TheAcademy

Quick-Hitting Survey

The Leading Health System Approach to Cash Reconciliation

James Cheung | Analyst, Research & Advisory
Jackie Risco | Director, Research & Advisory

Introduction

The U.S. healthcare market is continuing to shift through an increase in mergers and acquisitions (M&A). With the consolidation of health systems and their financial operations, open questions remain on preparedness to merge finance and revenue cycle verticals during integration. Leading Health Systems (LHS) currently vary greatly in readiness for creating "systemness" in these groups. Their ability to automate payments, track collections, and foster a collaborative working relationship between the two teams is paramount to the health system's success.

In April and May 2021, The Health Management Academy conducted a quick-hitting survey to provide LHS with a baseline understanding of how their peers are tactically approaching and developing strategy related to healthcare payment reconciliation, and specifically automating cash reconciliation.

Methodology

The 18 responding executives included Vice President (VP) of Revenue Cycle, Senior Vice President (SVP) of Finance, Treasurer, Controller, Executive Director of Cash Operations, Senior Manager of Accounting, and Director of Revenue Management. The 15 unique health systems own or operate 214 hospitals, have 1.8 million inpatient admissions annually, 33 million outpatient admissions annually, and have an average total operating revenue (TOR) of $5.8 billion. For the purposes of this research, health system size is based on TOR, with large health systems defined as those with greater than $6B TOR, medium defined as $6B–$4B TOR, and small defined as less than $4B TOR. The survey sample consisted of 33% large, 33% medium and 33% small health systems. The survey sample also consisted of health systems from the following regions: 13% Northeast, 47% South, 27% Midwest, and 13% West.

Key Findings

1

The number one challenge with payment reconciliation across LHS is the manual tracking of unapplied cash.

- Manually tracking unapplied or unposted cash was the top ranked challenge for LHS across all demographic areas.
- Non-Academic Medical Centers (AMC) seem to have a greater challenge with unapplied or unposted cash than AMCs. This may be due in part to the more complex and frequent M&A activity often seen across non-AMCs. Key findings also demonstrated that AMCs were more likely to reconcile cash on a daily basis, which can be associated with a lower risk of unapplied or unposted cash.

2

LHS executives agree on the importance of a collaborative relationship between finance and revenue cycle teams.

- Most LHS executives expressed a desire to standardize communications across revenue cycle management (RCM) and adjacent teams. Some LHS expressed a desire to have accountants on the RCM teams.
- LHS with a margin greater than a 5.46% (the median for the sample) are more likely to agree that their health systems have effective collaboration between their finance and RCM teams.

3

LHS are prioritizing automation, but still largely reconcile cash and checks manually.

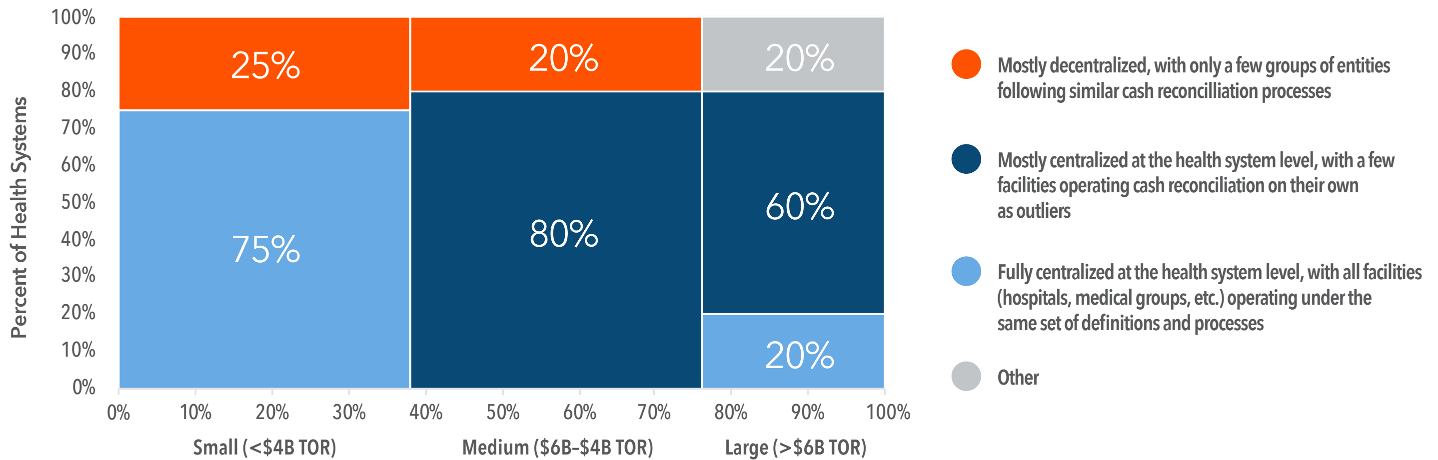
- Most LHS (71%) still reconcile point-of-service (POS) checks and POS cash manually. As the healthcare industry continues to shift to pre-collections to improve patient collection and the patient experience, the reconciliation issue will only continue to grow in complexity.

