

# Effective Revenue Cycle Management

## 5 Actions You Can Take to Ensure Your Revenue Cycle Rises Above the Difficult Operating Environment

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Hospital reimbursements are under duress and the revenue cycle faces ever-tighter scrutiny. High-deductible/co-pay health plans have boosted self-pay balances, translating into rising bad debt and greater charity burdens for providers. The economy is taking its share of the bottom line as well: Capital constraints have increased the cost of debt, and lower patient volumes combined with increasing delivery costs are eroding hospital margins.

Many providers expect the situation to get worse before it gets better. According to a survey of more

than 300 healthcare finance executives conducted by the Healthcare Financial Management Association (HFMA), 61 percent expect their days with cash on hand to drop, 54 percent foresee a decline in their operating margin, and 60 percent anticipate a decrease in total margin in 2009.

Meantime, payment rules are becoming ever more complex. Through registration, emerging pay-for-performance initiatives, and a crackdown on potential fraudulent and negligent Medicare claims in the form of CMS' Recovery Audit Contractor (RAC) program (see sidebar this page), all promise to compound the administrative burden on both patient financial services and clinical personnel and further challenge hospitals' revenue cycle.

While healthcare can't stop these economic and regulatory forces, it can take steps to lessen the impacts they will have on the bottom line. By taking the following five actions, you will ensure that your revenue cycle becomes more effective in these uncertain times.

## Action 1: Redefine the Revenue Cycle

The healthcare revenue cycle has traditionally resided in a financial silo, insulated from most of a hospital's clinical operations. The financial services department crunched data, generated claims, and collected on self-pay balances with little, if any, interaction with the clinical side.

But payers continue to raise the bar for providers, now tying reimbursements to clinical outcomes. Hospitals require tight integration of clinical operations with the financial processes necessary to produce an appropriate claim—integration that can come only from a healthy balance between people, processes, and technologies, both clinical and financial.

Healthcare organizations can encourage this assimilation by expanding the definition of revenue cycle management beyond its current financial context. In principle and practice, the healthcare revenue cycle must add physicians and nurses, utilization personnel, and clinical auditors to its cast. In other words, anyone involved with documenting patient care is now a part of the revenue cycle.

## Are You Ready for RAC Audits?

The federal Tax Relief and Health Care Act of 2006 authorized CMS to employ sophisticated technical and operational measures to identify both overpayments and underpayments made by Medicare. The resulting and imminent Medicare Recovery Audit Contractor (RAC) program is basically a clinical audit conducted by CMS-commissioned contractors to audit specific claims—in essence, your revenue cycle. The key to a hospital's RAC success is data integrity; providers risk losing millions in revenue with inaccurate, inconsistent, or incomplete data.

*Consider the following nine tips when planning for the RAC program:*

1. Educate yourself and your peers on the finer details of the program so you're not blindsided when the audit comes knocking.
2. Revisit your registration and coding practices to identify and eliminate potential payment errors.
3. Make sure you're collecting enough of the right clinical data to support a medical necessity review.
4. Determine who within your organization will be responsible to collect the appropriate documentation and provide it in a timely manner.
5. Develop an appeals process so you can provide a quick response in a dispute.
6. If you lose an appeal, make sure you understand why, and implement a process to prevent the situation from occurring in the future.
7. Integrate denials into objective reporting mechanisms for the entire facility to raise awareness and develop solutions.
8. Implement an ongoing self-audit process or contract with an outside vendor to test your programs, policies, and procedures.
9. Don't save money in all the wrong places. Invest in staff training, process development, and appropriate technology. The money lost in poor revenue cycle management can be staggering!

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## Action 2: Improve Documentation

Hospitals place revenue at risk with incomplete and inaccurate registration and clinical information. Improving documentation must be a top priority in any successful revenue cycle enhancement strategy.

Many providers are convinced that the electronic health record (EHR) will correct all their data integrity issues. While the EHR can serve to eliminate some common data entry mistakes, users may be tempted to provide only the information prompted by the system. It's one thing to have the technology, and it's another to use it to its full potential in documenting clinical processes, care, and outcomes. Providers can't just assume that an EHR's basic templates will provide enough patient data to withstand a quality audit. If they must validate clinical appropriateness but do not have enough data to justify the services they provided, they will suffer significant financial consequences. It is imperative to have individuals from both clinical and financial departments analyze the data entered to ensure that it is thorough, is precise, and supports the care actually given.

