IT'S ALL IN THE NUMB3RS

How Administrators Can Improve Their Practice's Financial Well-Being

Paula Tarnapol Whitacre

The waiting rooms seem emptier lately. Or, conversely, chairs seem filled all day. Collections seem sluggish. Or, conversely, the bank statements seem to show much more cash on hand than usual.

What's wrong with these statements? One word: "seem."

Gone are the days when administrators can rest on observations alone about how their practices are performing. "Administrators should be the doctors of their practices," said John Pinto, consultant and author of many publications, including the upcoming ASOA/ASCRS book *Simple: The Inner Game of Ophthalmic Practice Success.* "Doctors run a series of tests to make a diagnosis. The *business* of medicine has caught up with modern medicine in terms of gathering and interpreting data."

"Financial management is a major part of the administrator's role these days," said Hayley Boling, MBA, Boling Vision Center in Indiana. "Reading financial statements, creating break-even analyses, understanding interest rates and depreciation schedules, while also creating/maintaining banking relationships, are all part of the job nowadays. Without a solid understanding of financial management, administrator[s] may end up finding themselves in a vulnerable position where they feel in over their head."

Many administrators came to their positions from within the organization, perhaps moving up in recognition of their strong technical or leadership skills, not necessarily their financial acumen. Fortunately, they have experts to turn to—accountants, consultants, and, in larger practices, staff dedicated to financial management. However, as Corinne Wohl, MHSA, COE, Delaware Ophthalmology Consultants, said, "As administrator, I am ultimately responsible for everything financial in the practice."

This article won't explain how to read a balance sheet or calculate the amount of debt a practice can carry. Administrators without a strong financial background can tap into ASOA resources (see box) or many other continuing education programs for that kind of information. Here, experienced administrators and consultants share what they do to keep ophthalmic practices financially on track.

EMBRACING THE NUMBERS

According to Derek Preece, principal with BSM Consulting, "you need good data to manage a practice." All practices have some data from their computer systems, such as collection history and overhead costs, but he estimated, based on his experience, that "only about 30% of practices are systematic in their collection and monitoring of that data to help them make decisions."

Building on his medical analogy, Pinto recommends combining observations with data. "Just as a doctor uses a subjective impression, like a patient blinking a lot, as a jumping-off point for further testing and analysis, the administrator can start with an impression, like techs gathering in the hallway with time on their hands, and collect data to help make decisions about what's wrong or right," he said.

Suzanne Bruno, MBA, is constantly looking at data generated throughout the operations at Horizon Eye Care in New Jersey. "Managers report different things that I look at—daily, weekly, monthly, quarterly," she said. She quickly ticked off some of the data-based reports she considers essential: how full the appointment schedule is, how far out patients are booking appointments, the surgery schedule and the percentage of surgeries that are covered by insurance versus self-pay, accounts receivable (A/R) and the percentage collected within 60 days, outstanding accounts payable (A/P), and large expenses coming up. She loads this scattered information onto a dashboard on her computer (see Figure 1, "Sample Financial Dashboard") to have an overall view of the practice's overall financial health.

Boling is also a strong believer in dashboards. "I review my practice's dashboards on a daily and weekly basis with members of my leadership team. Our practice dashboards are a series of reports that we have identified as Key Performance Indicators. We know, at a glance, if we are meeting our short-term goals," she explained.

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In an e-mail, she listed the Key Performance Indicators on her dashboard: Total Patients Seen, Total Glasses Jobs, Diagnostic Tests Performed, Surgical Referrals, Major Surgical Cases Performed, Minor Procedures Performed, Staffing Ratios, Doctor Time Out, Total Practice Billings, and Total Practice Collections.

Then on a monthly basis, she reviews a series of reports that "break down our practice efficiency in each department." The reports include Practice Expenses/Liabilities, Payroll Hours by Department, Productivity by Department, Staffing Ratios, A/R Aging Reports, Collection Ratios (by doctor, by payer, by location, etc.), Collections per Patient Encounter, Cost per Patient Encounter, Net Profits, Audit Reports, Training Reports, Denial Reports, Doctor Productivity Reports, Technician Productivity Reports, Front Office Productivity Reports, Patient Wait Times, and, as she noted, "the list could go on."

