

ACMPE Paper, June 2002

Outsourcing the Billing Process in a Private Practice Setting

By Wayne P. Howlett, MHA, FACMPE

This exploratory paper has been submitted in partial fulfillment of the requirements for election to Fellow status in the American College of Medical Practice Executives.

This manuscript was prepared as part of meeting various recognition criteria as set forth and may be changed from time to time by the American College of the Medical Practice Executives (ACMPE). The experiences, thought, ideas and opinions set forth are solely those of the author. They do not reflect any position on the part of ACMPE with respect to their completeness, correctness or accuracy of the paper's contents, for example, on points of law or accountancy in effect at the time of or subsequent to the date of paper completion.

Introduction

Outsourcing the billing process in a medical practice is one management strategy that can be used to minimize the hands-on workload of the manager, while increasing the expertise in the billing process. This paper will study three main areas: the background of this management strategy and the benefits and drawbacks of outsourcing the billing function, important steps to remember when evaluating vendors, and a study of the current usage and general attitude of this option by the medical practice industry today.

With all the activities that a practice must do to provide adequate care, the billing function can be an overwhelming problem. By hiring another organization that specializes in medical billing and who has the resources to stay up-to-date on the changes in regulations and the insurance field,

many practices hope to reduce their workload, and to focus on providing quality care. But the process of finding and keeping a good billing vendor is one that should not be taken lightly.

Through use of non-scientific surveys, this paper hopes to discover what the level of usage is among physician practices. Two sample surveys were performed in the Central Ohio area to test the documentation's accuracy of involvement.

Many practice managers are faced with the need to increase their revenue and control their costs. They also find themselves dealing with so many activities each day that they feel pulled between responsibilities. Some of the activities they are concerned with include ordering supplies, negotiating contracts with insurance companies, supervising their employees, managing payroll and taxes, and attending to the billing functions of the practice.

This paper studies the use of outsourcing the billing process in a medical practice. It also reviews the benefits and drawbacks of this option. It evaluates several steps in selecting a billing vendor, and reviews the billing process to identify the different steps involved. Finally, two non-scientific surveys are performed to evaluate the use of billing vendors by medical practices in the Central Ohio community.

The findings of the surveys are that a minority of practices use the option of outsourcing billing functions, and that a variety of reasons, including all the drawbacks mentioned were to blame for the lack of involvement by the rest of the community.

A literature search was performed to consider the impact outsourcing has in all industries. It was found that the number of companies using this option is increasing, and that there are expectations that dollars spent on outsourcing will have tripled over a 4-year period, from \$100 billion to over \$300 billion.

There are many benefits and drawbacks to outsourcing, and they are consistent throughout different industries, including medical practices. Some of the benefits include access to experts,

increased time and money to focus on the core product and service, and streamlining retained processes to be more quality conscious.

The drawbacks include loss of managerial control and potential degradation in the quality of the outsourced products and services, potential difficulty in regaining control of the billing process, once it is outsourced, and additional dedication will be required to keep open communication lines between the practice and billing vendor.

The decision to partner with a billing vendor is not an easy one, and is somewhat dependent on the confidence a practice manager and the doctors have in the billing company's abilities. This paper offers several necessary steps a practice must take and things to look for when selecting a billing vendor. It is viewed as a courting and marriage dance with the practice's revenue stream at stake. Therefore, nothing about this decision should be taken lightly.

The paper outlines the basic process that is used in billing for services, and details what parts of the process are being evaluated. It includes a thorough flow sheet that takes the reader through the process in picture format. This evaluation is especially helpful later on when the paper presents finds of two surveys.

An evaluation of participation among local medical practices in the Columbus area is performed through two different surveys. These evaluations look at the participation levels of the practices selected among qualitative and quantitative lines.

Some of the metrics in these surveys include accounts receivable turnover (Days in A/R) and changes in cash flow. It also looks at the different services which billing vendors provide and whether these services are what most practices desire in a billing service. Even though these surveys are not scientific in nature, they are useful in showing what the involvement practices have with billing vendors in the Central Ohio area.

Conclusion

This paper provides a thorough evaluation of the option for medical practices to outsource the billing functions in a medical practice setting. It discusses several of the strengths and weaknesses inherent in this option and evaluates the process a practice manager would go through to select a vendor. Through two simple surveys, the paper compares the experiences these practices have with the outcomes found in the literature.

With this paper, the option of outsourcing the billing process can be viewed as a risky decision. However, as long as the practice goes through process of selecting a good vendor and then strengthens the relationship with that vendor to ensure the outcome is what the practice expects, it can have great potential.

Private practice managers usually find their list of responsibilities longer than they have time to work on them. Some of the activities they are engaged in include purchasing medical supplies, coordinating the clinical staff, negotiating contracts with insurance companies for reimbursement, liability insurance, health insurance, payroll and taxes, and billing for services. This short laundry list of responsibilities demonstrates that many feel they have too little time to spend on crucial aspects of the practice, one being the billing process.

