10 QUESTIONS AND ANSWERS ABOUT MEASURING YOUR ACCOUNTS RECEIVABLE

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1. **How do we define accounts receivable (A/R)?**
The easiest explanation is that it is money owed to the ASC by a patient for services already provided (a type of credit, i.e., unsecured promises by patients to pay in the future). This is considered a short-term asset by your accountant.

2. **How and why do we measure it?**
The most common measurement of your A/R is called "days in A/R." This indicates the average number of days it takes to collect your money. This measurement assists your billing department in determining where to pinpoint their collection efforts. While there are national benchmarks for A/R days, your center may want to adjust your benchmark based on your payor mix and your patient collection policies.

3. What A/R reports can ASC software programs generate?
If you are using one of the more common types of ASC software, there are many ways to report your A/R. These include:

• A/R by payor
• A/R by financial class
• A/R by patient
• A/R by date
• A/R by procedure

We prefer the "aging of A/R by payor" report. This may have a different title in different software, but it lists accounts due from each payor and how long they have owed, which are reported in the familiar 30, 60, 90, 120, 150+ days buckets.

We use this report because, in addition to the A/R day number, it helps you to evaluate your payor mix. This could have large effect on your A/R days. We know certain payors pay faster than others. Generally, one would expect governmental payors to pay more quickly than workers' compensation, auto, commercial or out-of-network carriers. By analyzing your payor group, you can evaluate whether your particular payor mix will result in an A/R day number that should be higher or lower than national benchmarks.

Be aware that your days in A/R may stay the same from time period to time period, but the overall age of your A/R may be increasing or decreasing. It is important to evaluate your "aging of A/R by payor" report along with the days in A/R by payor.

If your software program generates a report showing days in A/R, it is important to understand exactly how the report pulls information and whether your A/R is stated as gross or net charges.

4. What affects A/R?
There are many things that affect the size and accuracy of your A/R. They include:

• accuracy and timeliness in posting charges;
• contractual adjustments — whether you post at time of billing or time of payment;
• accuracy in payment posting;
• timeliness in payment posting;
• switching guarantor responsibility at the right time;
• pursuing non-payments or erroneous payments from payors;
• collecting upfront co-pays and deductibles;
• timeliness in collection activities; and
• policy regarding write off of non-collectable accounts.

5. What is a contractual allowance/adjustment?
Payors contract with medical providers to obtain a discount in exchange for volume. In other words, they will direct their contract holders (patients) to your facility in exchange for allowing them to pay at a discounted rate. The most common ways to contract are for rates based on a percentage of Medicare rates or a percentage discount off billed charges.

Your ASC needs to decide whether to adjust off the contractual allowances at one of two of the following times:

• At the time charges are entered (the claim still goes out with the full fees) — If this is your choice, then

means less chance for error. In addition, this allows your payment poster to cross-check for accuracy of the payment as it should match the balance in the system.
• At the time payment is received — If this is your choice, be sure the payment poster has copies of all contracts and/or a contract matrix in order to perform this function accurately.

The biggest advantage to making contractual adjustments at the time of billing is this gives you a truer picture of your A/R and what you can realistically expect to collect. However, you need to realize that you will still have some uncontracted payors whose payment amount is unknown. These cannot be adjusted off until payment is received and those accounts remain in your A/R at gross. This will give you a mixed A/R (some at net and some at gross). The good thing is that these unadjusted accounts are usually in the minority.

Your accountant may need to take additional contractual adjustments and set up a reserve on your financial statements. If this is the case, your financial statements will probably give you the most accurate idea of your true net A/R amount.

6. Should you use calendar days or business days when measuring your A/R?
Medical providers normally use calendar days because "that's the way we've always done it." This possibly dates back to the hospitals that were probably the first medical provider to need to use this tool. They are open 24/7 and 365 days a year. It would make sense for them to use calendar days because they work every day.

However, other medical providers like ASCs and physicians are usually no more than 12 hours a day, five days a week and only 260 days a year. It would make more sense for these entities to measure their A/R with business days. They only incur charges and try to collect them five days per week.

