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# Developing a Strategic Partnership Between Revenue Cycle and Finance

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**Presented by:**
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# Agenda

- Why it Matters
- The Revenue Cycle Perspective
- The Finance Perspective
- Bridging the Gap

# Your Presenter

**RYAN**
**HERR**

CROWE LLP

Ryan is a senior manager in Crowe's healthcare services group with more than eight years of professional experience in finance and accounting-based consulting services. During Ryan's time with Crowe, he has primarily focused on assisting clients with operational and financial improvement initiatives within the net revenue function. Ryan assists clients with streamlining month-end close processes, establishing best practices for ongoing monitoring of financial performance, and improving cross-functional coordination and communication.

# Why it matters

# Why it Matters

A lack of communication or coordination between the revenue cycle and finance departments is one of the most common issues we see across our client base. However, because revenue cycle can have such a significant influence on the financial statements, the two functions are virtually connected at the hip.

Higher performing organizations tend to “bridge the gap” between revenue cycle and finance, although there are numerous barriers to doing this effectively:

- Departments often operate in silos
- Key performance metrics are often misaligned and driven by disparate data sources
- The nature of the finance responsibility is such that fact finding often appears to be “finger pointing”
- Revenue cycle metrics are very closely aligned to cash, whereas finance operates on an accrual basis
- Financial requirements can be interpreted as an impediment to progress

# Polling Question

## What is your scope of responsibility in your current role?

A
Net Revenue Reporting

B
Third Party Reimbursement and Cost Reporting

C
Revenue Cycle

D
General Accounting/Finance

E
Other

# Revenue Cycle Perspective

# Revenue Cycle Perspective

**Front End of the Revenue Cycle**
**(Patient Access):**
Prior to patient receiving service

→

**Middle Revenue Cycle**
**(Clinical Revenue Management):**
Patient stay and interaction with provider

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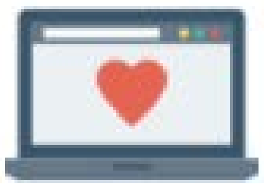

**Back End of the Revenue Cycle**
**(Patient Financial Services):**
After patient receives service and is discharged

"All administrative and clinical functions that contribute to the capture, management, and collection of patient service revenue."

-Healthcare Financial Management Association

# Revenue Cycle Perspective

Revenue cycle's ultimate objective is to process a clean claim that's paid on time and accurately, however, there are multiple "functions" within the lifecycle of a claim where the process can be interrupted and impact the financial statements.

| Component | Function | Functional Objective |
|---|---|---|
| Front | Registration | Accuracy of insurance verification |
| Front | Point-of-service Collections | Patient liability collections pre-service and point-of-service |
| Front | Authorizations | Accuracy of authorization capture prior to service |
| Front | Medical necessity checks | Accuracy of medical necessity checks on scheduled cases |
| Middle | Charge Capture | Accurately and timely documentation and related capture of charges |
| Middle | Coding | Accurately and timely completion of coding supported by documentation |
| Middle | CDI | Proper clinical documentation to support DRGs and inpatient stays |
| Middle | Patient Status | Proper statusing of patient admits vs. observation cases |
| Middle | Late Charges | Timely posting of charges which could be a result of charge capture or coding |
| Back | Billing Edits | Effectively scrubbing potential claim errors prior to submission |
| Back | Payment Posting | Accurate and timely posting of payments received from insurance and patients |
| Back | Follow-up | Accurate and timely follow-up with insurance payors to obtain payment |
| Back | Denial Management | Accurate and timely appeals for denied accounts to secure payment |
| Back | Patient Balance Collections | Obtaining patient liability payment post service |

# Polling Question

**How would you grade the relationship between finance and revenue cycle in your health system?**

| | |
|---|---|
| **A** Strong | **B** Moderate |
| **C** Weak | **D** Nonexistent |

# Finance Perspective

# The Finance Perspective

From a net revenue perspective, Finance has two primary objectives:

1. Reserve accounts receivable down to the expected net realizable value as accurately as possible.
2. Provide timely explanations for unexpected or significant fluctuations in net revenue and accounts receivable.