Outsourcing of the billing process is one management strategy that can be used to minimize the workload of the manager (Physician Relations, 1998). Outsourcing is the process of taking operations that are normally handled within the organization and paying an outside vendor to handle them (Krajewski, 1996). This option is often used when the practice is not large enough to substantiate hiring a billing clerk or when the workload of billing seems too great for the existing personnel. This paper will explore this option by looking at its benefits and drawbacks, key steps in selecting a vendor, and participation levels by practices in Central Ohio.

Outsourcing affects the performance of private practices in three different ways. First, choosing a competent vendor can give a private practice access to billing experts, rather than incurring the

cost of recruiting these trained personnel. This can be a major benefit, especially to small practices that do not have the resources to gain access to competent and quality billing staff.

The second benefit for using outsourcing is it helps to minimize the workload for the practice manager. By removing the large responsibility of sending claims to payers, the staff is better able to focus on accomplishing other tasks.

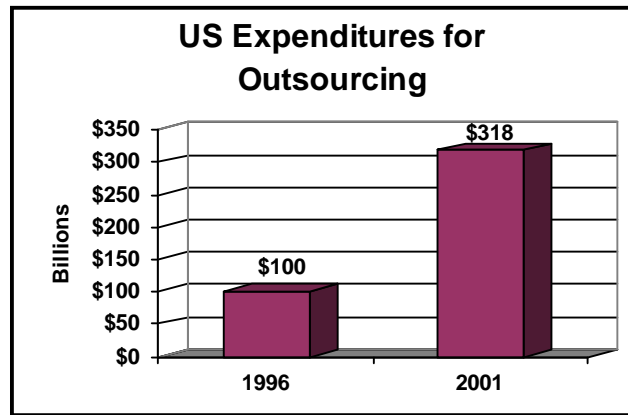
Lastly, it allows the practice to focus on their primary purpose, providing quality care to their patients. By outsourcing the billing process, more resources are available to focus on the needs of the patient.

There are several potential drawbacks of outsourcing the billing process. They speak to the importance of being careful when choosing a vendor. This list includes the loss of managerial and quality control, the increased difficulty of reclaiming the process at a later date, the potential for fraud, and lower commitment to success by the billing vendor. These all contribute to potential hazards to a successful outcome of the billing process being outsourced.

Every practice has some billing functions being performed for the services they render. As this function is evaluated, many managers wonder if there is a more efficient way to provide the same outcome, or perhaps even better results. This paper is designed to provide information about the use of outsourcing in medical billing, and to shed light on the process that a practice would go through to make a wise business decision about whether to outsource; and if so, which vendor to select. To bring up-to-date data into the study about the number of practices using billing vendors, two different surveys are used to assess the use of medical billing vendors. The surveys to be used are not intended to be scientific in nature, but rather, for the purpose of collecting useful data that can describe some of the expectations and experiences of the surveyed population. The data points collected are standard financial indicators and provide a basic understanding of how the practice has benefited from using a billing service vendor.

Common In all Industries (Literature Review)

Outsourcing in general is not a new management strategy. It has been used for many years in other industries. “In 1996, US companies spent more than \$100 billion on outsourcing. Today, more than 90% of organizations outsource one or more activities. By 2001, outsourcing expenditures will more than triple to \$318 billion” (Corbett, 1997).



Source: Michael F. Corbett & Associates, LTD, 1997

There are two starting points for organizations that are looking to outsource. The first are those that are entering the market for the first time. They typically have no assets (equipment, manpower, education) to direct toward the intended process. Therefore, by outsourcing, they can forego the large initial capital outlay that is otherwise required (Krajewski, 1996). The second starting point is for those who have already provided the service, but choose to extricate themselves from the process. By so doing, they can free up resources for use elsewhere, or allow for the organization to cut costs by downsizing or minimizing utilized resources (Cherrytree, 2001).

Major Benefits

The first major reason for outsourcing is that it offers access to expertise that would otherwise be very expensive to keep on the payroll. When purchasing this product line or service from an external vendor, companies are only paying for the limited time they use the vendor (Cherrytree, 2001).

The second major reason for the increase in outsourcing is the additional time the organization can free up to spend on other activities. This strengthens the organization's ability to provide their product or service while still accomplishing peripheral tasks (Cherrytree, 2001).

Another benefit that outsourcing offers is that of international relationships. As organizations begin operations in other countries and acquire international market-share, they find it is easier, and often cheaper to outsource a product or service rather than internalize it (Brown, 1992).

Potential Drawbacks

The list of potential drawbacks, however, is as long if not longer than the list of potential benefits. Unfortunately, most organizations that outsource "cite few drawbacks" (Rodsjo, 2001). First, the organization that is outsourcing a production line or service loses managerial control of that line. This often creates problems when the product or service is not at the level of quality it should be. It can also slow the process of making changes or updates within the organization (Krajewski, 1996).

Another area of concern is with the potential for the vendor to remiss in the quality of their service or product due to a lower commitment level by the vendor's staff. This disadvantage may cause large negative ripples through the company and its customers or patients (Rauber, 2002).

The next major drawback of outsourcing any service or product is the difficulty of reclaiming it. Often, information that is important to the operation is lost or not transferred back to the organization (Krajewski, 1996). Therefore, the organization must start collecting information again, hoping to regain its ability to provide the service at the intended level.