Results

Half of LHS Have Centralized Their Cash Reconciliation Efforts

Half of LHS sampled (50%) have their cash reconciliation processes mostly centralized at the health system level with a few facilities operating cash reconciliation on their own as outliers (Figure 1). Few LHS have decentralized their cash reconciliation efforts, but those who do are either small or medium-sized health systems. Some large health systems, in particular, note that their efforts are not centralized due to mergers with other systems. Other LHS ranked somewhere in the middle, with some health systems dividing cash reconciliation efforts between the hospitals and medical groups.

Figure 1. Level of Centralization of Health System's Reconciliation

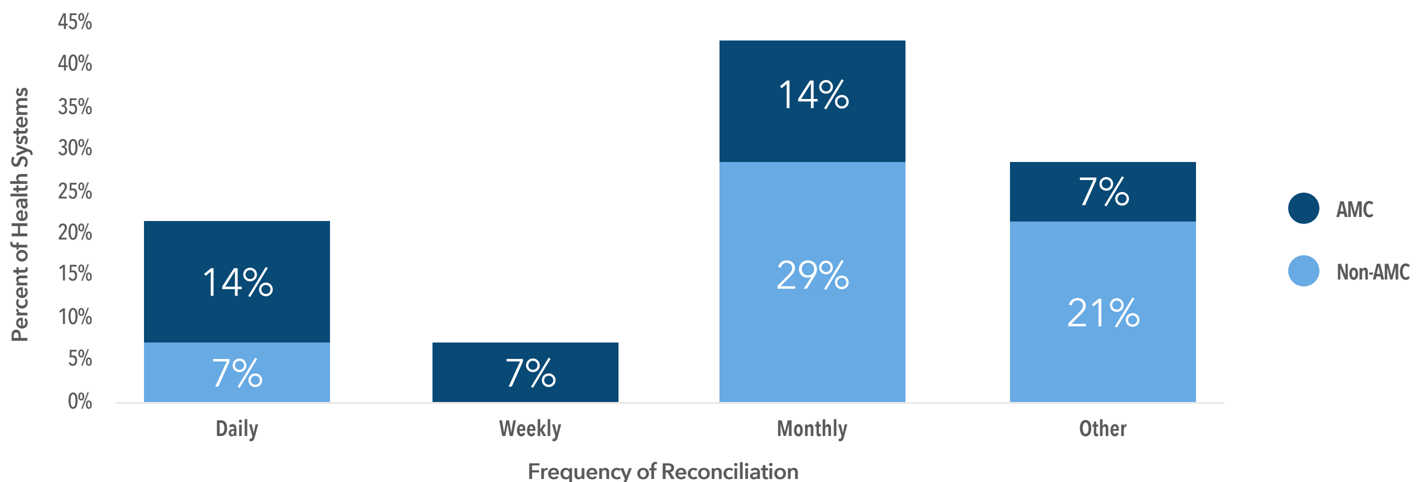


"I can tell you at our health system, we separated cash between hospitals and medical groups. We have financials, and even billing addresses separated. All of the hospitals handle it the same way, with the medical groups having entirely different teams." *– Chief Financial Officer*

Frequency of Cash Reconciliation Varies Across LHS

Most LHS (43%) reconcile their cash to the bank on a monthly basis (Figure 2). LHS that are designated as academic medical centers (AMC) are slightly more likely to reconcile their cash on either a daily or weekly basis. Those LHS who responded "Other" note that their systems reconcile cash on both a daily and monthly basis. One system noted that their cash team reconciles daily, while their finance team reconciles monthly. Others commented that they reconcile from their EMR to the bank daily, but bank to general ledger on a monthly cadence.

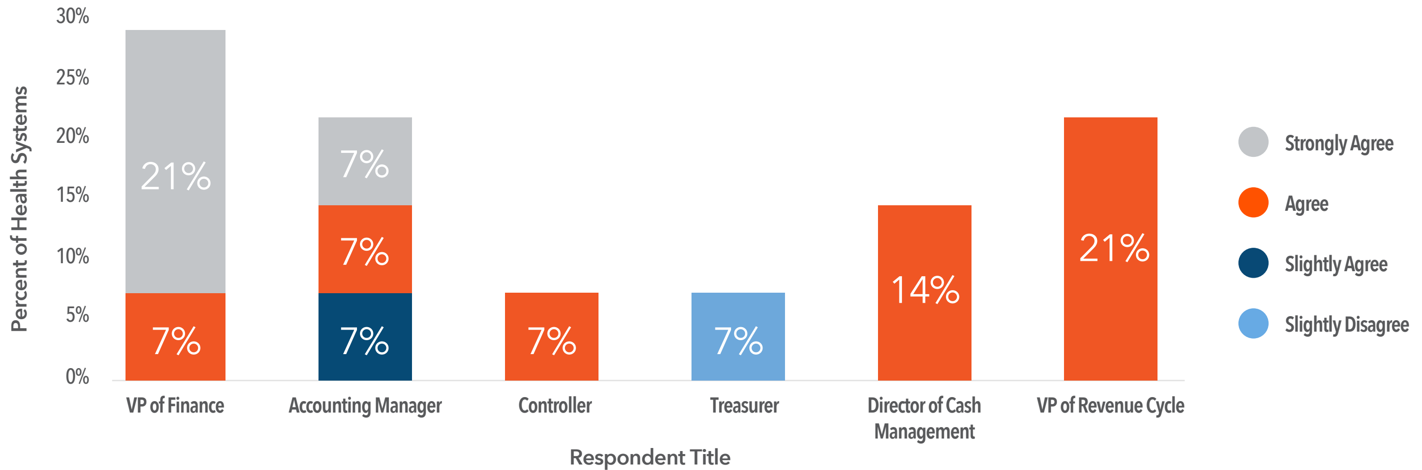
Figure 2. Frequency of Cash Reconciliation to the Bank by AMC Status