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In the highest performing organizations, Finance functions have a third objective, that should be considered tertiary to the above:

3. Cultivate organizational understanding of net revenue and assist in driving net revenue improvement initiatives throughout the organization.

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Net revenue is a window into hospital and revenue cycle operations and RCA reporting provides an excellent opportunity to identify the root cause of variations or fluctuations in net revenue performance. However, misinterpretations or misunderstandings of the data and the potential cause of net revenue volatility is a barrier for most organizations.

# The Finance Perspective

Aligning potential revenue cycle or operational drivers to reporting, especially change in prior period reporting, can be beneficial to both Finance and Revenue Cycle personnel. Although we find that the drivers of change in prior can vary across our clients, understanding and documenting the root cause of changes going forward (by theme) can be beneficial for future conversations.

| Theme | Questions on Potential Operational Drivers |
|---|---|
| Accounts Moving to Fully Reserved Status | Denial trends at specific payors? Staffing issues? |
| Impact on Fully Reserved Accounts | Enhanced or renewed payment efforts? Vendor changes? |
| Large Balance Account Activity | Final coding? DRG change? Valuation process at month-end? |
| Impact on Time of Billing Accounts | Contractual or non-contractual? Payment trends? Contractual posting issues? |
| Impact on Always Use Trending | Cash collections on uninsured population? Write-off trends? Model changes? |
| Full Write Off No Payment in Current Month | Contractual or non-contractual? Specific payors? AR clean-up? |
| Impact on Time of Payment Accounts | Contractual or non-contractual? Payment trends? Contractual posting issues? |
| Secondary Account Balance Adj | Aging issues? Payments or adjustments? |
| Debit Balance to Credit Balance | Duplicate payments or contractuals? Charge issues? |
| Payment with no Contractual | Timing issues? Potentially "dead AR" |
| Impact on Credit Balances | Reprocessing of claims? Projects to clean-up credit balances? |
| Impact on Inactive Accounts | Enhanced or renewed recovery efforts? Recoupment activity at specific payors? |
| Unbilled to Billed (Time of Billing) | Service mix change? Contract modeling issues? Interface issues? |
| Revenue Removal | Late charge credits? Interface issues? |
| Other | N/A |

# Polling Question

## How frequently do you discuss change in prior period estimates?

A
Monthly

B
Quarterly

C
Annually

D
What’s change in prior period estimates?

# Bridging the Gap

# Understanding the Reserve Model

RCA is a *balance sheet* based reserve model, which utilizes *transactional history* to accumulate reserve rates and applies those rates to open A/R based on (1) inpatient/outpatient status, (2) current insurance and (3) aging bucket as of a specific aged trial balance ("ATB") snapshot date.

RCA utilizes a two-pronged approach to calculating reserves:

1. Zero Balance Accounts ("ZBA"): ZBA utilizes a percent of charge methodology. ZBA accumulates accounts *admitted* within a user-specified period of time (usually the most recent 6-12 months) and have gone to zero (or near zero) as of the date the range is calculated.

2. Hindsight (or "Trending"): Hindsight utilizes a percent of account balance methodology. Hindsight tracks transactional activity through a specified period of time (usually 12-24 months) on accounts, which were active as of a specific trial balance snapshot date.

| Allowance Category | Approach | Application |
|---|---|---|
| Contractual | ZBA (unless accounts are contract modeled) | Insurance Provider or Financial Class/SIPG |
| Administrative | ZBA | Financial Class or SIPG |
| Bad Debt | Hindsight | Financial Class or SIPG |
| Charity | Hindsight | Financial Class or SIPG |

# Understanding the Accounting

Under the balance sheet approach, transaction activity is mapped to the income statement and allowances are calculated on gross debit balance accounts receivable and not gross revenue. Therefore, net patient revenue in a given period is a result of what actually posts in patient accounting plus the change in AR allowances.

