

# *Show Me the Money!*

Understanding & Monitoring Your  
Practice Metrics for Peak  
Performance

---

TOM GALLO, MS, MDA

VIRGINIA CANCER INSTITUTE

TGALLO@VACANCER.COM



**SHOW  
ME THE  
MONEY!**

# The Business of Oncology

---

- Unique
- Complex
- More like a true “operating company”
- High Cost of Goods Sold
- Increased revenue opportunity
- Tighter margins

# The Business of Oncology

---

## Higher Risks than other Specialties

- What happens when a surgeon doesn't get paid for a case?
  - He loses his time
- What happens when an oncologist doesn't get paid for a case?
  - He loses his and his staff's time
  - He potentially loses the cost of the pharmaceuticals, supplies, etc.
  - *Potentially \$10,000's!*

# *Which Practice is doing a better job financially?*

---

## PRACTICE A

- YTD Profit = \$ 2,500,000
- Collection Percentage = 75%
- Accts. Receivable Turnover = 18 days

## PRACTICE B

YTD Profit = \$ 500,000  
Collection Percentage = 45%  
Accts. Receivable Turnover = 45 days

---

*“Things are not always what they seem; the first appearance deceives many; the intelligence of a few perceives what has been carefully hidden.”*

Plato

# Financial Statements

---

## Balance Sheet

Reports the financial position of the practice on a specific date

Reflects the assets, liabilities & net worth (capital) of the practice

Major Assets for Oncology Practices: Accts. Rec., Inventory, Fixed Assets (Equipment, Furniture)

Major Liability: Accts. Payable (chemo drugs)

# Financial Statements

---

## Income Statement

Also called Operating Statement or Profit & Loss Statement

Reflects practices Income (Revenues, Collections) vs. Expenses

This is a cumulative statement for a specific period of time (Usually monthly, quarterly, annually)



# Financial Statements

---

## Income Statement Tools for Analysis

Comparing statements to previous periods

- YTD, Full year vs. prior year, month-to-month, period vs. prior year period

Breakdown of Revenues by Service Line

Analyzing Expenses as a % of revenues

Benchmarking your Income Statement vs. a Standard

# MODEL INCOME (P & L) STATEMENT

<b>Revenues (By Category)</b>	<b>\$ 5,000,000</b>	<b>100%</b>
<b>Expenses</b>		
Drug Expense	2,500,000	50%
Employee Expense	500,000	10%
Occupancy Expense	250,000	5%
Supply Expense	150,000	3%
Other Operating Expenses (By Category)	600,000	12%
<b>Total Operating Expenses</b>	<b>\$ 4,000,000</b>	<b>80%</b>
<b>Income Before Physician Expenses</b>	<b>\$ 1,000,000</b>	<b>20%</b>
Physician Expenses (By Category)	950,000	19%
<b>Net Income Before Taxes</b>	<b>\$ 50,000</b>	<b>1%</b>

# Basis of Financial Statements

## Cash vs. Accrual Accounting

---

### Cash Basis

- Most common method for medical practices
- Revenues are recognized when received (collected)
- Expenses are recognized when paid
- Advantage: more intuitive, easier to understand, less time intensive accounting method
- Well suited to unpredictable nature of collections
- Disadvantage: May not accurately reflect the full picture

# Basis of Financial Statements

## Cash vs. Accrual Accounting

---

### Accrual Accounting

- Revenues are recognized when they are “booked” (When service is provided)
- Results in the creation of Accounts Receivable
- Expenses associated with those A/R are recognized when the revenues are booked
- Provides a more accurate view of financial position
- Requires more sophisticated bookkeeping, inventory control

# Issues to consider for Oncologists

---

Switching from Cash to Accrual Basis

Profit from A/R on the books would have to be recognized

*Major Tax Implications!!!!*

Showing Improved Financial Performance under Cash Basis

Improve collections

Reduce expenses

# Issues to consider for Oncologists

---

## Cash Basis statements must be viewed skeptically

When was the month closed out?

