaches on their revenue cycle operations, respondents indicated that process improvements and reengineering in targeted areas, as well as training and personnel development, were the most likely to have had a high, measurable impact on their revenue cycle performance.

Exhibit 11. *What Efforts Have Led to Impact?*



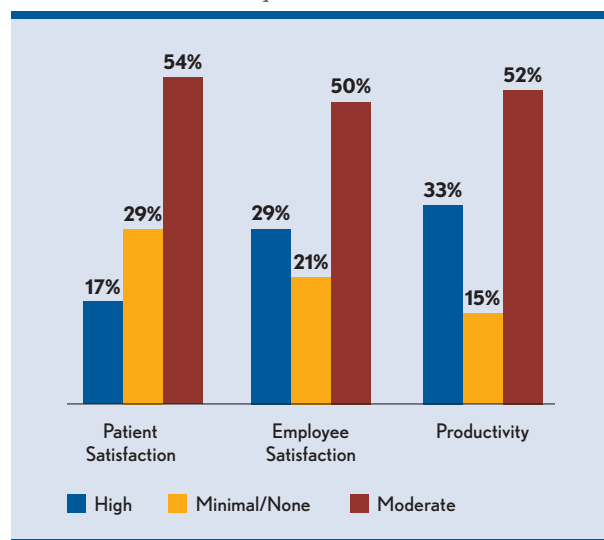
One of the most interesting findings in this area was that training and staff development is having such a profound impact upon the revenue cycle. Forty-seven percent of respondents indicated that training is having a high, measurable impact on their revenue cycle performance.

Other efforts included new tools/technology, comprehensive engineering, structure/organizational changes, additional staff, and payment environment. When asked to share specific, successful projects, respondents were most likely to cite efforts in changes in structure (i.e., changing or adding a position, or forming a committee; projects aimed at reducing denials and underpayments; improved accuracy and collection of comprehensive data in pre-access, access and registration areas; increasing point of service collections; and providing staff in-service and training to increase competencies.

Even when we combine moderate and high responses, we arrive at a similar conclusion – with training/development and targeted improvements topping the list.

Finally, respondents indicated only slightly higher measurable impact in productivity measures versus satisfaction measures.

Exhibit 12. Measurable Impact?



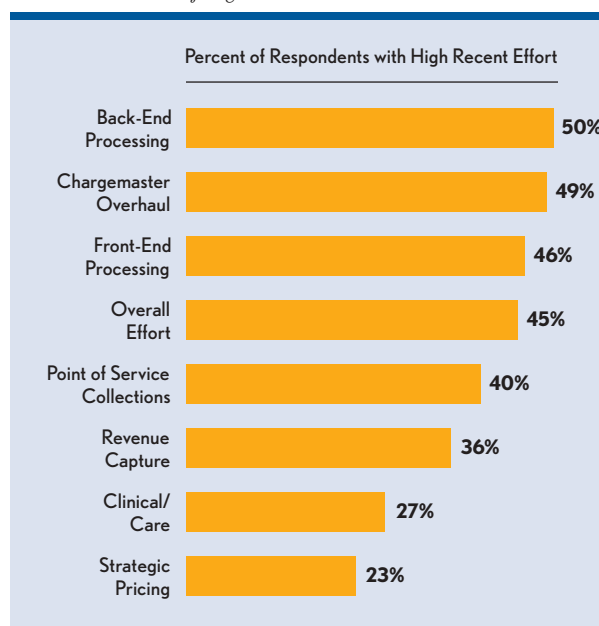
Areas of High Recent Focus

Respondents were also asked to rate their recent investment of time and resources in various aspects of the revenue cycle. From the responses, we can conclude that most recent effort has focused on back-end process

improvements, chargemaster, and front-end processing, with less effort noted in strategic pricing and clinical/care processes (e.g., documentation, training and coding.)

For example, nearly 50 percent of respondents said that they have devoted high effort recently to the chargemaster overhaul. This is one area that can prove tremendously helpful in improving the revenue cycle, by eliminating errors to the chargemaster and ensuring that all charges are accounted for.

Exhibit 13. Areas of High Recent Focus



HFMA also observed that larger organizations were more likely to invest effort overall, whereas mid-sized hospitals were less likely to focus on pricing, and more likely to focus on revenue capture.

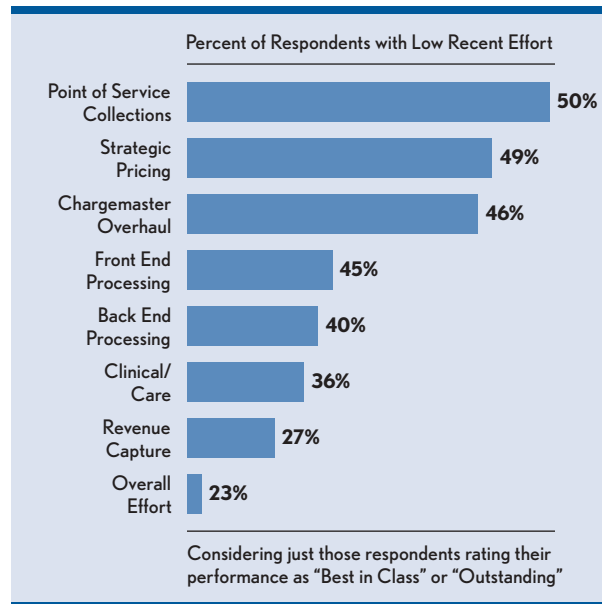
“Focusing on areas for deeper impact is particularly challenging for organizations, since they require the elimination of traditional silos and merging financial areas with operational and clinical sides.”
 – Scott Johnston, technical director, HFMA

We also observed that, among those respondents who rated their performance as “best in class” or “outstanding,” those respondents focused higher efforts on back-end processes, chargemaster, and front-end processes.