Further, healthcare must hold itself to a much higher standard of billing accuracy. Consider the revenue lost when claims are rejected due to outdated or incorrect information. Utilize appropriate tools such as eligibility verification and claim editing software, and make certain your team actually understands and uses them. Also ensure your coding team is highly trained and well credentialed in inpatient and outpatient coding.

## Action 3: Assess and Reallocate Staff as Necessary

According to the American Hospital Association's 2008 report, "The Cost of Caring," approximately two-thirds of every dollar spent by hospitals goes to wages and benefits. Are you maximizing your personnel resources? Are you investing appropriately in training and continuing education? Is your allocation of resources accurate and up-to-date to support necessary processes? For example, new technology may inject efficiencies to the back end, lightening the load for your billing staff. Have you moved some of these resources to more labor-intensive front-end positions such as admissions or financial counseling?

Make it a management priority to analyze all functions within the organization to identify areas of waste, inefficiency, or over/underutilization. More often than not, however, it's very difficult for an organization already burdened with daily activities to step back and objectively assess all aspects of human resources allocation. It's wise to bring in an outside source that can offer an objective staffing assessment.

Armed with best practices and proven solutions, these experts will identify a provider's strengths and weaknesses and create a customized strategy to help bridge the gap between where the organization is and where it needs to be for financial stability. And it's not only fixing the areas that are really broken; the right counsel will help a provider tweak the right areas to become more efficient and effective.

## Action 4: Learn to Work Together

A clinical administrator's view is often that financial decisions impact the quality of care, while a financial administrator will often take the position that clinical activities drive healthcare costs. As a result, finger-pointing and the blame game over expenses and revenue will likely emerge. So who's right? They both are, of course. And both are often at fault for not adequately communicating their requirements to each other in a proactive, mutual planning and problem-solving manner.

In the past, limited ongoing interaction between the two functions was not only the norm, it was preferred as a matter of efficiency. But the reality is both functions can no longer live in their own silos. Regulations and economics—including CMS audits and pay-for-performance initiatives—demand that clinicians and finance work together on a daily basis.

Make sure clinical and financial staff know each other's workflow and requisite outcomes. Have representatives from each department come together regularly and educate one another on their priorities and how each group can most effectively work with the other to meet pay-for-performance documentation guidelines or plan for a RAC audit, for example.

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## Action 5: Involve the Executive Team and Hospital Board

In these difficult economic times, the revenue cycle is everyone's business, particularly executives and board members. Often accustomed to observing hospital operations from afar, these key individuals may be blissfully unaware of the health of their institutions' revenue cycle, only learning its true nature after debt is out of control and cash flow has dried up.

Top executives and even board members must be privy to their organization's key indicators that set the baseline for revenue cycle performance with an understanding of how their organization matches up with other providers. Questions these individuals should be prepared to answer include:

- › How many days' cash on hand does the hospital have?
- › How much bad debt is it carrying? Is this increasing or decreasing?
- › Are days in A/R at a reasonable level? Can it be improved?
- › What is the hospital's denial rate?
- › What is the ratio of debt to equity? Has the cash position changed recently?
- › Is the organization paying down debt?
- › Are capital projects being funded by operations?
- › Where are your volumes? Have there been any significant changes that the organization has failed to account for?
- › How do all the metrics compare year over year?

Make sure your institution's financial reporting is thorough, objective, and transparent. It's up to the revenue cycle team to communicate this information in a detailed yet understandable manner. Administrators and the hospital's board have a right to know how much money the institution is really losing and where. What they believe is money lost to inadequate Medicare reimbursements may actually be uncollectible balances written off as bad debt.

And don't confuse this level of executive and board involvement with meddling in day-to-day operations. Hospitals employ some of the most qualified and well-equipped financial professionals to keep the organization running smoothly. However, the buck stops with the top administrators and board members ... they're the ones accountable to the community they serve.

## Conclusion

A healthcare organization's C-suite can serve as the model for the rest of the organization, establishing a tone of transparency, cooperation, and collaboration. And if there are gaps in leadership or education, don't leave the post abandoned while you seek the right long-term solution. Bring in a seasoned consultant or interim leader who not only can lead your hospital or health system through an unsettling period, but also can offer a fresh perspective on achieving your organization's revenue cycle goals.

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