Bruno takes on the day-to-day financial responsibility at Horizon Eye Care, while Wohl has a financial manager on staff. "Our financial manager looks at cash flow on a daily basis, and provides me a report on a weekly basis," Wohl said. "Within a week of the month ending, she and the billing manager report on the previous month." Among the reports she expects to review: profit and loss statement, charges and amount collected, detailed expenses, and A/P and A/R ratios.

"Important reports for us include trend analyses, both in our offices and surgical centers, which we monitor by month and also year-over-year," said Candace Simerson, COE, Minnesota Eye Consultants, who also employs a financial manager. "We do weekly reports that calculate charges relative to the overall budget, as well as by each doctor so we can identify any gaps or changes. We monitor payments and A/R aging

by payer, in addition to our own A/P aging. We also closely monitor patient schedules to be sure we are optimizing our physician resources."

Simerson's financial manager Madhavi Rampalli had more than 15 years of experience in different healthcare settings before becoming the director of finance at Minnesota Eye Care. Her message to all administrators: "Have a complete and clear understanding of what's going on in the practice to protect and enhance its financial health. Accurate reporting and measurement of key metrics help gain that understanding."

UNDERSTANDING THE CONTEXT

But don't just collect data for data's sake. "Data has to be accurate and it has to be appropriately used," stressed Preece. He used two examples to illustrate his point.

First, related to accuracy, he recalled a practice that thought its collections were down 20 percent from one year to the next. "Their practice management system's reporting was leaving out one of the doctors," he said, which accounted for the perceived loss.

Second, related to using data appropriately, he recalled a practice with a staff payroll that was 30 percent of collections. "But is that low? Is that high?" he asked, noting that BSM usually suggests a ratio of between 20 and 26 percent. "Maybe employees have been there a long time, so wages are higher. But there are other advantages, including financial ones, to a staff with low turnover."

The staff payroll ratio is one of many benchmarks that administrators can consider once they have gathered data about their own practice. As defined by Margaret Andrews, an associate dean in the Harvard Division of Continuing Education, "benchmarking is the process of comparing your company metrics to the metrics of your industry competitors or to those of innovative companies outside the industry."

"To give data context, it's good to benchmark it against similar practices and against your own practice over time," Preece recommended.

Wohl concurred. "We are big on using performance benchmarks," she said. "They allow you to judge your trajectory."

J. Pinto and Associates and BSM Consulting have developed performance benchmarks for ophthalmic practices. Bruno noted she refers to a variety of other sources, including benchmarks developed by Corcoran Associates, Medical Group Management Association, Market Scope, Centers for Medicare & Medicaid Services, Opticians Association of American, and the American Optometric Association. "I am reviewing in absolute terms what our practice did 6 or 12 months ago," she said. "I am also looking at national benchmarks to aim not at what is average, but at what is best of class."

ASOA RESOURCES FOR FINANCIAL EDUCATION

In addition to ASOA regional meetings, the annual meeting, and web seminars (live and archived), ASOA offers the following resources for ophthalmic administrators looking to improve their grasp of practice numbers:

ASOA LEARNING CENTER

https://www.asoalearningcenter.org/

- Basic Accounting
- Basic Finance
- AR Patient Data Collection
- AR Processing Daily Work
- Billing, Accounts Receivable, and Reporting
- Financial Benchmarking
- Financial Reporting
- Practice Budgeting

ASOA RESOURCE CENTER

http://www.asoa.org/educational-resources/resource-library

- Budget Comparison Worksheets
- Budget Project
- Cash Flow Spreadsheet
- Collections Policy
- Financial Policy
- Patients Per Session Spreadsheet
- Report Cards

ASOA BOOKSTORE

http://members.asoa.org/core/store/

- *Accounting Fundamentals for Health Care Management*
- *Cash Flow*
- *Financial Management for Medical Groups*
- *Financial Management Policies for the Physician Office*
- *Little Green Book of Ophthalmology*

But she also warned against compiling "a lot of meaningless numbers." She said, with all the data and benchmarks available, "You have to stop and take a breath and say, what are they measuring here? What pertains to our practice?" The benchmarks she most values include the growth rate in new patient volume, growth rate in major surgeries, and optical conversion rate.