7. When measuring A/R, is the goal to measure the length of time it takes you to get paid by third-party payors or all payors (including patients)?
Generally, what most of us are trying to measure is how long it takes for a third-party payor to pay the center in order to be able to identify those who are not abiding by prompt payment regulations. The aging reports we look at are useful in determining which payor needs to be chased the hardest.

It's important to understand the role patient balances play in your A/R. Actual patient collections may be more dependent on your up-front collection policies than they are on what you do to collect after surgery. Your days in A/R may be being artificially inflated by patient balances (especially in today's economy with higher deductibles and more payment plans).

When measuring your A/R, it may be helpful to separate the results into two categories;

• With patient balances for a look at the overall picture; and
• Without patient balances which allows you to focus on the third-party payors.

8. How do out-of-network cases affect your A/R ratio?
Keep in mind that it is not only commercial payors that are included in this category, but liability, automobile, attorney and workers' compensation cases.

If you only do a few out-of-network cases, you normally do not need to make an adjustment to your days in A/R as the national benchmark is aimed at in-network centers.

However, if you are a predominantly out-of-network facility, you need to factor in the time it takes to collect due to:

• payors sending payment to patients;
• trying to collect from patients;
• litigation delays; and
• delay by payor as they do not have contractual prompt payment obligations.

Because of the longer time it normally takes to collect these payments, your normal days in A/R may be considerably higher than the national benchmark. After you have had time to review enough history, you will be able to establish your own benchmarks.

9. Should you take the age of the center into account when measuring A/R?
When measuring the days in A/R for a new or young center, there are several reasons why it may take longer to receive reimbursement. Take the following factors into consideration when establishing your goals/benchmarks:

• Less contracts; more out-of-network
• Some contracts not loaded with payor
• Less established financial policies

As the center matures and becomes more knowledgeable of its carrier's contracts, it should become easier to predict the time it takes to collect.

10. How do you actually measure A/R?

We suggest using a rolling three-month time period to calculate days in A/R, using the following four steps:

1. Take your net patient revenue numbers for each of the last three months.

• If you are doing your financials using an accrual method of accounting, this number should come from your financial statements.
• If your financial statements are done on a cash basis, use the gross revenue less adjustment number that comes from your software.

2. Divide the total of the net patient revenues (three months) by the number of days (either working or calendar) in the last three months. This number represents the average net revenue per day. In the example found below, we are showing the A/R by both calendar and working days using the first quarter of 2009.

3. Identify the dollar amount of your net patient A/R that correlates to the last month of the time period as indicated in " 1 " above. In the example below, this would be your A/R dollar amount at the end of March 2009.

• If you are doing your financials using an accrual method of accounting, this number should come from your financial statements.
• If your financial statements are done on a cash basis, use the A/R number that comes from your software.

4. Divide the net patient A/R number by the average net patient revenue per day.

Example

Period	**Net Patient Revenue**	**Working Days**	**Calendar Days**
Period 1-Jan. 2009	$250,000	21	31
Period 2 - Feb. 2009	$275,000	20	28
Period 3 - March 2009	$300,000	22	31
Total	**$825,000**	**63**	**90**
Net A/R End of March 2009	$500,000		

Using the above example, we are able to calculate:

• $825,000 (net patient revenue) / 63 (working days) = $13,095 net revenue per working day
• $825,000 (net patient revenue) / 90 (calendar days) = $9,167 net revenue per calendar day
• $500,000 (March 2009 net A/R) / $9,167 (net revenue per calendar day) = 55 days in A/R
• $500,000 (March 2009 net A/R) / $13,095 (net revenue per working day) = 38 days in A/R

The days in A/R measurement is a valuable tool in evaluating how much of the ASC's money is "tied" up in a non-spendable asset, i.e., A/R. The days in A/R ratio is used as an indicator to compare the center's quarter-to-quarter progress in collecting their A/R, as well as benchmarking against other ASCs. However, as mentioned above, there are several factors that can impact your days in A/R ratio, such as the age of the center, the payor mix, number of self-pay accounts and the amount of out-of-network cases performed.

An important thing to remember is that the much publicized days in A/R ratio is not meant to stand alone in measuring your A/R. It should be used in conjunction with other financial information, such as the A/R aging by payor report and other financial indicators to gain the truest picture of the health of the ASC's A/R.

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