DASHBOARD INDICATORS:
KEY VITAL SIGNS THAT DRIVE PROFITABILITY

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The business of medicine grows more complex every day. Physicians are faced with regulatory and compliance, personnel, and quality care issues. Reimbursement continues to decrease while operating expenses – especially malpractice and employee benefits, continue to escalate as profit margins decline. Physicians are working harder today just to maintain their compensation levels.

Medical practices incur additional costs to comply with the reporting requirements for HIPAA and CLIA. The upcoming pay-for-performance programs that will be implemented by Medicare, as well as most of the other major insurance carriers, will make the reporting requirements even more demanding and costly. Physicians operate in an economic climate that they never imagined when they were in medical school and training. To be successful, they must run their practice as a business.

VITAL SIGNS

The key to operating a profitable business is to examine the performance and financial indicators of the practice – or its *Vital Signs*. These indicators are as important to the life of a practice as a patient's vital signs are to his/her medical history.

Physicians have to keep their finger on the financial pulse of their practice. The practice's vital signs will project how the practice as a whole, as well as its providers will perform. Ignoring its vital signs, as well as the warnings that they can provide can be detrimental to the financial health of a practice.

There is a tremendous amount of information physicians can get from their practice management systems, electronic medical records, accountants, and advisors. The key is to identify and track the indicators that provide the most valuable information about your practice and focus on them. These include productivity, billings and collections; practice overhead, staffing, patient demographics and referrals; and financials. All of these indicators should be analyzed to identify trends and changes over time. It is short-sighted to look at any measure for a single period or time frame because it will not have as much meaning as comparing data to a budget or past performance.

PRODUCTIVITY

Productivity measures the performance of your providers. There are several options for measuring provider productivity and they all have their advantages and disadvantages. Charges have typically been used as one measure of productivity, but they may not be valid for some practices due to coding variations, differences in practice patterns, and fee schedule increases. For example, an increase of 12% in charge volume may seem to be a positive sign, but it does not look as good if there has been a 15% increase in the practice's fee schedule. Charge units can also be used to measure productivity, but they may not be as valid when you have practitioners that perform different types of services in the same practice, such as invasive and non-invasive cardiologists. Revenue is a commonly used indicator of productivity; however, it may not be appropriate if more senior physicians in the practice have a different payer mix than junior physicians. Practices should consider utilizing Work Relative Value Units (RVUs) as the only fair measurement of actual work effort.

Productivity indicators that are important to each practice differ depending upon its specialty. Primary care practices may be more concerned about the number of patient visits while surgical practices want to analyze the number of operations performed. X-ray facilities, laboratories, and physical therapists need to measure the productivity indicators that are applicable and important to their specific services.

A monthly productivity snapshot can be utilized to compare the current month to the same period in the prior year, as well as current and prior year-to-date data.

Billings and Collections

When it comes to analyzing billing and collection vital signs, practices should start by looking at lag times. A lag time represents the difference in time between the date-of-service and the date-of-charge capture. This can be an important indicator of problems in your practice which can have a significant impact on the health of your revenue cycle. Practices should strive for a date-of-service lag time of less than 24 hours for office charges and less than 72 hours for hospital and surgical charges.

Practices often overlook the importance of examining their denials from insurance carriers. Denials can be a result of practice errors or insurance company errors. Practice problems may include coding errors or incorrect demographic and insurance data. These denials should be categorized and reviewed daily to correct the specific problems, as well as any process or information flow in your practice that is causing the incorrect information to be on the claim. Clean claims can drive the cash flow of your practice.

Analyzing accounts receivable (AR) can assess the effectiveness of your billing practices and identify insurance specific issues. AR should be analyzed by payer and age, such as the percentage of claims that are greater than 90 days old. The Medical Group Management Association (MGMA) and specialty societies have data that can be used for comparative purposes.

The net collection ratio is another indicator of the effectiveness of your collection efforts and billing staff. This ratio measures the percentage of revenue collected of net charges (charge less contractual allowances). Practices should strive to be in the high 90% range for this measure.

