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MARK FREERKS

Collections make health care accounting more complicated

BY BRIAN BANDELL

When health care providers calculate the value of their accounts receivable, it can almost be as complicated as performing brain surgery.

As far as accounting goes, few industries have such large discrepancies as health care does between amounts billed for services and what is actually collected. Much of it occurs because of denials from government payers or insurance companies, or patients who can't or won't pay.

When there's a miscalculation, it can prove extremely damaging.

In February, Jackson Health System released an audit with \$50 million in accounting adjustments to reflect shortfalls in cash collections of old bills plus a 6 percent increase in non-paying patients during the fiscal year ended Sept. 30. Along with other changes, that revised the annual loss to \$244.6 million from the previous estimate of \$46.8 million. It also put the public health system in danger of running out of cash – a situation it managed to stave off through layoffs and other cuts.

Miami Beach's Mount Sinai Medical Center had a similar, although smaller, situation in 2001, when its \$65 million loss was caused by a huge write-down in accounts receivable. Alex Mendez, who joined the nonprofit hospital as CFO and senior VP in late 2001, said it rebuilt its revenue cycle team and overhauled its information management. It has not made any adjustments to its accounts receivable projections since.

"No one approach is correct, but the more you challenge yourself, the more accurate your receivables reporting will be," Mendez said.

He started by dividing the department into teams of specialists in areas such as Medicare, Medicaid, commercial insurance denials and self-pay patients. Troubled receivables were handled by a different group of staff members than those processing easily collectable bills. The hospital installed a health information management system to improve coding and track collections. The program predicts collection outcomes for each payer type based on history with the payer.

Mendez said his staff measures the performance against the expectations every month. If there is a sudden swing in the collection rate, he can make changes.

Recognizing a shift in collection trends quickly is crucial. According to Jackson Health's audit, its management did not identify the overstatement of patient accounts in a timely manner. Some of the problems came because of the transition to a new billing and collections system.

Broward Health President and CEO Frank Nask said his public hospital group has been using the same collections system for 10 years without any major restatements of accounts receivable. That's a good accomplishment for Broward Health, which is second only to Jackson Health in providing charity and uncompensated care in South Florida.

At Jackson Health, uncompensated care has been increasing and insured patient volume has declined. But, at Broward Health, Nask said revenue growth from compensated care has outpaced the increase in patients who can't pay because it has invested in new equipment and programs.

Every year, Broward Health does a review to make sure that its cash collections match what it predicted for accounts receivable. It does monthly reviews of more-volatile collections from patients, including copayments and deductibles.

For self-pay patients, Nask said Broward Health estimates a 2 percent collection rate, but it holds cash reserves for 100 percent of the bills.

"The expectations are realistic," Nask said. "We've been pretty on point with our reserves. Probably 70 or 80 percent of the effort that goes into the financial statement is estimating reserves."

For physician offices, self-pay charges are usually collected at a rate of 25 to 35 percent, said Kevin Reynolds, a partner in the tax group of Boca Raton-based accounting firm Daszkal Bolton. He recommends that physician groups review cash collections once a month so they can set expectations.

Reynolds said physician offices should make patients sign a collection policy and make them pay out-of-pocket costs before treatment. If a relatively small amount is due after the fact, he said, it's sometimes better to settle on a lower bill.

"When you factor in the time of a staff person chasing it repeatedly, at some point you are better off taking half than [you are] trying to chase the whole thing," Reynolds said.

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