Lessons learned and the process of bringing the billing operations back in-house

Case Study

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**Introduction:**

This case study will explore the process and reasons behind the decision to bring the billing back in-house after having out-sourced this process for the previous 12 months. This is a group of four physicians and one advanced practice provider who had recently undergone a management change. On the advice of their lawyer, they brought in a management consulting firm to search and recruit a new manager for the group. A manager was hired, who immediately recommended out-sourcing the billing process. She did not have any billing experience and did not want to initially spend the time and money to establish and staff a billing department. The problem: After 9 months of using X billing company, the outstanding account receivables increased 20% and incoming cash was reduced by almost 30%. This discussion will then lead to the advantages and disadvantages of alternative options such as, selection of another billing service, working with the present company to improve outcomes, hiring billing staff and bringing billing services back in-house and doing nothing at all. The deliberations were intense and thorough making by the stakeholders was intense and thorough as they went through the alternatives listed. Implementation of their decision made will be discussed step by step. Lastly, we’ll discuss some lessons learned and possible impact on future projects.

**Background:**

In 1999, a four physician group found themselves spending an inordinate amount of time in the management of their practice and not spending enough time practicing medicine. After much discussion amongst themselves plus the interim manager on staff, it was decided they needed help with their Billing department but didn’t know exactly how to proceed. A consultant was brought in to assess the situation. The consultant recommended a new manager and outsourcing of all billing functions. The manager was hired upon the recommendation of the consultant. After she started, the interviews and evaluations of companies for outsourcing of the billing functions commenced.

The criteria used for finding the appropriate billing service were rate of return, cost, and ease of communication. Four companies were considered before one was chosen. The terms
included were a collection rate of 8% with a guarantee of A/R reduction of 20% for the first 6 months and an increase in cash flow by 10%. The process did include the posting of all charges after being reviewed by a certified coder, a position that was left in-house. It is worth noting that the billing company chosen was in the same town as the practice so that communication could easily be maintained. In summary, the advantages included collection, rate, and guarantee of A/R reduction, services, and ease of communication.

The reasons behind the decision to outsource all billing functions were varied. The office had recently lost the majority of the billing staff due to poor management. However, the recently hired certified coder fit well into the plan to have all charges reviewed prior to submission to the billing company. The newly hired manager did not have billing experience and the group did not have another employee on staff with billing experience. They felt the decision was an appropriate one considering the circumstances.

This process was started immediately at the direction of the new manager. In the second quarter of 2000, they were seeing a return on their investment and all physicians felt the correct choice was made. Charges were sent daily for posting. Collection of payments made at the office were posted and balanced. All insurance company and patient payments were sent to a lock box and directly deposited into the bank daily. The EOB’s were sent to the billing company for posting. Things were moving along well up to this point.

During the next nine months, the feeling of initial confidence with this decision would change. By the first quarter of 2001, the physicians found their gross charges increased by 20% with the addition of a new provider, while both their A/R and cash flow were decreased significantly. The billing company attributed this trend to the new provider and aggressive collections and reassured everyone that these numbers would change. After another quarter, with no improvement nor change in return on investment, another change was recommended by management.
Alternatives:

In April 2001, the manager and physicians reassessed the situation. The various options and respective advantages and disadvantages of each were discussed. The options would include:

1. Research and bring in a new billing company and negotiate a better contract. The goal would be for better results. The downside would be to incur additional money in setup costs only to have the same results happen. An additional disadvantage for this plan would be the time, energy, and resources it would take to identify and analyze new companies.

2. The company could stay with the existing billing service and renegotiate better terms. This would be less work than some of the other options. The cons of this alternative would include the bleak possibility that the same results would happen, which would result in a continued loss of revenue greater than what had already been experienced. This option was in contention due to the pros listed.

3. The process of hiring new billing staff and bringing the billing services back in-house. This would give the stakeholders greater control and the potential for a higher rate of return in the long run. However, the downside would be the initial outflow of cash for personnel, equipment, and billing software and the impact of inexperienced or poorly performing staff, at least initially, which could result in limited revenue collection.

4. The last alternative option would have been to not make any changes at this point. While this would negate additional expense or work, the downside would be the continued loss of revenue and the potential threat to the viability of the practice itself. Therefore, this choice was dismissed almost immediately.

Decision Making:

Each option was given consideration. The option of making no changes was immediately dismissed because the stakeholders determined that they had already used that option and the survival of their practice would be threatened if they continued doing what they had for the
previous year. The renegotiating option was also dismissed because the providers felt there had been too much damage and no remaining confidence in their relationship with the present billing company. Furthermore, the general consensus was they would lose their business if they remained with the present billing company even after a renegotiation. The potential of finding a new billing company was not ruled out immediately. The manager did a quick research into the number of local billing services in the area as well as set up cost. There were only 2 other billing companies in the area, neither had a good reputation and only one was as cost effective as their present company. After the information was reviewed by all the stakeholders, this option was also ruled out.

It was decided to bring the A/R back in house starting in May or June, 2001. The stakeholders involved in this decision were the providers which included 4 physicians and one new ARNP. They would all be impacted financially by rehiring of a billing supervisor and staff to implement an in-house billing department. However, with the lack of return on investment coming from the outsourced billing company, they felt they had nothing to lose in choosing another option.

**Implementation:**

The first step of the implementation plan was to find and hire a Billing Supervisor. Upon the recommendation of an existing employee, a candidate was interviewed. This candidate had excellent billing experience, as well as experience in their present operating system. The advantages were that she would not need any training and she was available to start three days a week by June.

