Road Map

3 Steps to Efficient Co-Pay Collections
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Collecting and accounting for co-pays presents a conundrum for many healthcare organizations. Examples of the types of challenges they face abound. Whether it’s inadequate front-end controls, improper reconciliation, or insufficient documentation, collecting and accounting for co-payments is a major challenge for providers.

With the shift toward more patient responsibility for healthcare expenses and the accompanying increase in the number and size of required co-pays, the problem is not going away. Here are three steps you can take to increase the efficiency of your co-payment collection process.
Refine Your Internal Controls

Internal controls are broadly defined as “the procedures and processes used by a hospital or physicians’ practice to safeguard its assets, process information accurately, and ensure compliance with regulations and written procedures.” To tighten your internal controls, focus on these five main elements:

**Control Environment** – Establish an overall attitude for both management and employees of the importance of and adherence to controls

**Risk Assessment** – Evaluate various risks facing the business, including competitive threats, regulatory changes, and changes in economic factors

**Control Procedures and Organizational Policy** – Develop procedures to provide reasonable assurance that business goals will be achieved. Document detailed policies to assist in new staff training and as a basis for financial reviews by both internal and external auditors. They can also be used in discussions with patients regarding sliding fee schedules, discounts, and write-offs.

**Monitoring** – Audit and evaluate your internal control system to ensure it is operating effectively.

**Information and Communication** – Create a regular feedback vehicle to update management on the results of the internal control program.

Your accounting and billing system is also a key component of internal control because it provides the information management uses to run the business and report to owners, creditors, and other stakeholders.

When external auditors make their annual visit to your practice/hospital they will closely examine these areas to validate the effectiveness of your internal controls. If the auditors fail your internal controls system, they will dig deeper to better understand the level of risk and to help determine the mitigation measures required for you to get back in compliance.

Most organizations go to great lengths to limit any form of negative connotation on their financial statements by external auditors since these financial instruments are presented to their board of directors and financial banking institutions. Bad reports could affect the borrowing power of the organization and have a negative impact on acquiring funds for building and expansion projects, and obtaining lines of credit.
Establish Checks and Balances

Your documented accounting process should include a well-defined series of checks and balances.

**Job Rotation** – It’s important to establish a program of cross-training and job rotation. This ensures that one employee may perform another’s job and encourages that documented procedures are followed. Having more than one person perform a specific job helps uncover any irregularities that may be occurring in various processes.

**Separation of Duties** – Authorizing complete control over a sequence of related operations by one individual presents opportunities for inefficiency, errors, and fraud. Dividing these operations ensures that the work of each employee is automatically checked by the employee performing the next step. This type of system is more efficient, helps prevent errors, and deters fraud which is then only possible by collusion between two or more employees.

**Separation of Operations** – Another way to reduce the possibility of errors and irregularities is to separate the operations and accounting functions. One employee should not be responsible for handling cash receipts (operations) and maintaining the accounts receivable records (accounting). Those tasks should be divided among different people. Lack of this policy weakens internal controls and may allow irregularities. For example, the co-pay collector, while acting as co-pay poster, could post a payment as collected when in fact money never passed hands. Setting up this process makes the accounting records an independent check on operations.

**Cash Reconciliation** – The cash balance and the bank statement balance should be reconciled nightly. Waiting until month-end to perform the reconciliation forces you to recreate 30 days of transactional processing while trying to meet other month-end deadlines.

**Bank Reconciliation** – Doing a daily cash balance reconciliation also helps when it comes to month-end reconciliation of the bank statement to the company’s records. Any discrepancies can be quickly investigated to determine errors in recording that may have been made by the bank or by the company.
One issue that often gets overlooked because of its complexity is unallocated point-of-service payments. The issue is common because if not handled properly, it can fall between the cracks of the scheduling/billing systems.

In most provider systems, the appointment/visit number generated at the time a patient appointment is made becomes the primary link between the scheduling and billing systems. Upon arrival, the patient checks in at the main desk where he or she is asked to take care of their co-payment. Since at this point there are no patient charges, most billing systems post these co-payments to a suspense account (e.g., Unallocated Cash) with the visit number being the link to the financial transaction.

After the patient has been seen and charges have been entered into the billing system, those suspended co-payments link with the patient charges, allocating the co-payment to rendered services.

However, between the time of check-in and co-payment, and when service is actually performed, events can occur that can disrupt that link such as:

- The patient left because of an extended wait time
- The provider was delayed and another provider came in to administer care
- The service location changed – patient asked to come to location A instead of B, and the change was never updated in the appointment details
- The schedule type (new patient, return patient, procedure room) changed

When one of these events takes place after a patient has been marked as “arrived” in the system and a co-payment has been posted, the front-end staff is supposed to go back into the system, cancel the original appointment and create a new one.

This change creates the following:

- The original appointment – and its accompanying appointment/visit number - is deactivated. This breaks
Document Unallocated Point of Service Payments

the link between the scheduling and billing systems preventing proper reconciliation of the co-pay from taking place. 
• A new appointment/visit number is created to account for the change to the appointment but the co-pay cannot be allocated against it because it was already posted to the original number.

This creates several unfavorable circumstances:

• Credit balances are overstated since this unmatched co-payment sits on your billing system as a credit balance 
• Depending on your financial reporting, the co-payment credits could be reported as “unposted cash” making your payment posting team perform time-consuming research to resolve “unposted cash” and credit balance totals.
• The edit and control accounting supervisor within your organization must spend time determining the exact cause and nature of these fluctuations, and why they continue to grow each month.

One way to prevent this problem is by strictly enforcing the process of transferring the co-payment from the cancelled appointment to the newly created appointment any time a change is made. Unless you have strictly enforced processes in places, you have no way of telling what the total impact is to your organization’s bottom line. All too often, financial reserves must be recorded to the GL to offset the accounting impacts of these unexplained anomalies.

Taking these three steps will significantly improve your co-pay collection process. Very often, organizations don’t have the manpower, commitment, or expertise to review anomalies that could be occurring on dashboards or within the billing/scheduling and financial reporting systems. The risk of revenue loss and cost of resources to investigate cash allocation problems; however, make devoting resources to solve the problem worthwhile, and something you should strongly consider.
Once you’ve established a baseline, the next step is to make improvements by initiating a corrective action program that addresses your people, process, and technology.

People
Focus on training and education so everyone in the organization understands the depth and impact of the problem and what their role in solving it should be. Specific actions to take include:

• Establish accountability and self-reporting by root cause owner and process owner
• Set a zero to low tolerance for finger pointing and excuses
• Recognize improvement and determine consequences for unacceptable outcomes

Workflow
A thorough process review will help highlight redundancies and time-wasting tasks and will quantify the outcome or performance expectation for each task. The most effective way to improve the workflow process is to eliminate errors that could result in a denial.

Key points to include:

• Develop robust pre-visit/visit management process

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