Communication and Collaboration between RCM and Finance Teams is a Top Priority

A top challenge across LHS is alignment and collaboration between RCM and finance teams. Because both finance and RCM teams are involved in reconciliation, financial executives agree that a strong working relationship is important for success. There seems to be a slightly higher level of agreement on the finance side versus the revenue cycle side (Figure 3). While all revenue cycle executives agreed with the statement, the finance executives tended to strongly agree at the vice president level and decrease in agreement in other roles.

Figure 3. Agreement on Effective Collaboration Between RCM and Finance Teams by LHS Margin



> **"The issue is that the technology and the automation has outpaced the people who are doing revenue cycle. It's become so complex, that now the revenue cycle group is having a problem. You almost need a senior level accountant who understands both sides on the revenue cycle side."**
>
> *– Vice President of Finance*

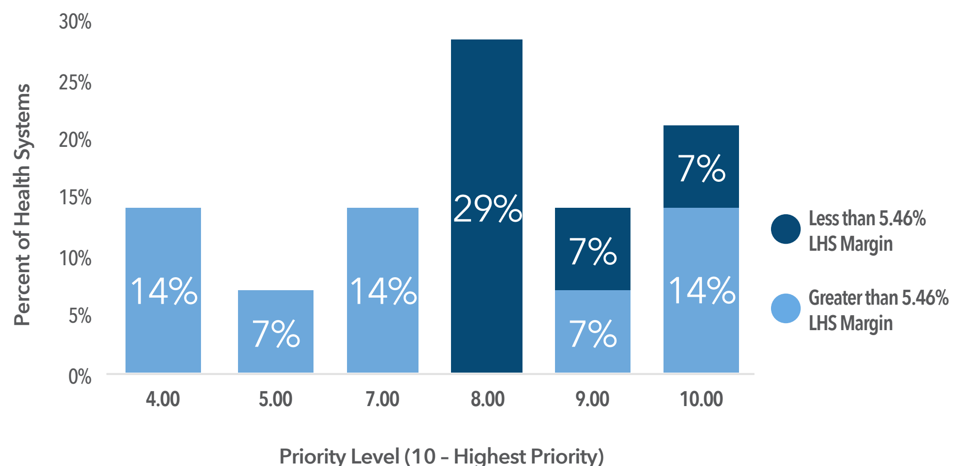
> **"Finance and accounting teams speak a different language than the patient financial experience, billing and collecting teams. I found it was important to find where those gaps in language were and make sure the leaders were speaking the same language."**
>
> *– Chief Financial Officer*

> **"The relationship between the two is huge and we are lucky to have a great relationship with finance. It helps that we are in the same building."**
>
> *– Vice President of Revenue Cycle*