Other potential drawbacks include risks of fraud, hidden variable costs, and errors due to the inexperience of the vendor. With issues of fraud, company owners run the chance of being sued or even worse lose their company due to faulty work performed by another vendor. In every case however, the company will receive bad name recognition, and have the potential to lose customers.

Outsourcing in a Medical Practice

Many medical practices choose to outsource. Some of the services include: collections accounts, staffing, lab work, information systems (IS), patient charts and transcriptions. Practice managers also choose to outsource the billing process, also known as third-party billing. Healthcare Billing & Management Association (HBMA), a trade association representing third-party billers shared the following about the history of the healthcare billing industry:

“The third-party billing industry dates back to the 1950’s...[Today], healthcare billing companies come in all sizes, ranging from one person [companies] to publicly traded companies with revenues of \$3-\$400 million annually. Third-party billing companies employ nearly 20,000 people nationwide, and process more than 17 million claims per month, representing more than \$18 billion per year.” (HBMA, 2002).

There are several reasons they choose this option, including accessing expertise in the coding field that are more adept and up-to-date with all the requirements of the industry, both governmental regulations and non-governmental policies. Ideally, these vendors would also have all the equipment and supplies for performing the necessary tasks, allowing the practice to minimize any capital outlay, thereby increasing the available resources for use elsewhere in the organization.

Another benefit for outsourcing the billing activities is that the remaining workload becomes focused and employees can be more conscientious of the activities they perform. Since the practice is providing the service of caring for the health of its patients, this allows employees to streamline their actions to be more in line with their purpose. (Cherrytree, 2001)

With all these benefits come several drawbacks. The following have already been listed, loss of managerial control, potential loss of quality in the outcome, difficulty in regaining control of the process, and potential of fraud.

Another possibly disastrous drawback is the natural tendency for the practice to become relaxed toward accurate demographic collection and documentation of services (D’Eramo, 1999). This

coupled with the potential for decreased communications with the billing vendor can set off a chain of events that will almost assuredly cause the practice to suffer financially.

Choosing a Vendor

The process of finding a vendor has been discussed as one of the most important steps when setting up a good system for billing. Not all billing services are capable of performing the service a practice intends to receive. Hence, choosing a vendor should be much more involved than looking through the phone book, or choosing one based on price.

Barbara Pilborough, a billing and collections consultant with Philadelphia-based Parente Consulting says, “referrals provide a better source of leads and are likely to yield more reliable results” (Physician Relations Update, 1997). Other good resources are billing trade associations, such as HBMA, where billing companies share information amongst themselves as a means of educating each other.

Once a billing company is identified, it should be evaluated through a few different measures, one of which is a background check. This can be done through the Better Business Bureau, or a similar organization. Even those companies that participate in a national or international billing trade association should receive a background check, since trade organizations do not always check member organizations for ethical and financial violations (Physician Relations Update, 1997).

Another measure is the financial solvency of the company. Here, the intention is similar to what an investor would look at when buying stock in a company; and since the practice will be placing all their revenues into the billing service, this analogy of an investment is appropriate. The billing service should be viewed as a long-term partner, and a financial study could provide needed information on their current and long-term fiscal options (Physician Relations Update, 1997).

It is also important that a billing vendor has a double-check system in place to ensure that not only are all of the services rendered being billed, but that the billing is accurate to what was

performed and documented. These checks and balances are helpful in minimizing the potential for becoming a target of an audit. With the billing being double-checked, it should also provide feedback to the doctors on better coding practices for accuracy of billing and for better reimbursement. Any good billing vendor will have these ongoing evaluators built into their standard processes. All these steps can be useful in choosing the best billing service for the practice to reduce their risk of experiencing an unsuccessful fit.

Practice Size

The size of the practice is not always a good indicator of the use of a billing service, but larger practices seem less likely to need one. Emmett Hartsock, an administrator for Beckley Hospital in West Virginia states:

Outsourcing makes sense for small practices...In small-group and solo practices, it's difficult to provide a clerk with the necessary continuing education...But because the clerks are billing tens of thousands of dollars each month, having undereducated employees can be risky.

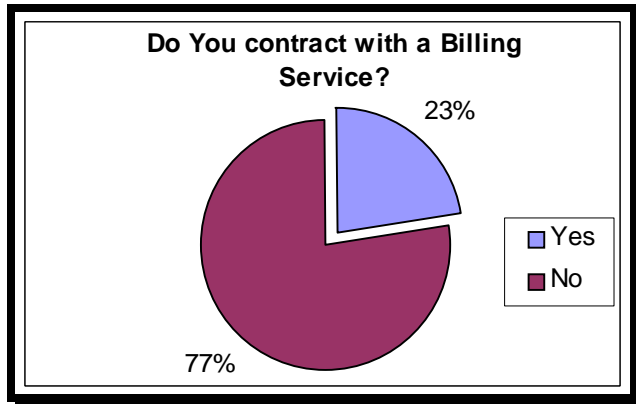
For a large practice, outsourcing makes less sense...A large practice is able to hire a chief billing clerk to oversee the operation. Large practices also can afford to pay for billing clerks' ongoing education (Physician Relations Update, 1997)

Industry Involvement in the Past

Throughout the 1980's, billing outsourcing was common in the medical practice setting, especially for the smaller practices with less than five physicians (Lander, 1999). However, because so many practices experienced the potential drawbacks of outsourcing, most practices became less trusting of billing services. This trend may change in the future, but most practices have decided to keep billing in-house for the present time. Much of the decision to pursue outsourcing is dependent on how risk averse the practice manager and physicians are, and how willing they are to trust a vendor with their information (Physician Relations 1998).