- Was month end held open to allow more time to collect funds?

Are expenses being paid in a timely manner?

- What is the accounts payable trend?
- What are your largest vendors payment terms? Are you complying?

***“The only thing I care about is how much cash is in the bank at the end of the month.”***

---

*Anonymous Doctor*

**Cash**

January = \$500,000

June = \$2,000,000

**Accounts Payable**

January = \$250,000

June = \$3,000,000

***How can I tell what's really going on?***

---



# Key Performance Indicators (KPI)

---

- A metric used to quantitatively measure performance
- Benchmark against historical results as well as peer groups
- Identify trends and potential problems
- There are variations on the calculations of almost all KPI.
- Make sure that you are using the same formulas before benchmarking yourself against others
- Consistency is the key

# KPI

- Claims Lag to Submission = # of days between Date of Service & Date Claim Submitted
- Denial Rate =
  - \$ Amt. of Claims Denied/\$ Amt. of Claims Submitted
  - # of Line Items Denied/# of Line Items Submitted
- Clean Claim Rate = Inverse of Denial Rate
- Credit Balances = Total \$ in Credit Balances
- Bad Debt Ratio = \$ Bad Debt/Total Charges
- Current Ratio = Current Assets/Current Liabilities
  - = (Cash + Expected Collections from Accts. Rec.)/Accounts Payable

# Benchmarking

---

- Comparing your performance vs. historical or an accepted standard
- Oncology Benchmark Data available:
  - Journal of Oncology Practice - National Practice Benchmark
  - MGMA – Annual surveys by specialty
  - Distributors
  - Oncology group consortiums
- How similar is your practice to those you are benchmarking against?
- How current is the benchmarking data?
- ***Benchmark against yourself***



# Accounts Receivable/Collections Management

---

- Dr. Jones needs to talk with you ***IMMEDIATELY***.
- He talked to Dr. Smith in the hospital physician's lounge. Dr. Smith is gushing over his practice's financial success, their collection rate of 75%, and his new Ferrari!
- Dr. Jones knows your practice's collection rate is about 60%.
- He wants answers ---- ***NOW!***
- ***What's wrong with this picture?***

# Accounts Receivable

---

- \$\$ that are owed to the practice by third party payers and/or patients for services rendered by the practice
- Service  Receivable  Cash
- Analyzing the *A/R* can provide a good measure of the practice's financial efficiency and health

# Accounts Receivable Management

## Practice Handicaps & Frustrations

---

- Loopholes allow payers to deny/pend claims
- Little standardization between payers
- Rules are constantly changing
- More payers are using adjudication software
- Too much to do, too little time
- Offices often take a “trial and error” approach

# Accounts Receivable Management

---

- Fee Schedule & Payor mix come into play
- Look at Key Performance Indicators (KPI)
- Trend analysis
- Is absolute \$ amount increasing or decreasing?
- Collection Rates
- A/R Aging
- Aging by Category (Insurance, Patient)
- Aging By Payer Type/Plan
- Top accounts owed by \$ amount

# Accounts Receivable Management

## Collection Efficiency

---

- Gross Collection % = Total Payments/Total Charges
- Net Collection % (also called Adjusted Collection %)
  - = Total Payments/(Charges - Contractual Adjustments)
- Days Charges in A/R (also called DSO, DRO)
  - = Total Gross AR / Avg. Daily Charges
  - Ex. Of Avg. Daily Charges = Charges for last 3 months / # of days in those months
- % Accts Receivable over 120 Days Old



# Accounts Receivable Management

## *Impact of Improving your A/R Turnover Ratio*

---

- $\text{Accts. Rec.}/(\text{Annual Charges}/360)$
- $= \$1,250,000/(\$5,000,000/360)$
- $= \$1,250,000/\$13,889 = 90$  days charges outstanding
- ***Your Billing Office works very hard to collect accounts & improve the turnover rate to 60 days***
- $= \text{Ending Accts. Rec.}/\$13,889 = 60$  days
- $= \text{Ending Accts. Rec.} = \$833,334$
- ***How can people “game” the A/R turnover ratio to appear better than they are?***

