

FINANCIAL / OPERATIONAL BENCHMARKING

Days Sales Outstanding (DSO)

The most efficient way to financially benchmark your organization against the industry is to compare your DSO to the national average. The average DSO for our industry hovers, give or take a day or two, in the mid to high 80s. What DSO represents is the average amount of time it takes from when \$1 of revenue walks through your front door until you put that dollar in your pocket. DSO takes into account all aspects of the reimbursement process (intake, documentation, billing and collections) and the higher the number, the lower your organization is performing financially. If you do not know your DSO or if it is not automatically calculated by your HME software, here is the simple mathematics:

1. Obtain company NET revenue data for a given time period such as a fiscal quarter, six months or one year. Divide this number by the number of days in the period. This will yield your average DAILY revenue figure.
2. Look at your current TOTAL NET accounts receivable total.
3. Divide your total net A/R by your daily average net revenue. VOILA, calculation yields your company's DSO.

Example:

1. Net Revenue 1/1/2008 through 7/31/2008 = \$7,525,000
 $\$7,525,000 / 182$ (# of days 1/1/08 – 7/31/08) = \$41,346.15 (daily)
2. Net A/R balance on 7/31/2008 = \$2,135,000
3. $\$2,135,000 / \$41,346.15 = 51.64$ DSO

Your target should be in the mid 40 to mid 50 range. If you have triple digit DSO it might be time to reevaluate your billing department. You might even have high HME DSO and not realize it if you have other revenue sources within your business such as prescription revenue in a pharmacy. HME is a solid, profitable business to be in when run properly but can major cash flow drain when it's not. To quote a popular TV ad, "What's in your wallet?"

A/R Aging Averages

Virtually all Aged Accounts Receivable reports are broken into columns which traditionally contain 30 days per column. The leftmost column is typically the "current" column followed by "30-60 days," "60-90 days," "90-120 days" and finally "over 120 days." Where a piece of receivable information falls within these columns tells the age of the receivable. The goal, obviously, is to have a lion's share of your receivables closer to the left side of the report rather than the right (closer to the "current" column and further away from the "over 120 day" column). Proper management of your receivables will keep your balances on the left side of this report. The following ranges represent the target percentages of claims in

an Accounts Receivable report for a “typical” HME company (if there is such a thing!):

CURRENT	30-60 DAYS	60-90 DAYS	90-120 DAYS	OVER 120 DAYS
35-40%	25-30%	15-20%	10-15%	5-10%

Denial Rates

Denials are an everyday part of the HME business. Any company that says they do not receive denials has spent way too much time underwater in that river in Egypt (da Nile!). There are many factors that contribute to denials including intake accuracy, insurance verification/eligibility and documentation not to mention errors made by the DME MACs. Yes, they do make mistakes! The following chart represents average denial rates within our industry:

TOTAL INDUSTRY AVERAGE = 26%

REHAB	+15% = 40%
OXYGEN	-8% = 18%
DME	+2% = 28%

Claim Processing Errors

The most recent (12 months ending 9/30/2007) Comprehensive Error Rate Testing (CERT) showed the percentage of claims processed in error by the DME MACs averaging 8.2% broken down as follows:

Region A	5.9%
Region B	5.3%
Region C	10.0% (Palmetto GBA 12.3% & CIGNA 7.7%)
Region D	11.6%

OPERATIONAL BENCHMARKS

There are several operational benchmarks that merit mentioning as they have a direct impact on the financial benchmarks we have already discussed. They are billing staff versus revenue, documentation turnaround, claim submission timing and collection aggression. These numbers are approximations and can differ based on the nature of your individual business.

Billing Staff vs Revenue

1. 1 biller for approximately every \$500,000 to \$750,000 in revenue
2. 80/20 biller rule
 - a. 20% of time spent “banging keys” doing data entry
 - b. 80% of time working receivables
3. Both numbers above are directly affected by other duties a biller may have such as customer service, retail responsibilities, inventory, etc. as well as

they type and volume of items being dispensed and billed. A company heavy into Rehab will produce fewer claims to generate the same dollar volume as a mail order diabetic house.

Documentation Turnaround

Documentation such as CMNs, PARs, progress notes and pad scripts are the lifeblood of an HME company. How frequently you follow-up on your documentation plays directly into your billing, DSO and cash flow. Small HMEs should follow-up on documentation every 2 to 3 days at a minimum. Large HMEs should be following up DAILY. Your computer system should track outstanding documentation for you but if it doesn't you should have a manual tickler system.

Claim Submission Timing

With the advent of electronic billing and the 837 claim file format, you should be submitting a lion's share of your claims electronically (especially with the relatively low cost of claims clearinghouses such as Zirmed). How frequently you submit also rides with the size of your organization but should be no fewer than 3 times a week, preferably daily. Also remember that most insurance companies, including the DME MACs, have a daily cut-off time and if your claims are received after this time they are not processed until the next day's business. This is of particular importance on Fridays because you lose 3 days of DSO if your claims that are submitted on Friday do not hit the payer's books until Monday (4 days if Monday is a holiday!).

Collection Aggression

How aggressively you work collections and your receivables will depend mainly on the payer type. The following chart is a good benchmark on the frequency you should be working your outstanding balances:

Medicare (electronic claims - ANSI format)	at 21 days from submission
Commercial Insurance (paper)	at 45 days from mailing
Commercial Insurance (electronic)	at 30 days from submission
Private Pay balances	at 30 days from mailing

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