Pulse Check Survey

A recent Pulse Check performed on the website of the Medical Group Management Association, (MGMA, 2001), asked a very simple question: “Do you contract with a billing service?” The response to the survey was that most do not. Below is a graph of the findings:



Source: Medical Group Management Association, 2001

Out of 224 respondents, 51 did have some contract with a billing service. This acid test survey demonstrates a lack of general acceptance of this strategy. It also shows that this option has not gone away, and it may be some time before it does.

Key Indicators

Services Provided by Billing Vendors

While the general industry has an abundance of information about outsourcing, little is available for medical billing. Therefore, a review of several billing websites was made in an attempt to collect specific information about what services are offered by medical billing vendors. This review found that most vendors offered a similar list of services. These include services such as processing claims electronically, providing invoices to patients and third parties, offering advice and assistance in billing management, expertise in using the necessary forms, and detailed financial reports of what has been billed. Other factors that were evaluated include the impact on cost, cash flow, and Days in A/R. This list was used as the basis for the study. Even when these

measures are used, physicians and their office managers must determine their own course based on how they manage risk.

Changes in Cash Flow

An analysis of the costs a practice experiences with the billing process before and after and choosing to use a billing service is a good descriptor of whether the service is a benefit or not. Many practices, however, do not track the total cost directly related to an internal billing process, so a measure must include ranges between which a practice can fit into. Cost valuation points out that individual assets or liabilities are often the approximate value rather than the real worth (Cleverley, 1997). Therefore, the approximate cost of internal billing is sufficient.

All practices track their cash flow to some degree, and often they will attribute fluctuations in cash flow to events such as changes in physician vacations, patient volume or economic pressures. Because this is an ongoing internal measurement, it can be used to reflect the value that a practice places on a billing service. While practices may not officially report the causes that create changes in cash flow, they should have an idea of how often, and to what level it has been impacted by large decisions such as switching to a billing service.

Accounts Receivable Turnover

Another key indicator is Days in Accounts Receivable (D A/R). Here the focus is how long it takes on average before A/R turns into cash. Since A/R is less liquid than cash, it is not as useful to the practice, so the quicker D A/R can be converted into revenue or “turned”, the more useful those assets are to the practice (Cleverley, 1997). Many practices do not track this. When practices do watch D A/R, they can catch small problems before they grow large.

One way to track D A/R is through individual patient accounts. This provides a list of all patients whose accounts have outstanding balances over 30 days. While this can be particularly useful for single patient issues, a more effective large-scale method is to review D A/R by payor. This report combines all patient accounts by payor and displays their level of outstanding balances. It

is very useful when following up on insurance companies, and shows where issues of reimbursement exist. A third report is the overall D A/R for all payors (individual, insurance, government programs, etc), and includes all accounts with an outstanding balance for the entire practice. In 2001, the MGMA presented a study based on 2000 data that displays practice averages for D A/R by practice size. It is particularly useful as a benchmarking tool.

Multispecialty Practices Accounts Receivable Information	
Size	Days Gross Charges in A/R
Overall	63.96
76-150 FTE MDs	69.91
51-75 FTE MDs	72.26
26-50 FTE MDs	61.08
11-25 FTE MDs	57.67
<10 FTE MDs	58.88

The Billing Process

A description of a generic billing process is important in order to understand the many parts that affect both a practice and a billing service (See ATTACHMENT A for a flow chart of this process). The main components to the accounts receivable process that a practice must complete including the following: claims generation and submission, addressing payment denial situations, and follow-up on insurance and patient collections. Many third-party vendors provide only the billing portion of the process, therefore a flow chart has been added to bring clarity to the specific pieces of the process that this paper addresses.

The first step of the process is to provide the service and track what is provided. To do this, as the patient arrives they are asked questions about demographic data (home address and phone number, and work address, spouse information, insurance information, etc.). This information is entered into the patients file. A super bill (route slip, charge ticket) is then provided to the physician to be filled out during their visit with the patient. The physician is then responsible for completing the form, using CPT and diagnosis codes to reflect the services rendered, including

any lab work that was ordered. Once the super bill is complete, it is routed to the charge entry stage, where the information on the super bill is entered into the patient's account. The last step is to generate a claim from the information collected. While this step is not difficult, it does require a level of understanding that can only come through time.

Measuring Performance

Measuring the performance of outsourced vendors can be broken into two areas, quantitative and qualitative measures. Quantitative measures are based on placing a numerical value on each benefit, and are often associated with tracking the financial ratios, the cost of administration, and the amount saved by controlling costs. Qualitative measures evaluate how well a product or service operates. It is often hard to place a number on these measures except through comparison. By focusing on the quantitative and qualitative aspects of outsourcing, an organization will be better able to recognize the benefits obtained.