# Accounts Receivable Management

Aging	0-30	31-60	61-90	91-120	> 120	Total
<b>Practice A</b>	800,000	300,000	200,000	100,000	350,000	\$ 1,750,000
	45.7%	17.1%	11.4%	5.7%	20.0%	100.0%
<b>Practice B</b>	800,000	300,000	200,000	100,000	175,000	\$ 1,575,000
	50.8%	19.0%	12.7%	6.3%	11.1%	100.0%

- Aged from Date of Service or Date of Entry?
- Some PM Systems re-age accounts every time they are resubmitted
- Are high credit balances masking a problem?

# Oncology Claims Denials

---

- ***Unavoidable!***
- ***Minimize preventable denials***
- ***Denials are often the result of faulty processes!***
- ***Need to be worked immediately***

## COMMON DENIALS

- Claim/Service lacks Information
- Not medically necessary
- Procedure not paid separately
- Precertification/Authorization missing
- Patient cannot be identified as our insured
- Expenses incurred after coverage terminated
- Claim/Service not covered by this payer/contractor

# Cost of not working denials Real Time

Cycle	Day	Regimen Cost	
		Episode	Cumulative
1	1	\$ 10,000	\$ 10,000
2	15	10,000	20,000
3	29	10,000	30,000
4	43	10,000	40,000
5	57	10,000	50,000
6	71	10,000	60,000
7	85	10,000	70,000
8	99	10,000	80,000
9	113	10,000	90,000
10	127	10,000	100,000
11	141	10,000	110,000
12	155	10,000	120,000



# Accounts Receivable Management Best Practices

---

- Minimize your lag time
- Get it right the first time
- Make A/R management process driven, not transaction driven
- Implement internal controls and monitoring
- Conduct periodic audits
- Review EOBs/remittance notices on a consistent basis
- Emphasize training and education
- Establish goals and benchmarks

# Inventory Management

---

- How much inventory is on the shelf?
- How much do you need?
- Any drugs that you rarely use in inventory?
- Is any inventory expired or approaching its expiration date?
- Who manages your purchasing/inventory?
- Do you ever perform physical inventories?
- Are you reconciling purchased drugs, inventory, billed drugs?

# Inventory Management Efficiency Measures

---

- How quickly does your drug inventory turn?
- Inventory turnover = Cost of Goods Sold/Avg. Inventory
- Avg. Days on Hand = Inventory/Avg. Dispensed Daily
- ***Don't ignore medical supplies! Many have expiration dates***

# Inventory Management

## *Efficiency Measures - Examples*

---

<b><u>Avg. Inventory Turnover</u></b>	
Avg. Inventory (based on Cost)	\$ 500,000
Cost of Good Sold (drugs dispensed)	\$ 2,500,000
Avg. Inventory Turnover	5

<b><u>Inventory Days on Hand</u></b>	
Current Inventory	\$ 1,000,000
Avg. Dispensed Daily	\$ 150,000
Days on Hand	6.7

Saving at 5 Days on Hand	\$ 250,000
Savings at 3 Days on Hand	\$ 550,000



# Accounts Payable Management

---

*What's the value of early payment discounts?*

- Some vendors offer a % discount for early payment of bills
- Example: 2%/45 days, net 75 days
- Investment Return Equivalent of Taking a Discount
- Conversely, the Cost of Not Taking a Discount
- $[\text{disc. \%}(100 - \text{disc. \%})] * [365 / (\text{Final Due Date} - \text{Discount period})]$

*What is the Penalty/Interest if you don't pay within terms?*

# Accts. Payable Management - Trade Discounts

Example: *2%/45 days, net 75 days*

---

- \$10,000 Invoice (Account Payable)
- 2% discount = \$200
- $\$10,000 - \$200 = \$9,800$
- Earning \$200 for a 30 day period
- $12 * 200 = \$2,400$
- $\$2,400 / \$9,800 =$  **24.5% annualized return**

# Opportunity Cost

---

## Definition:

- The return on the best alternative investment that is available.
- The highest return that ***will not*** be earned if funds are invested in a particular project.