LHS Agree on the Level of Strategic Priority for Automating Cash Reconciliation

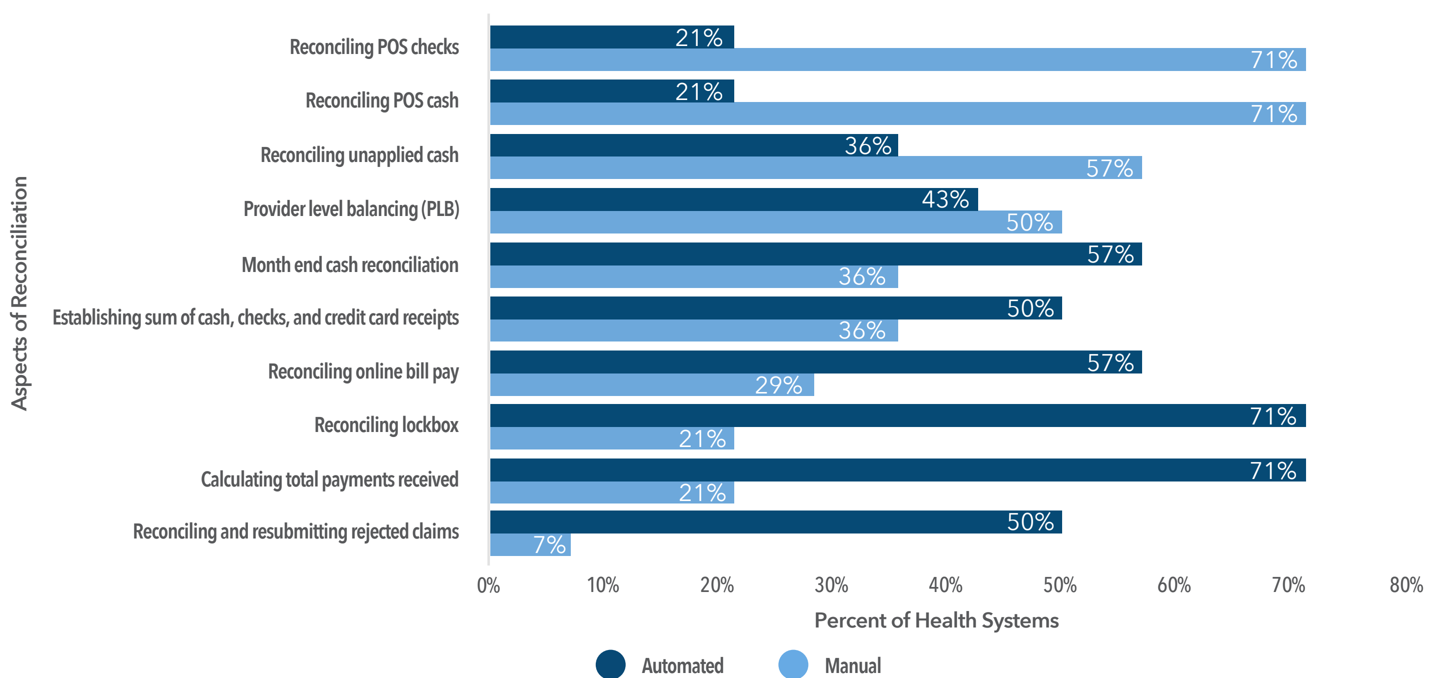
LHS finance teams are in alignment on the level of strategic priority for automating the cash reconciliation process. However, LHS with a lower than median margin were more likely to prioritize automation, with an average priority level of 8.5/10 (Figure 4). LHS that had a higher than median margin for the sample indicated an average priority level of 7/10. Further analysis demonstrates that 63% of higher margin health systems still reconcile cash manually, potentially indicating that competing priorities at these systems may account for the decreased focus on cash reconciliation automation.

Figure 4. Finance Division Priority of Automating the Cash Reconciliation Processes



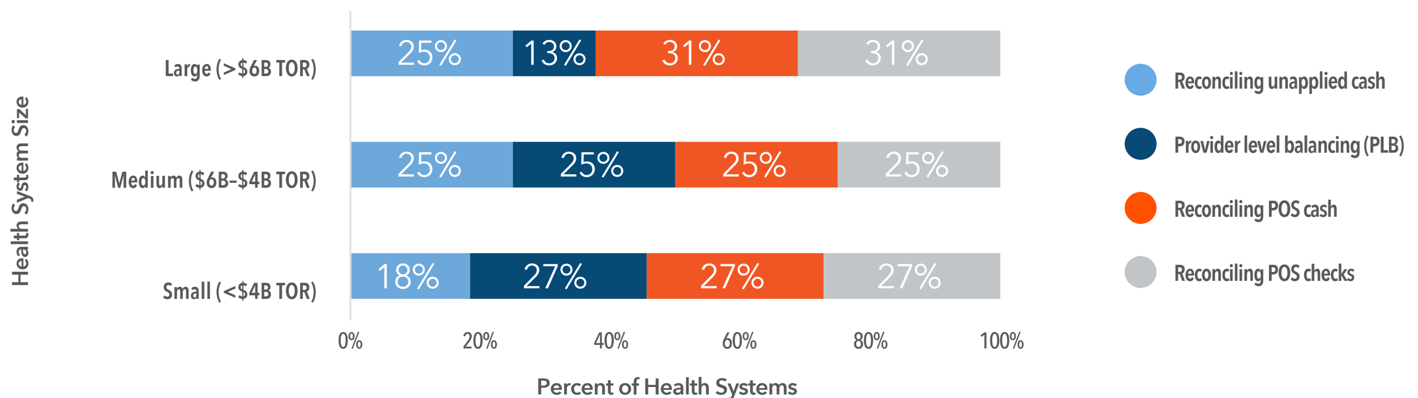
The majority of LHS (71%) still reconcile point-of-service (POS) checks and POS cash manually (Figure 5). Over half of LHS also perform reconciliation of unapplied cash manually. LHS tend to automate lockbox reconciliation and calculating total payments received more than any other aspect of reconciliation.