Reimbursement by CPT code can help a practice determine whether they want to continue participating with certain insurance carriers. Reimbursement from each insurance company should exceed your cost; especially for vaccines, immunizations, and chemotherapy where you have significant out-of-pocket expenses.

PRACTICE OVERHEAD

An analysis of your overhead expenses will identify how much money is available for physician compensation and benefits. You should include all of the expenses of your practice and then deduct provider, compensation, taxes, benefits and perquisites. The remaining expenses equates to the practice overhead. Measuring overhead allows a practice to determine if they are functioning efficiently. Practices should develop and utilize a budget to insure that expenses are carefully managed. If a practice is underproductive, the overhead will appear artificially elevated.

STAFFING

For most medical practices, staffing is the highest expense as a percentage of total revenue. It is critical to avoid focusing only on the dollars spent for staff salaries and benefits. Some practices are overstaffed but may be paying low wages, while other practices may be understaffed but are paying high wages. A staff analysis can be performed by converting staff to a full-time equivalent (FTE) basis. You can then compare FTE staff to FTE providers and benchmark your practice specialty to industry surveys.

PATIENT DEMOGRAPHICS AND REFERRALS

It is important to know the demographics of your patient base. Where are your patients coming from geographically? If your office needs to relocate or if consideration is being given to a satellite facility, where should it be located? What is the age distribution of your patients? Is your practice aging out and not seeing an influx of new younger patients? If you have a pediatric practice, are you seeing more newborn patients?

What is the gender distribution of your practice? Should consideration be given to gender based services as part of patient retention and marketing? What is the diagnosis make-up of your practice? Knowing the answers to these questions will help to identify niche patient groups that you can market to and new services that your practice should offer.

How do patients get referred to your practice? This is a very important indicator that is often overlooked. Patients are typically referred by existing patients, hospital nurses and other physicians. Keep track of the source of your referrals and target your marketing efforts to these certain physicians or groups. Changes in referral patterns should be addressed quickly to ensure a steady flow of new patients.

FINANCIALS

Financial indicators include cash flow, profit and loss. Few practices analyze cash flow to ensure that there is sufficient cash to cover operating expenses and expenditures. Practices should develop a cash flow budget in addition to an operating budget.

Seasonal changes, such as the Medicare deductible period, can have a significant impact on cash flow. Establishing a line of credit will help your practice through these periods if cash is tight.

A practice should look at its profit and loss regularly in comparison to previous years to see how money is being spent. The MGMA Cost Survey can be used to compare your expenditures to other practices in your specialty, as well as variances in expenses.

Profit and loss means different things to different types of legal entities. A "C" Corporation must distribute all income prior to year end or it may have to pay Federal and state income tax. In the case of an "S" Corporation, partnership or LLC, the income flows down and is reported on the owners' individual tax return which impacts their personal tax situation.

DRIVING CHANGE

A careful analysis of your vital signs and key indicators can provide insight to where improvements need to be made to insure the financial health and continuation of your practice. After changes have been implemented, continue to measure and modify your goals and plans for the future based on the new information.

It is important to share this data with the physicians in your practice, as well as your entire staff. This will help to establish measurable and attainable practice growth goals.

As the population of our country ages, the demand for medical services will continue to increase. Examining and tracking your vital signs will be the key to your financial success.

ABOUT COWAN, GUNTESKI & CO., P.A.

As one of the leading accounting and profitability consulting firms for physician practices, Cowan, Gunteski & Co. understands the importance of your vital signs to your financial health. Contact Deborah Mathis, CPA, CHBC, Director, Healthcare Services Group at 732-349-6880 ext. 114 (dmathis@cowangunteski.com) or Michael Lewis, MBA, FACMPE, Director of Healthcare Consulting at 732-349-6880 ext. 147 (mlewis@cowangunteski.com) for information on how you can establish key financial indicators for your practice.

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