## Relevant Examples:

- White Bagging/Brown Bagging
- Replacement Programs

# Opportunity Cost

---

## *Scenario*

- You write a treatment plan for an off-label treatment after your Insurance Coordinator advises you that you probably will not get paid for the treatment.
- You remind her that you are the Doctor and besides, the drug rep promised that he would get you replacement drug if you don't get paid.

# Opportunity Cost

*What do you really lose?*

---

- Labor of providing the original service (nursing, registration, pharmacy, insurance verification, claim processing)
- Labor of dealing with the insurer, specialty pharmacy to order, receive, store the drugs
- Labor of dealing with the claim denial, appeals, physician letter of necessity, attempts to get financial information from the patient, etc.
- Potential profit of providing a covered treatment

# ***Communicating Financial Performance***

# Monthly Financial Reports

---



# *What data points does a CEO/CFO need to review?*

---

*Trends*

*Summary Info*

*Understand Factors that impact KPI*

- Monthly Financial Summary
  - Monthly Charges & Collections
  - Contractual Adjustments, Write-offs
- Days in A/R
- A/R Aging by Financial Class
- Significant Denial Reasons
- Credit Balances
- Drug Margin
- Drug Accts. Payable
- Drug Purchases
- Days Inventory on Hand



# ***What about a Billing/Business Office Manager?***

---

***More Operational in nature***

***More detail***

***Be able to answer the questions***

***Understands and communicates the root causes***

Claims Submission Lag

Claims Rejection Reasons

Charge Capture

Coding Accuracy/Issues

Top Claims Denials

Large Accounts with Denials, Old AR

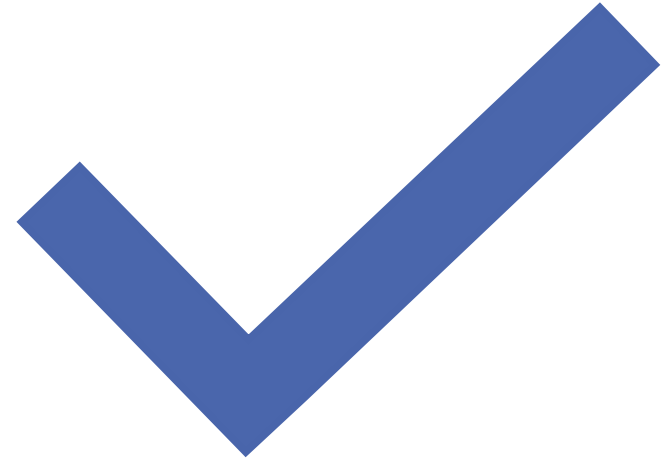
Credit Balances

Are Accounts being worked timely?