Figure 5. Aspects of the Cash Reconciliation Process that Are Manual and Automated



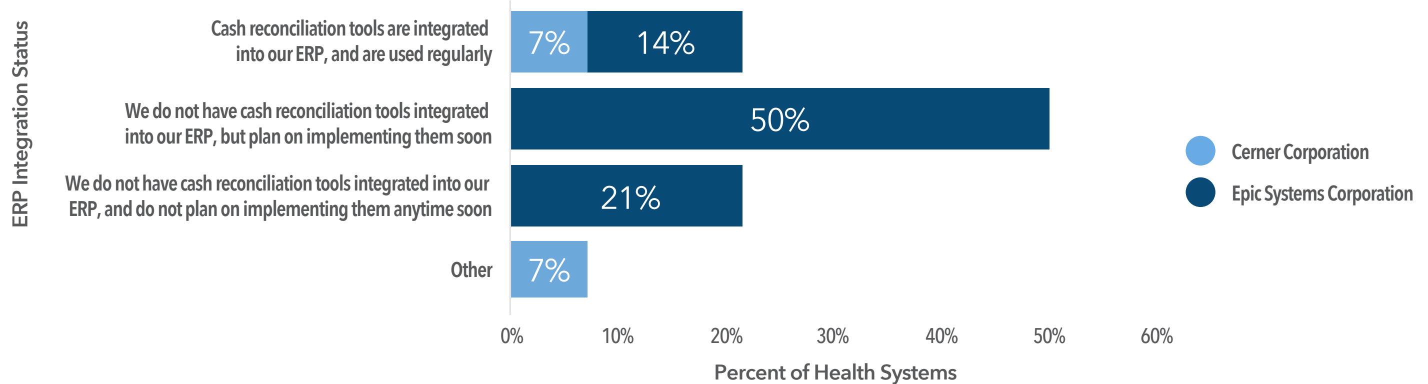
"We have two lockboxes; all the insurance remits and checks go to one lockbox. The banking has become so sophisticated. There is the insurance lockbox and then the second lockbox is for patients. We have to collect checks and money from the lockboxes at all the sites, collect cash from the hospitals, and then make it to the bank in the daily deposit." *– Senior Vice President of Finance*

Figure 6. Aspects of Reconciliation Most Commonly Performed Manually by LHS Size



When looking at the breakdown of tasks performed manually by LHS size, large health systems struggle more than medium or small health systems in most categories, with the exception of provider-level balancing (Figure 6). Medium and small health systems seem to have no clear pain point with the four most manually performed aspects of reconciliation.

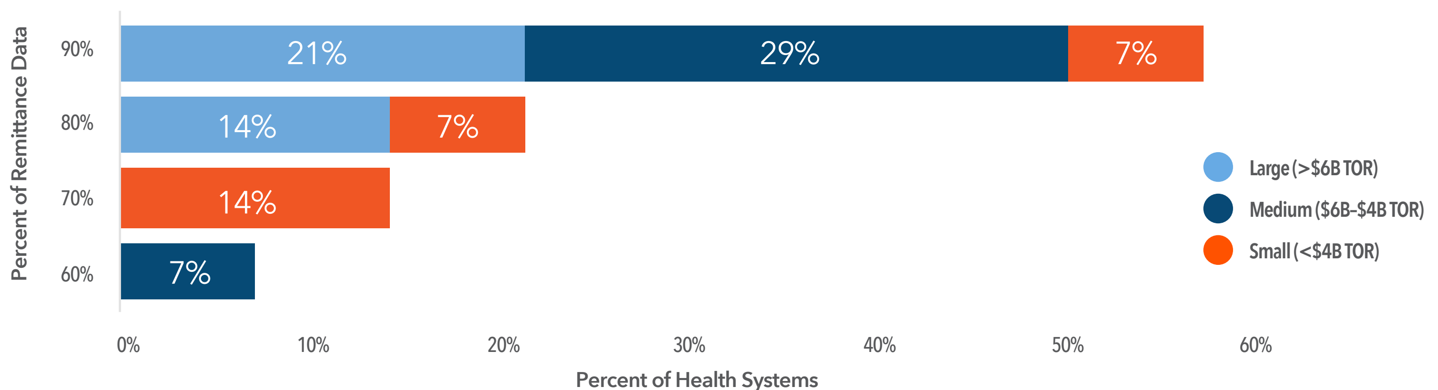
Figure 7. Integration of Cash Reconciliation Tools into LHS ERP by Electronic Medical Records (EMR) System



Half of LHS (50%) fall into the category of not having cash reconciliation tools integrated into their enterprise resource planning system (ERP), but plan on implementing them soon, with small health systems making up the greatest proportion of this group (Figure 7). Equal numbers of large, medium, and small health systems have those tools integrated, and only large and medium health systems do not plan to integrate their reconciliation tools into their ERP. LHS' goals for this integration include increased process efficiency and organization, however implementation can be challenging. LHS who are leveraging their ERP are likely working with custom automated bank files to enable automatic bank reconciliation at their health system.