Study Methodology

This paper will measure the value of billing service vendors, first by using qualitative measures to review what is desired from billing services by each practice, and what is received, then by quantifying the amount of benefit that the organization has experienced by choosing to outsource. A two-step survey will be performed to first look at qualitative aspects and then the quantitative measures or using a billing service.

Survey 1

The first survey (Attachment B) was performed at an Ohio Medical Group Management Association (OMGMA) conference in early March 1999. This survey asked OMGMA members whether or not they outsourced, and if so, what benefits they expected to receive from it, along with which of the expected benefits they have received. If they did not participate in outsourcing, the survey asked why not, using some common options that included the list of drawbacks mentioned earlier.

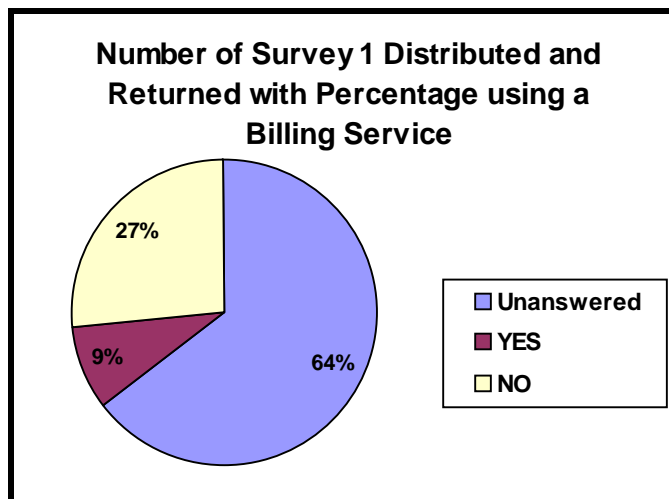
Survey 2

The second survey (Attachment C) focused on cost savings and increased revenue that a practice experienced from using a billing service. It also focused on cost. Questions were used, such as: what was the cost for the in-house service as opposed to the vendor price? What additional costs were incurred, if any? Did their profit increase or not; and if their organization tracked A/R turnover, did it decrease?

The process used to choose the sample set for the second survey was not scientific in nature. Some mechanisms were used, however, to create randomness.

Results

The first survey was presented at a conference for OMGMA. Of the 45 surveys distributed, 16 were returned and 4 of these stated their involvement in outsourcing.



Source: Survey 1 to OMGMA Conference, March 1999

The members of OMGMA tend to be more assertive, in that they are working to strengthen their skills by participating in this organization. Therefore, since the sample population is not representative of the total population, the findings in the first survey may be somewhat skewed.

However, the data can still be used to describe current conditions in the health care market for billing services.

Most of the practices that participated in the survey had a practice size between three and ten physicians (11 of 16 practices or 67%). Of the 16 practices, 12 (75%) said they do not use a billing service. This falls within the expected range from what the literature provided. Of the four practices that use a billing service, two indicated they chose outsourcing for the following reasons: Improving Cash Flow, Improving Cost Efficiency, More Convenient, and Staff Efficiency. Only one practice received what they hoped for in all areas, yet all but one of the practices said they were happy with their billing vendor.

Discussion

While the literature suggests that there should be a correlation between the size of the practice and the use of billing services, this survey does not present any findings that substantiate this claim. Again, it is important to remember that this sample set is not indicative of the entire population, and therefore the balance of practices not found in this survey may present a more consistent pattern with what the literature states.

Of those surveyed who did not participate in an external billing service, four indicated they chose not to because of the lack of trust with billing services. This decision falls right in-line with what the literature believes to be the largest single cause for not choosing it. Additionally, six practices stated their belief that it was cheaper to provide billing in-house rather than to outsource it.

While this survey cannot substantiate this claim, the second gets more detailed about this subject.

Of the answers provided above, only one practice was actively engaged in, and experiencing strong success, because of their choice to outsource billing. This practice was contacted so they could describe their activities, which may be different than other practices. Because this organization's outcomes are so much greater than the others, their differences are of great value to this study.

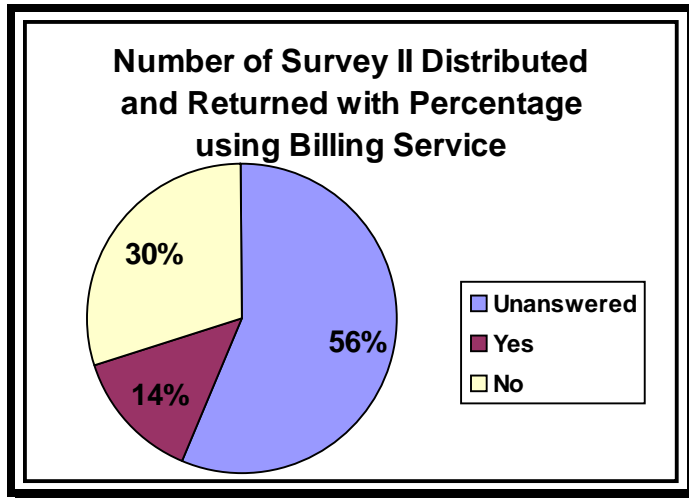
One of the activities this practice does is keep a constant communication line open between the practice and the billing service (D'Eramo, et. al.). Everyone knows each other well, and they are constantly sharing and updating each other on the successes and failures they experience. Because of the communication line they have established, the practice has control and feedback, and the billing service is more aggressive with their attempts to send correct claims and follow up with those claims in a timely and efficient manner.