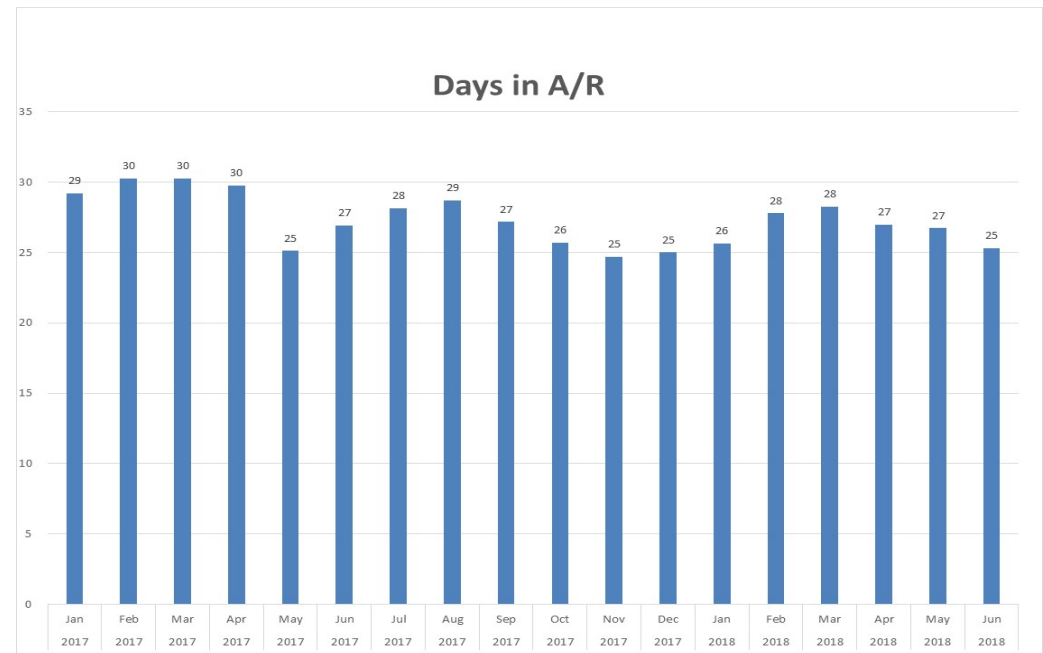
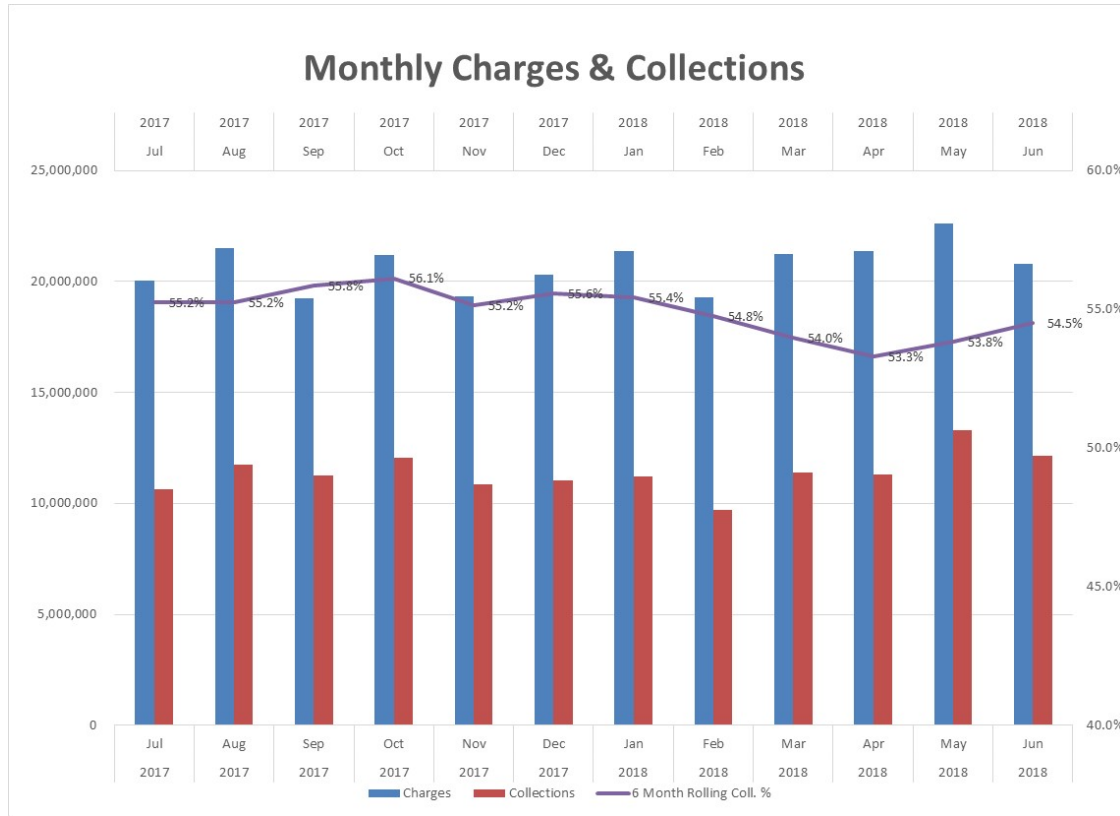
# Building Effective Dashboards