This supervisor was given all the necessary resources in order to hire appropriate billing staff. She was allocated 4 FTE’s to start, coder; payment poster; and 2 collectors. The certified coder came with several years’ experience and was already working effectively in her position. A payment poster was found amongst the current front office staff. Although, she was not experienced, she was a quick learner and was ready to meet the challenge. Two collectors were hired, one with experience and one without. The inexperienced collector was placed in an office
with the supervisor, who personally trained the new collector. This collector learned how to retrieve A/R from insurance companies, as well as collect old patient accounts. Management and physicians approved of all personnel selections and expectations given to that new staff.

The initial step was to process an Aging Analysis report to outline the scope of work involved. The first line of the chart is the number of days outstanding and the second line is the percentage of total accounts receivable. It was close to the following:

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<tr>
<th></th>
<th>0-30</th>
<th>30-60</th>
<th>60-90</th>
<th>90-120</th>
<th>120+</th>
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<tbody>
<tr>
<td>35%</td>
<td>10%</td>
<td>8%</td>
<td>12%</td>
<td>35%</td>
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The practice management system was Millbrook, later known as Centricity. These reports were easy to read and made teaching easy. The supervisor started the collectors with the 120+ list and started working accounts, one after another. The total outstanding A/R was about $550,000 in total gross charges. There was approximately $193,000 in the 120+ column, so there was considerable work to be done. After the first three months, that percentage was reduced by 8%, down to 27%. After the 30 days or so, collectors started working on the 90-120 day category and then moved onto the rest of the aging categories. Their payer mix was 70% commercial insurance; 18% Medicaid; 3% Medicare; 9% self-pay. This payer mix was a strength for the practice, but the money from those payers needed to be collected. The majority of this outstanding money was unworked surgery accounts. It was discovered that the billing service didn’t make any appeals when surgical cases were denied and they simply wrote the charges off, presumably as a quick fix, to move this money off the accounts receivable. This money was now put back into the accounts receivable and the appeals process for these claims was instituted. Since the denials were not for timely filing, the recovery rate was about 70%.

The accomplishments made by this new staff were quickly evident and resulted in rapid improvements. For instance, the person posting payments was very detailed oriented, and her results were very successful. She was methodical and enjoyed the repetitive nature of her work,
which paid off tremendously. This employee’s work always balanced, and she took pride in increasing her speed while keeping her accuracy levels high. She challenged herself on a daily basis and didn’t need the supervisor to micro-manage her efforts.

The personality and performance of the entire group was strongly motivated by the challenge of collecting greater revenue for the practice. The collectors were like tenacious, and wouldn’t take no for an answer from insurance companies, as they kept digging until they received the answer they were seeking. It was wonderful to watch this group of employees become a tight knit group. The interaction and trust between team members improved tremendously as time went by, with their efforts resulting in an increasingly successful financial return. Every month was seen by the staff as an opportunity to increase their results from the previous month. Communications with the patients greatly improved as staff were able to answer their questions with confidence.

Success was defined with the decrease of account receivables and the increase in cash flow. Goals were set that became easily attainable after six months. There were a few policies put in place to help with the cash flow:

- All co-pays were collected at the time of service.
- All deductibles were collected at the time of service.
- Obstetrical estimates were given to all patients with the second visit to the office and payment plans were set up with deductibles and out of pocket amounts.
- Surgical estimates were also completed prior to the pre-operative visit and presented to the patient, to collect the deductibles, and/or out of pocket amount due for the surgery that was planned.

**Defining Success:**

The above action items helped decrease the number of patient statements that went out every month, which lowered costs in paper, ink, and postage. This new process also helped to improve the patient/office relationship as patients were happy to learn what was expected of them for these services and for the most part, they were happy to make payment arrangements. The goal was for the average OB patient to have their bill paid in full by the 7th month of pregnancy. This new
concept of open communication with the patients also enhanced the job satisfaction and cohesiveness of the billing office staff. They had a common goal. Staff also had input on how to help the patients with the payments, and management soon adopted an auto-check option available to patients called *Check Man*. This program was discovered and proposed by one of the collectors.

Another action that improved the cash flow was found when comparing the current and previous aging reports. The supervisor found that the billing service had written off every balance of $25.00 and under as a ‘small balance adjustment’. At the time the majority of co-pays were $20.00, so if a co-pay was not collected at the time of service, which was a frequent occurrence, it was never collected. Adjustments were reversed and statements sent. The volume was approximately $1,000.00 per day in co-pays or $20K a month.

All of this progress was not accomplished in a month or even 6 months, but within 10 months significant progress had been made. The aging analysis was approximately the following after 10 months:

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<th>31-60</th>
<th>61-90</th>
<th>91-120</th>
<th>120+</th>
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<tbody>
<tr>
<td>%</td>
<td>50%</td>
<td>22%</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
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**Summary:**

The stakeholders were happy they chose this option and considered it a success. While no major mistakes were made during this process, some procedures and processes could have been implemented more efficiently. If staff hired had more experience, as in this case, less time would have been needed in training, and the end goal would have been accomplished sooner. They could have also hired additional help in the beginning to get the bulk of the 90+ outstanding A/R researched more rapidly. Time was lost because there were only 2 collectors and the supervisor working on these accounts.
Lessons learned from this experience are varied depending on your role in the process. For the physicians or stakeholders in the office, it is safe to say that thousands of dollars were lost due to the poor advice by the consulting company and the manager that resulted in the decision to outsource the billing functions. Additionally, the second lesson to be learned is what happens when you do not closely monitor the company to which you have entrusted your finances. However, by taking responsibility for negative consequences of a decision, and implementing corrective action when it’s needed, a practice can take control and be successful again.