"We went live with Workday and we had some struggles recently. We had someone on site for implementation because we wanted to make the process more robust and efficient, but I do not believe that has happened yet." *– Vice President of Revenue Cycle*

Figure 8. Percentage of Remittance Data Arriving in Authentic Electronic Formats



Large health systems receive between 80%–90% of their remittance data in authentic electronic formats (Figure 8). The majority of medium systems receive 90% of their data in authentic electronic formats while small health systems receive anywhere from 70%–90% of their remittance data in this way. LHS have found success working with their banks to create custom 835 forms. Some LHS suggest that best practice is to work with authentic electronic remittance advices (ERA) versus explanation of benefits (EOB) conversions from banks, as the cost is much lower with ERAs. The next step in automation would be to enable electronic funds transfers (EFT) to reduce checks and cost for lockbox services while speeding cashflow.

"Close to 90% of remittance is automated through 835s and Epic workflows. Small mom and pops and odd payments are manual. For bills from attorneys, we have worked with banks to create 835 forms for us. As we have done this over time, we have put stops in the system which do not allow people to reverse the payments. 99% of the time, it is an error on the part of someone that causes problems."

– Vice President of Revenue Cycle

"We talked to our banks and told them that any remittance needs to come to us as an 835. We are able to post 97% electronically. We achieve that by working with an external vendor and Epic. They were able to put errors into a specific area, and we were able to work down those errors by building logic into Epic."

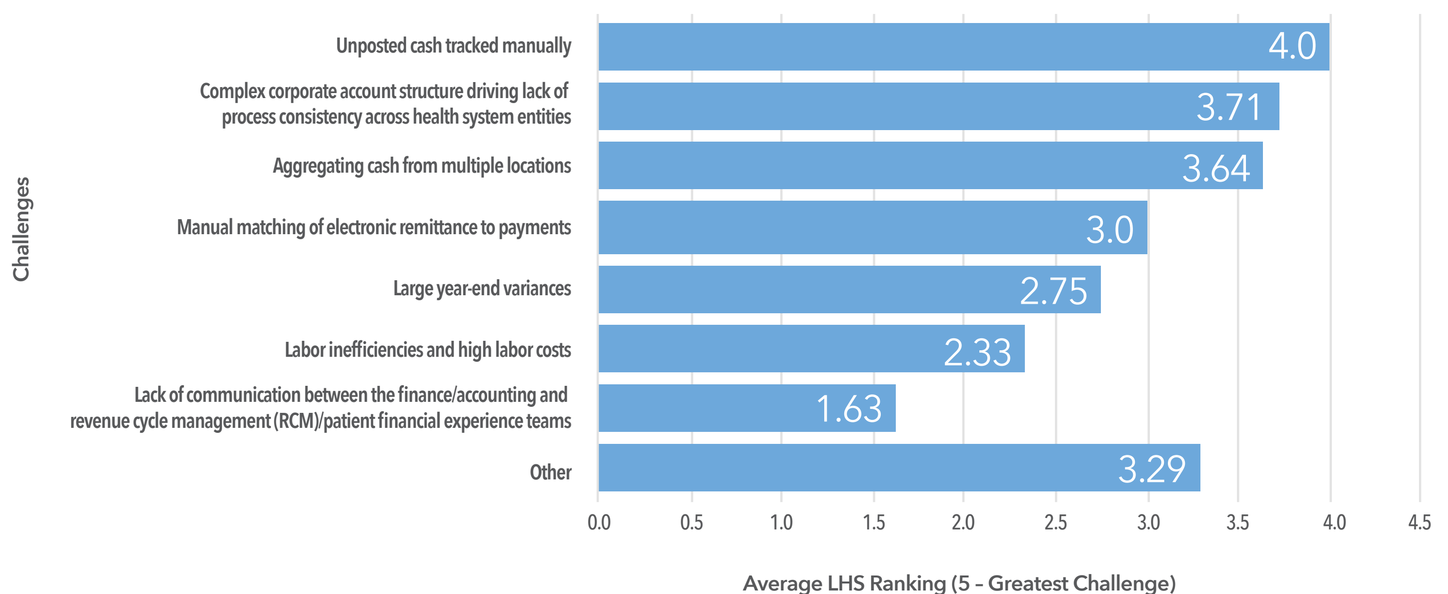
– Vice President of Revenue Cycle

Tracking Unposted Cash Manually is a Top Challenge for LHS

Manually tracking unposted cash was the number one challenge for LHS across all demographic areas (Figure 9). Complex corporate account structure driving lack of process consistency and aggregating cash from multiple locations were also top challenges for executives. Another challenge mentioned by executives during qualitative interviews was the administrative burden of manually completing prior authorization documentation and communicating with payers.

