



## Improve Revenue Cycle to Improve Key Financial Ratios

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#### *About the author:*

John Freeman provides ongoing consultation to hospital CFOs in the southern and western regions of the United States. Freeman has more than 25 years experience in healthcare financial management, including previously serving as AVP of Finance for Ardent Health Services where he oversaw medical surgical hospitals and physician practices. He has also served as CFO for hospitals located in Florida and West Virginia. Freeman earned his Master's degree in Business Administration from Berry College and a Bachelor's degree in Business Administration/Accounting from Kennesaw College. He is also a Certified Public Accountant.

For more than 40 years HealthTech Management Services™ (HTMS) has worked with critical access, district and acute care hospitals across the United States to help them improve financial strength, build professional excellence, and grow to meet the needs of their community. HTMS provides management support services, delivering operations support, supply chain savings, accountability, and new strategic direction. HTMS also offers focused, consulting services for hospitals that require immediate help with financial restructuring, clinical quality, or operating performance. HealthTech Management Services also offers physician recruitment and executive placement services to help your organization recruit and retain qualified healthcare

## Introduction:

Successful Revenue Cycle management is essential to maintain the best financial position for any organization. Financial leaders working with healthcare providers face major threats to financial security for the respective systems. Financial leaders have no direct control over revenue streams which in most cases depend upon patients seeking care and providers referring patients to a facility. The rates which are paid are subject to ever-changing, complex governmental regulations and market forces. Now more than ever there is a need to collect one hundred percent of payments, and consistently focus the necessary attention and resources required for timely collection of all reimbursement.

Financial statements report an Organization's financial position. The statements are analyzed by many groups and individuals for various reasons. Governing boards, federal, state and local officials, creditors, journalist and many others use financial statements for their specific purposes such as meeting fiduciary responsibilities, testing for contract compliance, informing the public about the use of tax funds, and others. Financial statements users consider an organization's financial position when making decisions which may include approving capital financing, awarding donations, entering into professional services contracts, and other matters critical to continued success. An organization's financial position can be improved by assuring the processes to convert a patient encounter into cash are succinct, up-to-date, and are being followed by users.

Financial results are reported in many formats. Reports generally include comparative Income Statements, Balance Sheets, Cash Flow Statements, Key Statistical Indicators and Ratio Analysis. On the income statement gross revenue, deductions from revenue, net revenue, and operating expenses are all representative of the Revenue Cycle performance. On the Balance Sheet, current assets and current liabilities are directly affected by revenue cycle performance. Increases or decreases in cash on hand and net accounts receivable totals certainly reflect results of revenue cycle performance. Current liabilities cannot be paid quickly if the cash is not collected as soon as possible.

Many Key Ratios which are reported to governing bodies, capital partners, and other interested parties are directly impacted by Revenue Cycle results. Key ratios affected and regularly evaluated by lenders, rating agencies and other financial statement users include:

### Ten Examples of Key Ratios Sensitive to Revenue Cycle Results

- 1. Contractual Allowance Percentage – represents the percentage of gross charges that are uncollectible due to mandated or voluntary contractual discounts. Reducing this percentage increases profitability. Monitor and investigate significant changes from reporting period to reporting period. Lower values are favorable.**
- 2. Bad Debt Percentage – represents the percentage of charges that are uncollectable due to a variety of reasons including ineffective Revenue Cycle processes. Bad debt expense reduces profitability. Lower values are favorable.**

3. **Operating Margin** - measures the health systems profitability with respect to patient care and related operations. Higher margins indicate a financially stable system. Higher values are favorable.
4. **Cash Flow Ratio**-Provides a margin of total cash generated in any given year. Higher cash margins are one indication of good financial management and are attractive to lenders and other business partners. Higher values are favorable.
5. **Collections % of Net Revenue**- represents the percentage of Net Revenue which is actually collected. Targets should be 100% or higher. Recovery of prior period bad debt improves this percentage. Higher values are favorable.
6. **Days Cash on Hand** – represents the number of days the hospital could operate without additional cash receipts. Higher days cash on hand is one indication of good financial management; cash on hand is attractive to lenders and other business partners. Higher values are favorable.
7. **Gross Days in Accounts Receivable**- represents the number of days of patient gross charges that is tied up in unpaid accounts, including charges posted for in-house patients. Lower values are favorable.
8. **Net Days in Accounts Receivable**- represents the days of net patient revenue (collectable cash flow) that is tied up in unpaid accounts. Lower values are favorable.
9. **Average Payment Period**- measures the average time that elapses before current liabilities are met. Lower values are favorable.
10. **Current Ratio**- a measure of the hospitals liquidity and ability to meet short term liabilities utilizing short term assets. Higher values are favorable.

The results of the performance of Revenue Cycle processes for each hospital, physician practice, nursing home, etc. have a major influence on the results reported in the Financial Statements.

## Conclusion

Many financial statements users analyze financial ratios and make decisions which have significant impact on an organization's future. It is essential to have a clear understanding of the financial statements and ratios as well as managing the processes that affect results. It is critical to assign the proper resources to the timely collection of reimbursement due for services rendered.

Each hospital and health system should have various teams and committees working to assure meaningful and pragmatic Revenue Cycle processes. Financial officers provide strong leadership support and guidance to assure understanding of the importance of financial viability and ultimately a successful organization. Financial advisers should actively participate in team meetings and routinely visit with the department staff who do the work. An ongoing education process begins with the basics.

1. Assure a clean claim focus by all departments; not just admitting.
2. Spend time in the registration and clinical areas communicating with staff involved.

3. Perform routine review of registration data and charge capture reconciliations.
4. Demonstrate and reinforce the use of appropriate technology applications.
5. Monitor denials and focus on current issues causing them.
6. Bill quickly and efficiently and monitor the discharged unbilled reports each day.
7. Manage collector productivity throughout the day.
8. Track cash collections each day; provide updated cash collection goals each week.
9. Provide continuous feedback to staff regarding results such as % clean claims, % cash collections, denials overturned, etc.
10. Recognize and when possible reward success when goals are met.

Promote a culture of cross-departmental communication and education regarding Revenue Cycle throughout the organization. When communication barriers are minimized, one will realize improved process results. When revenue cycle processes improve, the result is a corresponding improvement in financial statements.

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