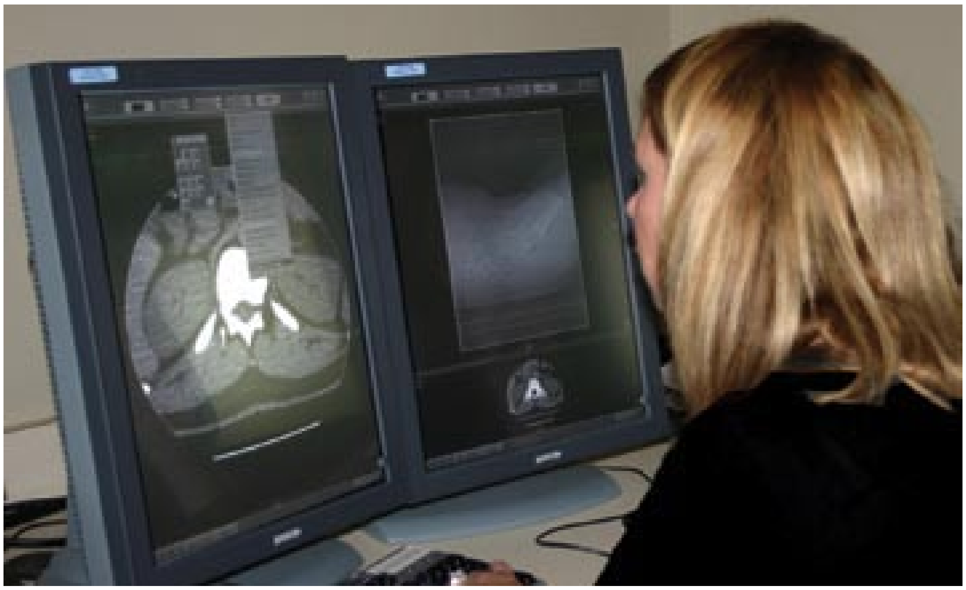
The Bottom Line:

Is your Practice Optimizing Revenue?



You will never be sure unless your practice adopts a financially sound method for calculating a proper gross revenue budget. Once a budget is prepared, actual collections should be compared to the budget each month and variances should be explainable. You should never base expected revenue on past performance. The method used should use practice data elements to independently calculate the revenue budget. If you base the budget on last year's revenue, you may be simply perpetuating last year's errors or inefficiencies. You could be overlooking existing problems in your billing operation. Without proper analysis, problems can go undetected and lead to significant loss of revenue. Advocate uses two methods to calculate how much revenue a practice should generate. We use these two different approaches simultaneously to look at the practice from different financial perspectives and to validate the revenue expectation. These approaches use not only historical billing data elements but also data from other sources specific to the practice.

The first method, the payclass approach, uses the practice payclass, volume of procedures, and dollars charged (as illustrated in Exhibit 1). The second method, the collection analysis approach, uses the practice charges, accounts receivable, net payment, and contractual write-offs (as illustrated in Exhibit 2). The contractual write-offs should be determined based on the contract and federal programs, not by historical write-offs. The latter method not only projects what the practice should collect but also analyzes current performance.

The results obtained from these two calculations should be very close and will indicate optimal collections for the practice. The final result obtained should be the practice's revenue budget. Any performance variances from the budget

Payclass Approach

Annual Charges: $16,504,456

Annual Procedures: 159,814

Payclass	% of Practice	Collection Ratio	Budgeted Collections
Self Pay	5.52%	46.7%	425,458
Blue Shield	8.05%	37.1%	492,914
Commercial	14.08%	78.1%	1,814,909
Managed Care	33.37%	46.9%	2,583,035
Medicare	31.14%	29.4%	1,511,009
Medicaid	7.84%	28.6%	370,070
Projected Collections			$7,197,395
Current Collections			$6,247,466
Annual Shortfall			**$ 949,929**
Shortfall Percentage			13.2%

Exhibit 1

should be investigated and explained using the analysis in Exhibit 3.

Collection Analysis Approach

Budgeted Performance	
Beginning Accounts Receivable	$3,438,429
Gross Annual Charges	16,504,456
Less Ending Accounts Receivable	(3,345,585)
Total Adjudicated Claims	16,597,300
Less Contractual Fee Adjustments	9,556,830
Total Collectable	8,040,470
Adjusted Collection Percentage	90%
Expected Receipts	$7,236,423
Current Performance Evaluation:	
Total Adjudicated Claims	$16,597,300
Contractual Write-offs	(9,332,805)
Total Collectable	7,264,495
Adjusted Collection Percentage	86%
Actual Receipts	6,247,466
Expected Receipts	7,236,423
Annual Shortfall	988,957

(Note: The difference in the two calculations is due to the liquidation of accounts receivable in the current year.)

Exhibit 2

If you do not determine the cause of the problem, you cannot correct the issue long-term. Such problems can perpetuate and drive down practice revenue.

You cannot be sure your practice is optimizing revenue unless you adopt a financially sound method for calculating and analyzing annual gross revenue. Once this figure is calculated, actual collections should be compared to the budget each month and variances should be explained. If you rely on last year's data, you likely are perpetuating last year's errors and overlooking existing problems in your billing operation.

Only by systematically quantifying the issue can you determine the extent of the problem, develop effective long-term solutions, or monitor the problem to verify that the solutions you incorporate are being effective.

Budget Variance Analyzer

Annual Procedures	159,814
Average Charge Per Procedure	$103.27
Contractual Write-off Percentage	51.54%
	$50.05
Adjusted Collection Percentage	90%
	$45.04
Projected Annual Receipts	$7,198,253
Actual	
Actual Receipts	$6,247,466
Budgeted Receipts	$7,198,253
Budget Shortfall	($950,787)
Net Decrease in A/R	$92,844
Less Contractual W/O @ 51/54%	$47,852
	$44,992
Collection Percentage @ 90%	90%
Difference Due to A/R Changes	$40,493
Contractual Write-off: Budgeted at 51.54%, Actual @ 56.23%	
Total Adjudicated Claims for Period	$16,597,300
	-4.7%
Reduced Resolved Amount	($778,413)
Adjusted Collection Percentage	90%
Difference due to Contractual Write-off Percentage	**($700,572)**
Adjusted Collection Percentage Budgeted at 90%, Actual @ 86%	
Total Collectable for Period	**$ 7,264,495**
Increase in Collection Percentage	**-4.0%**
Difference Due to Adjusted Collection Percentage	**($290,580)**
Total from Collection Variances	**($950,659)**

Exhibit 3

This result is the true benefit of this type of analysis. Every practice should be evaluated from this perspective, because billing and collections are a significant driving force for physician compensation, recruiting, staffing, and expansion.