Balance Sheet Impact of Balance Sheet Approach

| | Gross AR | Reserve | Net AR | Rate |
|---|---|---|---|---|
| Period 1 | 1,000,000 | -660,000 | 340,000 | 34.0% |
| Period 2 | 1,300,000 | -858,000 | 442,000 | 34.0% |
| Period 3 | 1,550,000 | -1,023,000 | 527,000 | 34.0% |
| Period 4 | 1,515,000 | -999,900 | 515,100 | 34.0% |

Income Statement Impact of Balance Sheet Approach

| | Gross Revenue | Deductions | Current Net | Change in Prior | Total Net Revenue | Rate |
|---|---|---|---|---|---|---|
| Period 1 | 1,000,000 | -660,000 | 340,000 | 0 | 340,000 | 34.00% |
| Period 2 | 1,000,000 | -660,000 | 340,000 | -38,000 | 302,000 | 30.20% |
| Period 3 | 1,000,000 | -660,000 | 340,000 | -5,000 | 335,000 | 33.50% |
| Period 4 | 1,000,000 | -660,000 | 340,000 | -1,900 | 338,100 | 33.81% |
| | 4,000,000 | -2,640,000 | 1,360,000 | -44,900 | 1,315,100 | 32.88% |

In the above example, management is making an estimate of 34% in net accounts receivable each month. However, as the AR grows, reserves grow proportionally, with the month-over-month change in allowances posted to the income statement. Under the balance sheet approach, the income statement experiences some variability in total net revenue, however, changes in realization can be explained through analysis of current period versus prior period adjustments.

# Polling Question

## What level of understanding does your organization have of the RCA reserve approach?

A

High

B

Moderate

C

Low

D

Very low

# Understanding Goals and Objectives

Net revenue is closely monitored by Finance/Accounting while traditionally revenue cycle focus has been on claim submission and cash collection. Net revenue and cash always align in the long run, however, they're very rarely the same in the short term. This misalignment leads to difficult conversations between Finance/Accounting and the revenue cycle functional areas. Collectively answering a few questions can help improve organizational understanding and alignment:

- How do we define, measure, and report key metrics across the organization:
  - Net patient revenue
  - Cash
  - Bad debt, charity, and denials write-offs
- How are we measuring and benchmarking our financial performance?
- How is Revenue Cycle measuring their performance and what data sources are they using to report metrics?
- How is Finance measuring performance and what data sources are they using to report metrics?
- What assumptions is Finance using in the reserve model?
- Are supporting reports reconciled to the financial statements?

# Sharing and Collaborating

An effective approach to bridging the gap is cross departmental analytic pollination. If resource constraints are such that it may not be practical to do that, at the very least, we should be assigning an experienced finance and revenue cycle staff member as the key point of contact for each department. These team members should be primarily responsible for answering key questions and sharing information. Another valuable strategy is to provide access to RCA reports that are more closely aligned to the financial statements:

- AR60 – DNFB Aging: Aging of accounts receivable in discharged not final billed ("DNFB") status at the period end date selected. We often see this report provided directly to Revenue Cycle personnel to understand/address aged AR in DNFB status.
- MRA52 – ATB Estimates and Details: Account level detail of AR and reserves at the period end date selected. This report is often leveraged by Revenue Cycle personnel to assess the financial impact of write-offs of pockets of AR prior to approving the adjustments.
- MRA6a – Large Balance Accounts: A listing of all accounts above the predetermined large balance account threshold. This report is utilized by revenue cycle to assess collectability and/or prioritize collection efforts.
- RCM16 – Daily Transaction Monitor: Daily postings by payor for the transaction type selected for the current month and monthly totals for the trailing 12 months. This report is often used by Revenue Cycle to develop cash goals as well as identify any irregularities in posting patterns.

# Thank You

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