FIGURE 1

SAMPLE FINANCIAL DASHBOARD

"The best dashboard reports I have seen provide a very brief summary, mostly in a visual format, of the key indicators of practice performance," says Derek Preece. **Figure 1** shows key performance indicators, by department, for tracking practice financial performance. **Figure 2** shows how some of this information is used to create a dashboard for a hypothetical ophthalmology practice.

BILLING DEPARTMENT	CLINICAL	FRONT OFFICE
Days sales outstanding	Percent of diagnostic tests compared to total visits	Total patient visits
Net collection ratio	Office visits per FTE staff hour	Patient visits per FTE front-office staff
Claims error rates	Overall patient time in the office	Capacity (number of full slots divided by total slots available)
Claims per FTE billing staff hour	FTE clinical staff per FTE physician	Patient satisfaction survey scores
Percent of A/R in each aging bucket	Unscheduled days off	Check-in per hour/checkout per hour

To learn more about this topic, check out "Dashboard Reports Make a Picture Worth 1,000 Words," by Derek Preece, MBA, and Maureen Waddle, MBA, on page 10 of the November/December 2014 issue of *AE*.

Credit: These figures originally appeared in the November /December 2014 issue of AE, *courtesy of BSM Consulting.*

"The historical data helps with making projections, but always keep an eye out for changes."

—Candace Simerson, COE, Minnesota Eye Consultants

An important part of understanding the practice's financial situation is sharing the information with shareholders. "We have regular financial meetings with the partners," Wohl said. "We have developed a report over the years that answers the questions they have and that gives them a comparison over time. It's the same format, month after month, that they are used to seeing." But, she observed that every administrator finds his or her own way to communicate with the board. "I don't know any practice that does it the exact same way," she said.

"To present information to give them [board of directors] their options, you need to be able to summarize the data to tell a story and present the big picture," Simerson said. "It has to be data that is meaningful. And it has to have credibility; it has to be accurate."

One financial question a board often faces is whether to take on debt to finance a major piece of equipment, expansion, or other large expense. Accountants can help administrators and shareholders calculate how much debt the practice could, in theory, take on. However, all those consulted for this article stressed taking on debt is also based on the preferences of the shareholders. "Many practices are aggressive and are comfortable with taking on debt, others are not," Bruno said. Wohl pointed out that some partners want to maximize the amount of money they take out of the practice, while others would prefer to take out less and pay for major investments up front.

LOOKING AHEAD

To Preece, a critical step in collecting data is not only to measure against benchmarks, but also to develop a budget for the future. "I see a lot of practices struggling with this," he said, noting that some administrators and physicians resist because "they worry that if they see a great piece of equipment, they can't get it because it's not budgeted."

He stressed a budget is a planning document, not something set in stone, and tied to the *what is* and *what will happen* in the practice. He recalled going into a practice's strategic planning session in which two of the five partners announced they were planning to retire in the next two years. Not only was this a surprise to the other three, the retirements would have large financial implications for the practice.

Simerson said Minnesota Eye Care's 2016 budget, which she developed in late 2015, began with how many "doctor days" to expect in the coming year. "We build the budget based on our doctor resources, both MD and OD, and our revenue numbers are tied to that," she said. "What I have learned over the years is to plan to avoid surprises."