---

- Tell a clear story
- Know your Audience
  - Board of Directors,
  - All Practitioners,
  - Staff
- Prioritize the data you want to communicate
- Provide details as needed
- Eliminate Clutter – Avoid Information Overload
- Don't use metrics no one understands
- Use appropriate graphics/charts
- Make it interactive if possible
  - By Doctor,
  - By Office,
  - By Insurance Carrier
- Test it, get feedback, make Adjustments



# Financial Dashboard



Month	Total		0-30 Days		31-60 Days		61-90 Days		91-120 Days		>120 Days
Apr-18	19,323,393	100%	14,420,157	75%	1,758,039	9%	737,693	4%	337,284	2%	1,104,331
May-18	18,171,211	100%	13,274,014	73%	1,829,690	10%	780,671	4%	430,258	2%	853,671
Jun-18	17,230,391	100%	12,743,250	74%	1,301,260	8%	866,125	4%	434,634	3%	945,994

# Financial Exercise

---

- What is the Medicare co-insurance %?
- How many similar treatments must the practice perform to recover financially if:
  - The office does not collect the co-insurance?
  - The entire treatment is uncollectable?

# Financial Exercise

Drug X Cost	\$ 10,000		
Margin on Drug X	4%	6%	8%
Drug X MCR Allowable	\$ 10,400	\$ 10,600	\$ 10,800
1st Hour Chemotherapy	\$ 137	\$ 137	\$ 137
Total Allowable	\$ 10,537	\$ 10,737	\$ 10,937
Medicare Primary Payment	\$ 8,430	\$ 8,590	\$ 8,750
Co-Insurance	\$ 2,107	\$ 2,147	\$ 2,187
Loss if Co-Insurance not collected	\$ 1,707	\$ 1,547	\$ 1,387
<b>Full Reimbursement Episodes Needed</b>	<b>3.2</b>	<b>2.1</b>	<b>1.5</b>
Loss if drug denied	\$ 10,000	\$ 10,000	\$ 10,000
<b>Full Reimbursement Episodes Needed</b>	<b>18.6</b>	<b>13.6</b>	<b>10.7</b>

# Replacement Programs

---

- Often patients need to be enrolled pre-treatment
- Only covers the cost of the specific drug – no additional or supportive care
- Usually must exhaust every other payment option before the replacement programs come into effects (multiple denials & appeals)
- Often must collect personal financial information from the patients to determine qualification

# Financial Controls

## *“Trust, but Verify”*

---

### ***This could never happen to me!***

- “Former billing clerk pleads guilty to stealing \$871K from Virginia Physicians for Women”
- “Ex-medical employee indicted in \$1.2M embezzlement case”
- “Employee Indicted for Embezzling \$500,000 from Medical Practice”
- “TRUSTED BOOKKEEPER STEALS \$1.8 MILLION FROM DERMATOLOGIST”

# Cash Controls

---

- Separate responsibility for financial functions
- Have all outside payments go to a bank lockbox
- Check with previous employers & references
- Run background checks on employees
- Conduct random audits
- Review high risk areas
- Establish policies
- Limit Access
- Don't use Signature Stamps



# Practice Efficiencies

---

- Examining resource allocation
- Using process improvement methodologies
- Recognize opportunity cost
- Zero bad debt tolerance
- Minimize non-reimbursable services
- Utilization of mid-level practitioners
- Work to top of license

# Financial Decision Making

## Investment Decisions

---

- *Have a data driven process in place to evaluate financial decisions*
- **EXAMPLE**
  - You order 25 XYZ tests per day. Avg. reimbursement per test = \$20
  - Equipment costs \$300 per month on a lease
  - Supplies cost \$2 per test
  - Labor costs \$20 per hr. if you hire a technician
  - Compliance and licensing cost \$50 per month

