

Insourcing Accounts Receivable for Financial Gain



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Problem to Solve

A hospital within a multi-hospital system had decided years earlier to outsource part of its accounts receivable to a vendor with a workforce in several states. This decision was not going well, as the hospital's accounts receivable performance benchmarks lagged in comparison with other hospitals in the system.

Specifically, benchmarks such as accounts receivable days and accounts receivable amounts over 90 days were below national standards. Communication between hospital management and the vendor was impaired due to the vendor's decentralized management team located across several time zones. Accounts receivable reporting was only available monthly, with limited drill-down detail behind the numbers.

The hospital system hired Freed Associates (Freed) to create a plan to insource accounts receivable at this particular hospital and incorporate workflows into the business office operations. The goal was to increase the hospital's cash collections and lower its costs.

Strategy and Tactics

For a hospital's business office to suddenly absorb accounts receivable and its related workflows into daily

operations requires both ability and experience in operational gap analysis, workflow design and project management. This hospital's business office management and staff were too busy with their daily schedules to efficiently carry out the scope of this project. Plus, the knowledge and skills necessary to insource accounts receivable into business operations were beyond the abilities of the office's staff.

Freed began by reviewing the current contract between the hospital system and its accounts receivable vendor. The six-figure contract, which allowed a 30-day termination notice, notably did not include terms for maintaining certain levels of industry standard benchmarks.

A detailed analysis of the outsourced accounts receivable showed it comprised 30% of the hospital's total accounts receivable. An analysis of outsourced accounts receivable aging found 11% of accounts over 365 days and 31% already at 180 days, well above the industry standards of 0% and 15%, respectively. Medicare comprised most of the 180-day-plus accounts receivable.

Freed conducted a workflow and revenue cycle assignment gap analysis and compiled a list of tasks performed by the vendor to ensure that future workflows absorbed by the business office would continue to be executed. This analysis revealed that the vendor was actually responsible for very few tasks in the revenue cycle.

A review of revenue systems revealed that accounts receivable was managed in two different hospital systems, and the external vendor used a third system, with all three in separate physical locations. Hospital management did not have access to the vendor system and relied on outdated monthly reporting.

It became immediately apparent that a phased approach to insourcing would yield the greatest financial benefits for the hospital's business office operations, including cash flow improvements. Phase one would consolidate skilled nursing facility revenue cycle operations to the business office. Phase two would insource the vendor's accounts receivable operations into the business office.

Both phases were organized around a staffing model denoting roles and responsibilities of current staff members and their managers, and adding new staff members, as needed. Updated and more efficient workflows ensured that all tasks identified in the gap analysis would be considered and not missed. A detailed project plan covered resource assignments for both phases of the project.

The project plan and all related documents were transitioned to business office managers approximately one month before this assignment's conclusion. This time allowed Freed to monitor and help with implementing the insourcing of accounts receivable into the business office.

Results and Conclusion

In the end, the hospital's accounts receivable were successfully insourced. The business office gained several new and valuable workflows to fit with its revised daily operations, and significantly improved its cash flow. Moving this

work in-house allowed the hospital to discontinue the expense of its external accounts receivable vendor. Just two additional staff members needed to be hired to handle the additional accounts receivable work, with the rest of the additional workload distributed among existing staff.

In addition to the direct financial benefits the hospital gained from this initiative, it will also help the hospital system with future EHR implementations. The business office now has a better handle on hospital processes to convert them to new EHR system workflows.

The hospital attributes its successes to Freed's work analyzing the prior vendor's outsourced accounts receivable, documenting workflows and dividing insourcing implementation into two phases to make them easier for the business office to absorb. The result is a more efficient and effective hospital business office.