This is not a cookie cutter pattern for all practices, mainly because practices that choose to use a billing service, assume the servicing vendor is an expert at billing, and they do not want to interfere with their business. Additionally, many have gone to outsourcing to avoid the work, and they do not want to micro-manage the process. Therefore, the practice often takes no action to ensure the service rendered is appropriate for the practice. Since this level of communication is required to obtain this kind of success, most practices will view it the same as performing those duties in-house.

Another interesting fact is that the experiences each practice is having with their service do not coincide with the initial expectations of the practice; with one exception. Since none of the practices experienced what they were looking for, they must not have known what they were trying to get from outsourcing. What this clearly teaches other practices facing this decision is that they must focus on what they plan to gain from the service, and work to achieve this in order to obtain their goals when outsourcing the billing process.

Survey II Results

Survey II focused on the quantitative outcomes that a practice has experiences with use of a billing service. Again the measurements here are the same as if billing were to be done in house, except they focus on the outcomes received by the practice on behalf of the billing service. Seventy-three calls were made to private practices in Central Ohio. Of these, thirty-two office managers and billing staff completed the survey.



Source: Outcome of Survey II Phone Calls

Nearly half of the practices in Survey 2 that use a billing service have done so for at least three years. Nine of the twelve practices that outsourced their billing said the company's cash flow was positively impacted because of the service. This suggests that, a practice that is considering a billing service has nearly a 50% chance of surviving three years, and a 75% of increasing cash flow within that time.

At first glance, the results of the survey showed that 41% of those practices choosing not to outsource consisted of a subset of the smallest practices. This demonstrates that this sample set does not agree with the literature, which states there is more benefit for smaller practices to participate in outsourcing, and for larger ones to create internal processes. While most of the practices could be considered small practices, (less than 25 physicians are counted as small practices MGM Update, 1997), it seems that aside from practices with 3-5 physicians, the smaller they get the more prone they are to choose the internal billing option.

One practice, Ohio State University (OSU) Family Practice that consists of over 60 physicians used the OSU Hospitals billing department, which is separate from the practice, and therefore technically the practice has a billing service. However, the practice is seen as an extension to OSU, as is the billing department. This practice is an example of the size of the organization having the ability to provide the capital expenditures for training, information systems upgrades,

salaries and other costs associated with doing internal billing. However, because of their affiliation with OSU, they were not required to spend money to process their own billing.

The level of trustworthiness that customers feel towards their billing vendor is another method of evaluation. The practices that chose to keep their billing in-house scored an average of 3.23 on a scale of 1 to 5, demonstrating their beliefs that billing services can be trusted somewhat. The score for the group who participated in outsourcing was a 4.00. These scores were very close, especially when the literature stated that practices are moving away from billing services for this issue in particular.

Private practices that did not use a billing service believed the cost of a service would be more expensive than, or at best, equal to internal billing. Only one practice felt they would save money by using a billing service. When asked the same question, outsourcing practices felt they were all saving money in the process, except one.

Discussion

An explanation for this crossover may be in how each practice determines their acceptable level of cost. However, what is expected and what is experienced are not the same—just as before with the desired and actual benefits received for outsourcing—and therefore those who do not outsource may have a lower tolerance for risk in spending an exorbitant amount on a billing service. In contrast, outsourcers may have been drawn to a billing service for other reasons, and found that the reality of cost is lower than their expectations, and therefore acceptable.

The total annual billing for practices that outsource seemed to have been about \$500,000 to \$800,000 per doctor. The only outlier was a practice of four physicians with an annual income of \$1.8 million. One fault of the survey was that it did not ask non-outsourcing practices what their annual billing was. This error minimizes the amount of comparison and contrast that can be generated between these two groups.

Another method of evaluating the efficiency of a billing vendor is to track Days in Accounts Receivable (D A/R). Six of the ten practices who outsource track D A/R, and of these, 50% have watched it for over one year. Based on the chart from MGM Update, the overall D A/R should be around 63.96 days. The average of the practices in this survey is between 58 and 73 days. This means that the majority of payments are being received within three months, and many are within two months. When asked how effective the billing service was in lowering D A/R, only four participants answered, and they all felt that other factors were involved in decreasing D A/R.

Overall, the findings of the two surveys are that this management strategy has been useful to many practices in that it has helped them to regain needed resources, such as time and labor, and it has positively impacted cash flow and participated in minimizing D A/R.

Similar Study Results

These results are very similar to the Pulse Check discussed earlier. While the Pulse Check survey was very simple, it came up with a comparable result, as was found in the physician practices in Central Ohio. Unfortunately, an extended search was performed for other surveys of the volume of physician practices choosing between using billing vendors or performing the service in-house, but was unsuccessful. This topic has not been reported on much by those making the decision to “make or buy” the billing function. Therefore, the only comparable information is the Pulse Check mentioned earlier, and while that is interesting, it does not provide any scientific or factual evidence that the findings of these two surveys is accurate or consistent with other regions of the country. In short, this study seems to be the first of its kind.