Low Recent Effort

Respondents indicated that they are placing less effort in areas such as strategic pricing and clinical/care processes (i.e., documentation, training and coding). Interestingly, respondents who rated their performance as “best in class” or “outstanding” indicated lower effort in many of the same areas.

Exhibit 14. *Low Recent Effort*



Areas of Future Focus

In the future, respondents anticipate focusing much more on front-end processes and clinical/care areas. Respondents rated their anticipated future investments of time and resources in the following order: front-end processes (56 percent), clinical/care areas (50 percent), point of service (47 percent), overall future effort (46 percent), revenue capture (56 percent), back-end processes (45 percent), chargemaster overhaul (30 percent), strategic pricing (22 percent).

Summary

Many PFS leaders have captured the “low-hanging fruit” of the revenue cycle. They see less opportunity for future improvement in one-time cash flow and one-time income statement improvements, and more opportunities for annual, recurring improvements.

In order to move beyond the one-time improvements, it is essential that CFOs and PFS leaders align their goals and strategies with those of clinical and operational areas of the organization. This will require those in the financial services industry to establish stronger relationships with operations, and to create lasting synergies between operations and clinical areas.

For example, financial executives and revenue cycle leaders may have succeeded in processing all of their old accounts, but what they should focus on now is working with clinical areas to make sure that they are capturing all of their charges. Charge capture is a recurring opportunity that can have a very positive impact upon the revenue cycle; however, it is often overlooked because financial leaders are more focused on the one-time revenue cycle opportunities.

HFMA believes that delving deeper into operations will require revenue cycle leaders to cultivate better relationships with those in clinical areas, thus lessening the gap between clinical areas and operations.

“You have to have tools that managers can use to access their revenue data daily. You have to set an expectation that somebody in the department is reconciling charges and making sure of the basics: every patient is getting charged, every bill is getting dropped. Once a department manager really understands how they impact the bigger picture and you give them the tools, they are very successful. They dig in and they make the changes they need to make.”

– Kari Cornicelli, FHFMA, CPA, vice president and chief financial officer of Sharp Grossmont Hospital in La Mesa, CA

What's Working

According to those surveyed, the following efforts are having the greatest impact upon the revenue cycle. Here's what respondents are saying about what's working for them:

Changes in Structure:

"By switching the patient registration staff from the client area to the finance area, we are now able to better communicate with the registration staff. This has reduced the number of our denials, because the registration staff are more in tune to the effects of denials on the cash flow of the center."

"We restructured the reporting structure of managers involved in the revenue cycle, which resulted in greater financial accountability and a 45 percent reduction in HIM uncoded accounts now that HIM reports to Finance."

"We created an 'Appeals & Denials Unit.' This helped to eliminate an outside vendor which was costing us over \$1 million per year. We now average about \$700,000 in recoveries per month, but our costs are only approximately 3 percent."

Reducing Denials and Underpayments:

"We created a systematic approach to recovery of underpayments. Started out outsourcing then purchased a system. Recovered \$10M over several years."

"We created a structured denials management process utilizing a nurse denials coordinator.. reduced denial write offs by 20%."

"I highly recommend that organizations focus on underpayments with greater emphasis than on denials. Our efforts have proved to be 6 to 7 times more effective."

"We monitored denials in our sub-group. We focused on the 2 highest \$ amounts for the most impact. We put a few new procedures in place and our denials have decreased 80% in those areas."

Pre-Access, Access/Registration Areas:

"Each registration and pre-registration employee receives a daily report with his/her identified errors. The employee must correct it, usually within 24 hours, and prior to downstream

Medical Record or Billing department delays. The system is automated and objective. Supervisors address trouble spots. We have seen dramatic improvement in error rates."

"I have recently opened a Reservation Center that allows the associates to schedule appointments, register the patient, verify insurance benefits, and check for LMRPs."

Point of Service Collections:

"Implemented upfront pre-registration program that includes co-pay collection and increased financial counseling prior to services. This has resulted in an increase in cash collections of 4.2% and reduced billing costs by 32%."

"Two years ago our average POS collections were \$30K/month. We track and report collections down to the employee level. This gave us the ability to goal-set and monitor performance by supervisor, area, and employee. When it comes to staff performance, we get what we monitor, and monitoring at that level allowed us to implement a fair incentive plan linked to individual performance. The results? Last month we collected \$130K. Yearly impact to the bottom line: \$1.2 million additional dollars we don't have to bill for. Then there is the labor cost we save on reduced after-service billing and collections."

Staff Training:

"We provided education of administration, directors and department managers as to how and why the hospital is denied payment for services they provide in good faith and how they can affect the reduction of those denials. We also showed how and why accounts go uncollected and how they could also affect a reduction in that category by better communications with our credit department and our patients."

"Staff training and cross-training has helped to ensure that the front-end registers understand the back-end collections and vice-versa."

"Our billers have all been trained to look at claims and identify possible missing charges and then working with the department to get charges added."

About the 2004 Revenue Cycle Survey

The survey was sent to 1,800 financial executives and revenue cycle leaders, with 254 responses (response rate 21 percent).