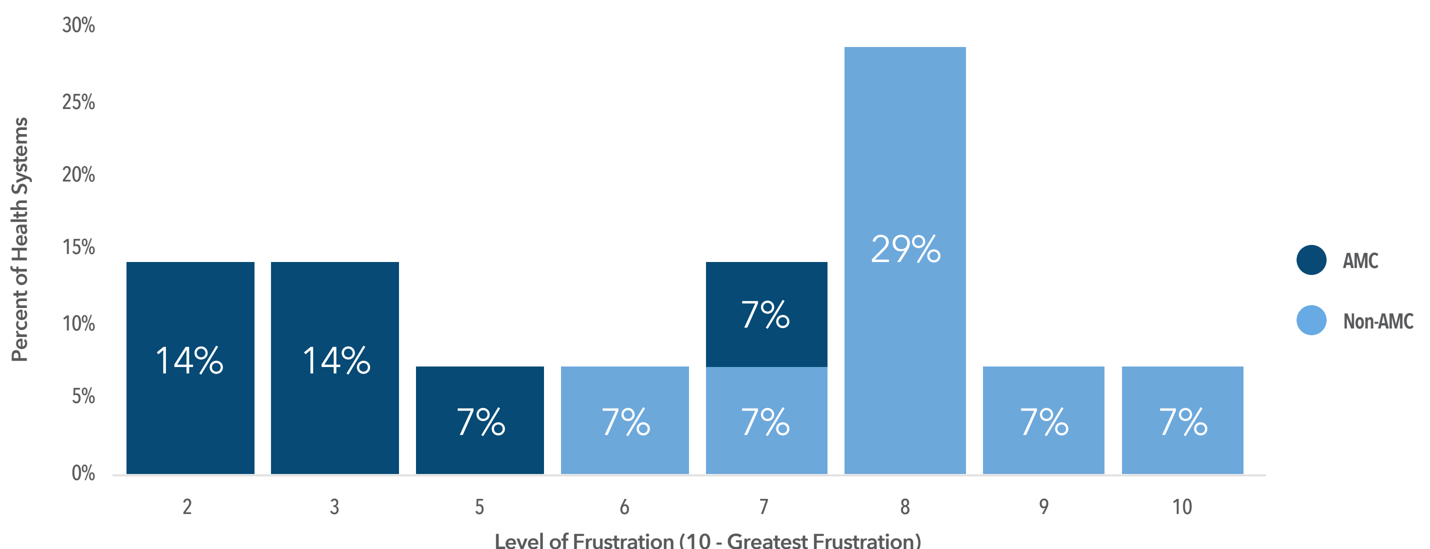
> ***"From my perspective, one of our greatest challenges is prior authorizations. It adds a significant burden to the practice, because our physicians are required to waste their time performing calls to payers and sending medical necessity letters outside of standard documentation, etc. There is not an easy way to validate some of their requirements sometimes, and that has been and continues to be a challenge. Payers are not using medical necessity denials." – VP of Patient Financial Services***

Figure 9. LHS Top Challenges in Cash Reconciliation



Level of frustration with unapplied payments was most acute for LHS not designated as AMCs (Figure 10). Non-AMCs had an average frustration level of 8/10 while AMCs only had an average frustration level of 3.7/10.

Figure 10. Level of Frustration with Unapplied Payments



"Unapplied cash has become a focus over the last couple of years with objectives to clean up old balances and design procedures to keep current going forward"