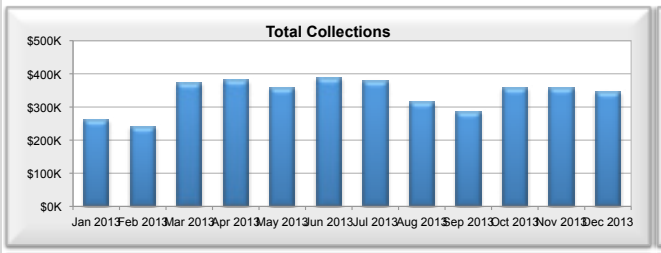
In addition to budgeting, Pinto pointed out another important benefit of using data: to prioritize and take action. "You had a sense that the office wasn't as busy lately, and your data confirmed volume was down from 1,000 patients a month to 700 or 800," he said as an example. "Now what? What is the driver—You lost a contract? You have a new competitor? A

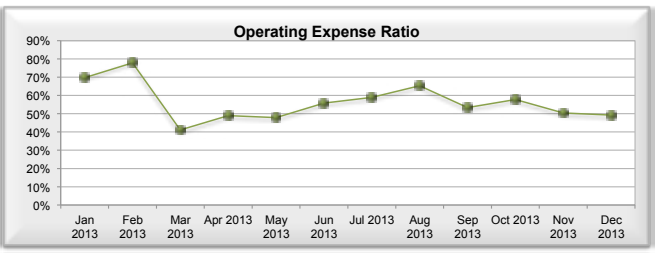
FIGURE 2

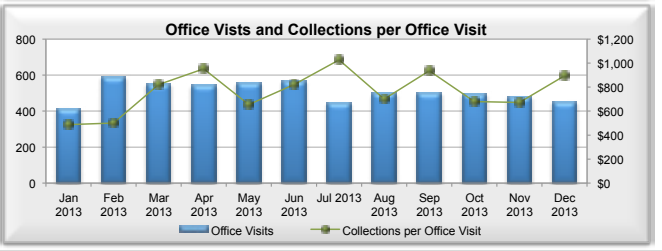
Eye Care Practice

Operational Assessment Dashboard - SAMPLE

	Current Month			Year-to-Date					
RESULTS	Dec 2012	Dec 2013	Variance	2012 YTD 12/31/12	2013 YTD thru Dec	Variance	3 Month Average	6 Month Average	12 Month Average
Total Collections	$307,999	$345,939	$37,940	$3,214,928	$4,035,198	$820,270	$353,410	$339,483	$336,270
Total Operating Expense	$168,336	$217,000	$48,664	$1,632,941	$2,278,940	$645,999	$201,255	$197,190	$189,914
Staff Payroll Expense	$81,238	$86,600	$5,362	$899,000	$1,045,200	$146,200	$86,800	$89,985	$87,100
Total Office Visits	387	449	62	5,448	6,097	649	475	479	508
Total Staff FTE Count	14.0	13.2	-0.8	11.2	12.3	1.1	12.0	12.3	12.3
FINANCIAL METRICS									
Operating Expense Ratio	54.7%	62.7%	8.1%	50.8%	56.5%	5.7%	56.9%	58.1%	56.5%
Staff Payroll Ratio	26.4%	25.0%	-1.3%	28.0%	25.9%	-2.1%	24.6%	26.5%	25.9%
Collections per FTE Staff	$22,000	$26,208	$4,208	$287,047	$327,708	$40,661	$29,451	$27,600	$27,339
Collections per Office Visit	$796	$770	-$25	$590	$662	$72	$744	$709	$662







recall problem?" A proactive administrator will run a series of tests to identify and then treat the cause, he said.

When asked about the hypothetical situation that staff seems to have too much down time, Boling described what she would do. "Subjective impressions can be tricky," she said. "I typically trust my gut and investigate further when I feel we are out of balance. In my opinion, the best way to check my gut is to perform a productivity analysis [combination of staffing ratios, department schedule reviews, and patient flow audits]. Sometimes the staffing ratios will identify that there is an issue, but digging deeper is necessary to clarify where the problem actually exists."

Simerson stressed that the goal of collecting and understanding financial information is to look ahead. "Times have changed, so administrators spend less time looking backward and more time looking forward, forecasting what will happen and implementing plans to respond to market trends" she said. "The historical data helps with making projections, but always keep an eye out for changes." *AE*

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