# Break-even Analysis

---

- Identify Fixed and Variable Costs
- Determine Contribution Margin on a per-unit & cumulative basis  
= Revenue – Variable Expenses
- Break Even Volume = Fixed Costs per period/Contribution Margin per unit
- Determine Pro-Forma Operating Income

# Break-even Analysis - *Example*

	Scenario 1	Scenario 2
	PER MONTH w/o Technician	PER MONTH with Technician
<b>VOLUME</b>		
Work Days/Month	21	21
Tests Ordered/Day	25	25
Test Ordered/Month	525	525
<b>REVENUE</b>		
Revenue/Test	\$ 20	\$ 20
Total Revenue/Month	\$ 10,500	\$ 10,500
<b>VARIABLE COSTS</b>		
Supply Costs/Test	\$ 2	\$ 2
Total Supply Cost	\$ 1,050	\$ 1,050
<b>CONTRIBUTION MARGIN</b>		
Per Test	\$ 18	\$ 18
Per Month	\$ 9,450	\$ 9,450
<b>FIXED COSTS</b>		
Equipment	\$ 300	\$ 300
Technician		\$ 3,467
Other	\$ 50	\$ 50
Total Fixed Cost	\$ 350	\$ 3,817
<b>Operating Profit per Month</b>	\$ 9,100	\$ 5,633
<b>Monthly Break-Even Volume</b>	19.4	212.0

# Payback Period

---

- Capital Investment Decision
- The amount of time required to return your original investment from the cash flows generated by the project
- Useful life of project
- Other intangible considerations

# Payback Period - *Example*

	Scenario 1		Scenario 2	
<b>Investment</b>	\$ 90,000		\$ 300,000	
	<b>Net Cash Inflows</b>			
<b>YEAR</b>	<b>Annual</b>	<b>Cumulative</b>	<b>Annual</b>	<b>Cumulative</b>
1	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
2	\$ 60,000	\$ 110,000	\$ 60,000	\$ 110,000
3	\$ 90,000	\$ 200,000	\$ 90,000	\$ 200,000
4	\$ 100,000	\$ 300,000	\$ 100,000	\$ 300,000

<b>Payback Period</b>	<b>1.67</b>		<b>4.0</b>
-----------------------	-------------	--	------------

\$ 50,000	1
=\$40,000/\$60,000	0.67
<b>Payback in Years</b>	<b>1.67</b>

# Resources

---

- Physicians Practice website - <http://www.physicianspractice.com/>
  - Good articles and resources on practice management issues
- MGMA – <http://www.mgma.com/>
  - Benchmarking surveys
  - On line and live training and seminars
  - Articles on practice management
  - Bookstore with multiple practice management resources
- OBR - <http://obroncology.com/>
  - Under “resources” tab – training on various topics, webinars, slide shows, etc
- ASCO’s Journal of Oncology Practice
  - Excellent practice management articles
  - Annual National Practice Benchmark – good benchmarking material

# Resources

---

- AAFP - <http://www.aafp.org/practice-management.html>
- AMA - <https://www.ama-assn.org/practice-management>
- ACP - <https://www.acponline.org/practice-resources>
  - Free practice management toolkit
- Reed Tinsley CPA Firm - <http://www.rtacpa.com/healthcare-resources>
  - Website has medical management articles, forms, templates and books
  - Reed has written numerous practice management books
- Greenbranch Publishing - <https://greenbranch.com/store/>
  - Bookstore with wide selection of medical management books and journals/newsletters



# Resources

---

- ACCC – <http://accc-cancer.org/>
  - Good articles on numerous topics
  - “Oncology Issues” – Excellent publication
  - Webinars & regional reimbursement meetings
  - Financial Advocate training
- COA - <https://www.communityoncology.org/>
  - Cost studies & policy articles
  - Patient Satisfaction Surveys
  - Oncology Medical Home information

---

***Questions?***