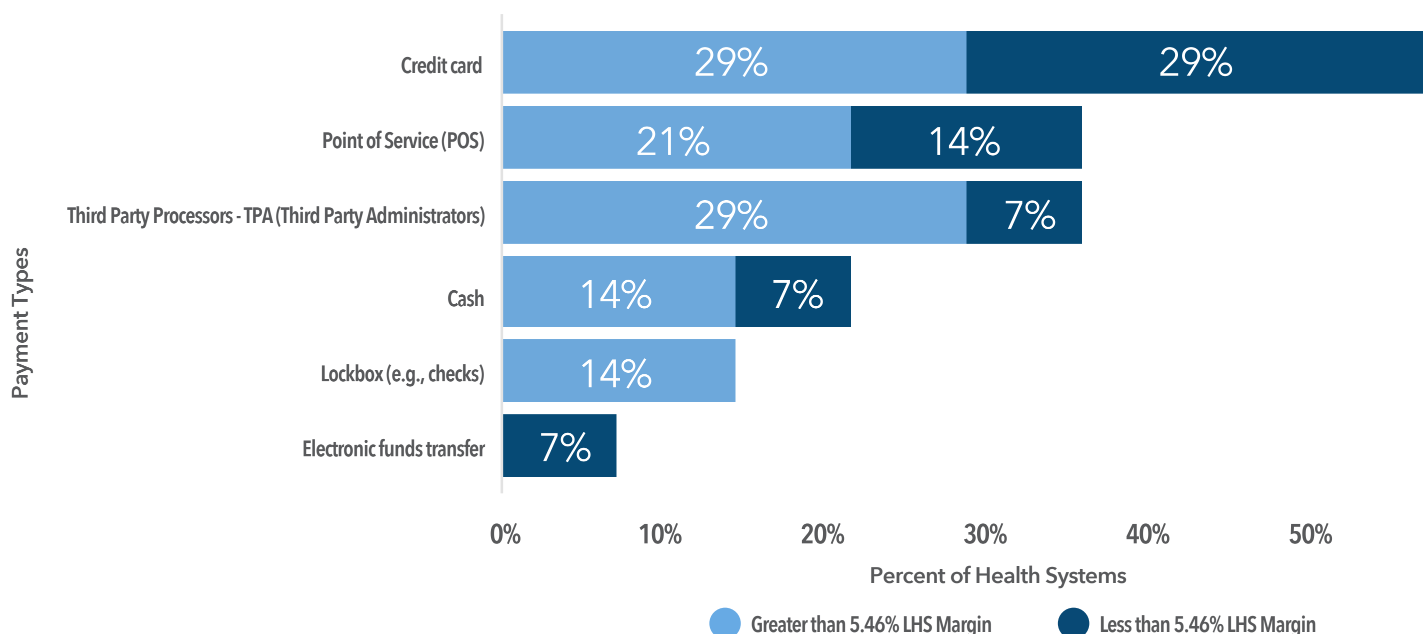
– Executive Director, Cash Operations

"Unapplied cash is a priority for us. We have a dedicated department that focuses entirely on that and payment research."

– Healthcare Services Director

Though tracking of unposted cash is the top challenge for LHS, the most difficult payment to reconcile is credit cards, with 58% of LHS indicating that form of payment as the most difficult to reconcile (Figure 11). Third party processors and POS are a top challenge for LHS with greater than median margin. Many LHS indicated that this challenge is often related to dealing with multiple facility national provider identifiers (NPI) and tax identification numbers (TIN), which adds a level of complexity to enrollments, reconciliation and general ledger (GL) transfers.

Figure 11. Types of Payments that Are Most Difficult to Reconcile



"I feel like our cash team is best in class, but for credit, we still struggle with automation and understanding what other organizations are doing from a policy perspective on the credit front. We have been able to do some automation with our bots, but I would love to hear what other solutions health systems are using on the AI front."

– VP of Finance

Informed Practices for LHS

As LHS face challenges with payment reconciliation due to manual processes and organizational complexity, they will need to consider opportunities to streamline, reorganize, and automate. LHS that can increase efficiency in this domain will be better oriented for long-term success in the face of payer complexities, M&A activity, and workforce transformation. Key informed practices for LHS include:

1. The majority of LHS still reconcile POS cash, POS checks, and unapplied cash manually. There is an opportunity to partner with organizations to help alleviate what LHS cited as their top challenge in reconciliation, particularly for non-AMCs, who appear to be particularly frustrated with unapplied payments.
2. LHS cite complex corporate account structure as a key challenge in the lack of process consistency across their entities. These organizations would benefit greatly from streamlining their reconciliation structure and simplifying all processes involved.
3. LHS would benefit from continuing to prioritize the automation of cash reconciliation. Executives are looking for solutions that improve efficiency, with many placing a high value on those solutions that allow for the ability to reassign labor to other areas of the finance team.

Methodology

In April-May 2021, The Academy conducted a quantitative survey as well as in-depth telephone interviews with LHS executives around payment reconciliation, specifically cash reconciliation. None of the participants derived any personal profit or gain through participation in this study.

The Health Management Academy

The Health Management Academy (The Academy) is a membership organization exclusively for executives from the country's Top-100 Health Systems and most innovative healthcare companies. The Academy's learning model identifies top priorities of health system leaders; develops rich content based on those priorities; and addresses them by convening members to exchange ideas, best practices, and information. The Academy is the definitive trusted source for peer-to-peer learning in healthcare delivery with a material record of research and policy analysis. Offerings include C-suite executive peer forums, issues-based collaboratives, leadership development programs, research, advisory, and media services. The Academy is an accredited CE provider. More information is available at www. hmacademy.com.

About CommerceHealthcare®

CommerceHealthcare® develops long-term banking relationships with healthcare providers through automated payment solutions, patient financing, lending, investing and asset management. To deliver the best patient care, health systems, hospitals and physician practices need financial results, not promises. Tailored, ROI-based solutions enable providers to find cost savings, improve cash flow and leverage new opportunities in everyday processes. From remittance processing to patient loan programs, cash flow to money management strategies, CommerceHealthcare® helps providers improve processes, increase margin and reduce financial risk. CommerceHealthcare® solutions are provided by Commerce Bank.

For more information, please call 833.582.3021 or visit https://www.commercehealthcare.com/.

The Academy extends its appreciation to CommerceHealthcare® for their sponsorship of this project

CommerceHealthcare®

Disclaimer: The information and opinions in this report were prepared by The Academy. The information herein is believed to be reliable and has been obtained from public and proprietary sources believed to be reliable. All survey data and responses are collected in good faith from sources with established expertise and are believed to be reliable. Opinions, estimates, and projections in this report constitute the current judgement of the authors as of the date of this report. They do not necessarily reflect the opinions of The Academy and are subject to change without notice. Any products referenced within this report have not been independently evaluated. The Academy neither recommends or endorses any of the products identified by research participants. All registered names or brands referenced in this document remain the property of their respective owners and are included for identification purposes only. This report is provided for informational purposes only. Any reproduction by any person for any purpose without The Academy's written consent is prohibited.