The outcome from this study and the Pulse Check is that most practices use internal billing departments, rather than outsourcing that function to a billing organization.

Conclusion

This paper focused in the management strategy of outsourcing, and how it can benefit the private practice. Outsourcing has been used by many industries for many years with great success. It has

also been successful in the medical practice field, although since the late 1980's its utilization has been low. This market is a potential gold mine for office managers and physicians who need additional time or need to control costs more tightly.

A two-step survey was used to collect information about the use of billing conducted at an OMGMA conference, and focused on qualitative measures such as the benefits of outsourcing. The second survey was performed through telephone interviews with Central Ohio medical practices, and used quantitative measures to evaluate the financial success a practice has experienced from using a billing vendor.

While the response rate was low on the first survey (27%), some basis for evaluation existed. Fortunately, the response rate on the second survey (45%) made analysis more reliable. The results from the two surveys demonstrate that some practices experienced success when using a vendor, but not all practices are willing to accept the risk of placing their financial outcome in the hands of a third party.

In deciding use a billing service, a practice should take the time to analyze their desired and expected outcome of outsourcing. An evaluation of the organization they intend to contract with is imperative. Once a practice chooses a vendor and begins the process, they would be wise to create many lines of communication from their practice to those within the billing service, so both sides are able to keep information flowing at high rate.

Some of the benefits physician practices should expect include: access to long term expert support without hiring the staff, and the ability to free up time and money to be used for other things. Some of the drawbacks that may come from low communications include loss of managerial control and the difficulty to reclaim production of the product or service.

Reference List

Billing Vendor Website Reviews, 1999:
123Medical Billing www.walkerinc.com

HPS Network, www.gpsnets.com

KVI Administrative Outsourcing, www.outsource-admin.com

LYNX Medical Systems, Inc, www.lynxmed.com

MMT Medical Billing Services, Inc, www.mmtservices.com

Preferred Medical Electronic Billing, www.pmed.com/index.html

Pro-Billing, www.probilling.qpg.com

RAMCO Medical Billing Inc, www.ramcobilling.com

T&W Enterprises, www.tw-enterprise.qpg.com

Unlimited Medical Management Services, www.unlimited-medical.com

Cherrytree & Co., Trends in Outsourcing, www.cherrytreeco.com, 2001, pp 1-4

Cleverley, William O., Essentials of Health Care Finance, Fourth Edition, Aspen Publishers, Inc, 1997, pp. 78, 140

Healthcare Billing and Management Association (HBMA), www.hbma.com/about/

Krajewski, Lee and Ritzman, Larry, Operations Management – Strategy and Analysis, Fourth Edition, Addison-Wesley Publishing Company, 1996, pp. 103

Medical Group Management Association, Cost Survey, 2001, pp. 92, 106

Michael F. Corbett & Associates, Ltd, www.corbettassociates.com/index.html

Personal Interviews: D'Eramo, Michael, MaternOhio Management Services, LLC, Executive Administrator, April 1999

Ramser, Justine, Kingsdale Gynecologic Associates, Office Manager, March 1999

A. Murphy, Barbara, MaternOhio Management Services, LLC, Insurance Follow-Up Director, April 1999

White, Joellen, Kingsdale Gynecologic Associates, Payment Posting Coordinator,
March 1999

Lander, Ruth, Columbus Oncology, Practice Administrator, March 1999

Physician Relations Update, The International Billing Association, Impresso, Inc,
www.newsletter.com, 1999, pp 1-4

Physician Relations Update, The International Billing Association, Impresso, Inc,
www.newsletter.com, 1997, pp 1-2

Rauber, Chris, Health Leaders-Information to Lead, In or Out?,
www.healthleaders.com/magazine, 2002, pp 5

Rodsjo, Susan, Health Leaders-Information to Lead, Letting It Go,
www.healthleaders.com/magazine/feature, 2001, pp 1-3

Attachment A

*** Please call MGMA Information Center for Attachment A ***

Attachment B

Survey of Billing and
Collections Outsourcing
Study by Wayne Howlett – Graduating MHA Student at the Ohio State University

This survey is part of a study that reviews the use and non-use of billing and collections vendors, and evaluates the satisfaction of the practice based on the initial expectations of outsource vendors. It also reviews why practices have chosen to not participate in outsourcing their billings and collections process.

What method did you use to choose your vendor?

- Phone book
- Referral
- National billing trade association
- Other

Did you study your chosen vendors organization (i.e. review Financial statements, contact the Better Business Bureau)? Y N

Would you like to participate in a more in depth survey to review your actual savings by outsourcing your billing and/or collections process? Y N

Please provide your address and phone number:

If your company DOES NOT outsource their billing and/or collections:

Why did you choose to keep the billing process in house?

- Do not trust outsource vendors
- Cheaper to keep billing and/or collections in house
- Have not felt the need to pursue outsourcing
- Unaware of outsourcing option
- Enjoy doing billing and/or collections

Are you interested in learning more about outsourcing your billing and/or collections? Y N

What would you most want to outsource:

- Billing
- Paper claims
- Electronic claims
- Claims tracking and follow up
- Collections

IV Additional information:

Attachment C

Outsourcing the Medical Billing in a Private Practice

Survey 1 Summary

Distributed	45
Returned	16
Avg Return	35.56%

1. Practice Size		6. How did you find a Vendor	
1-2	1	Phone Book	0
3-5	6	Referral	4
6-10	5	Nat'l Trade Assn	0
11+	4	Other	0
2. Do you outsource?		7. Was the Svc Studied?	
Y	3	Y	4
N	12	N	0
Blank	1		
		8. Want to Participate in Bigger Study?	
PARTICIPATION		Y	2
3. Why choose to outsource		N	7
Cash	2		
Cost Efficient	2	NO PARTICIPATION	
Reliable	1	9. Why No Participation?	
Efficiency	2	No Trust	4
Patient Care	1	Cheaper In-House	6
Convenience	2	Svcs Lack of Drive	6
Lower Cost	1	Unaware of Scv	0
Other	1	Like Doing Billing	2

4. What has been the experience?

Increase in Cash	2
Cost Efficiency	3
Efficiency	1
Patient Care	1
Convenience	1
Lower Cost	1
Other	1

5. Are you Satisfied?

Y	3
N	1

10. Interested in Learning More About
Billing Svcs?

Y	0
N	12

Attachment D

*** Please call MGMA Information Center for Attachment D ***

Attachment E

Survey of Medical Billing in a

Private Practice Setting

By Wayne Howlett – Graduating MHA Student at the Ohio State University

I am conducting a survey as part of a study that reviews the use of billing services among private practices in Central Ohio. The survey evaluates the impact that billing services have on private practices. All information provided will be kept confidential and will not be shared except for the purpose of the study.

Name _____ Title _____

1-How many physicians are in your practice?	1-2	3-5	6-10	11+
2-Do you use a billing service?			Y	N
3-If NO:	Little	to	Very	
1-How trustworthy are billing services	1	2	3	4 5
2-In your view, how costly is a billing service?	Cheap		Equal to	Expensive
4-If YES:				
1-How long have you used your billing svc?	-1yr	1-2	3-5	6+yrs
2-Has your billing svc positively impacted cashflow?	Negative	None		Positive
3-How cost effective is your svc?	Negative	None		Positive
	Little	to	Very	
4-How reliable is your svc?	1	2	3	4 5
5-How convenient is your svc	1	2	3	4 5
6-Is your svc less costly than internal billing?	Y		N	Same
7-How are you charged?	A	M	S	%
	A-per account	M-per month	S-per statement	%-of gross collect
8-What is your total billings annually?	\$ _____			
9-Do you track Days in A/R?			Y	N
10-How long have you tracked it?	-1yr	1-2	3-5	6+yrs
11-What is your average Days in A/R?	_____			
12-How much has the billing svc decreased	1	2	3	4 5
13-Who is your billing service?	_____			

Attachment F

Medical Billing in a Private Practice Setting Survey 2 Summary

Calls Made	74
Acceptions	32
Avg Return Rate	43%

1. Practice Size

1-2	13	40%
3-5	7	22%
6-10	7	22%
11+	5	16%

2. Do you use a billing service?

Y	10	31%
N	22	69%
Blank	0	0%

3-1 How trustworthy are billing services?

1	0	0%
2	3	14%
3	6	27%
4	2	9%
5	2	9%
Blank	9	41%

3 -2 How costly are billing services?

Cheap	1	5%
Equal to	5	23%
Expensive	8	36%
Blank	8	36%

4-1 How long used?

-1	1	10%
1-2	3	30%
3-5	2	20%

4-5 Convience

1	0	0%
2	0	0%
3	2	20%
4	4	40%
5	3	30%
Blank	1	10%

4-6 Is it less costly than in-house?

Y	6	60%
N	1	10%
Same	1	10%

Blank	2	20%
-------	---	-----

4-7 How are you charged?

Per account	0	0%
Per month	5	50%
Per statement	1	10%
% of gross coll.	2	20%
Blank	2	20%

4-8 Average of total annual billings 17.31 M

4-9 Do you track Days in A/R

Y	6	60%
N	3	30%
Blank	1	10%

4-10 How long have you tracked it

6-10	2	20%	-1	2	20%
Blank	2	20%	1-2	1	10%
			3-5	1	10%
4-2 Cashflow impact			+6	2	20%
Negative	1	10%	Blank	4	40%
None	1	10%			
Positive	6	60%	4-11 Average Days in A/R	64.20	
Blank	2	20%			
			4-12 Decrease in Days in A/R		
4-3 Cost effectiveness			1	0	0%
Negative	0	0%	2	1	10%
None	2	20%	3	1	10%
Positive	6	60%	4	2	20%
Blank	2	20%	5	0	0%
			Blank	6	60%
4-4 How reliable is your service?					
1	0	0%			
2	0	0%			
3	2	20%			
4	5	50%			
5	2	20%			
Blank	1	10%			

Attachment G

*** Please call MGMA Information Center for Attachment G ***