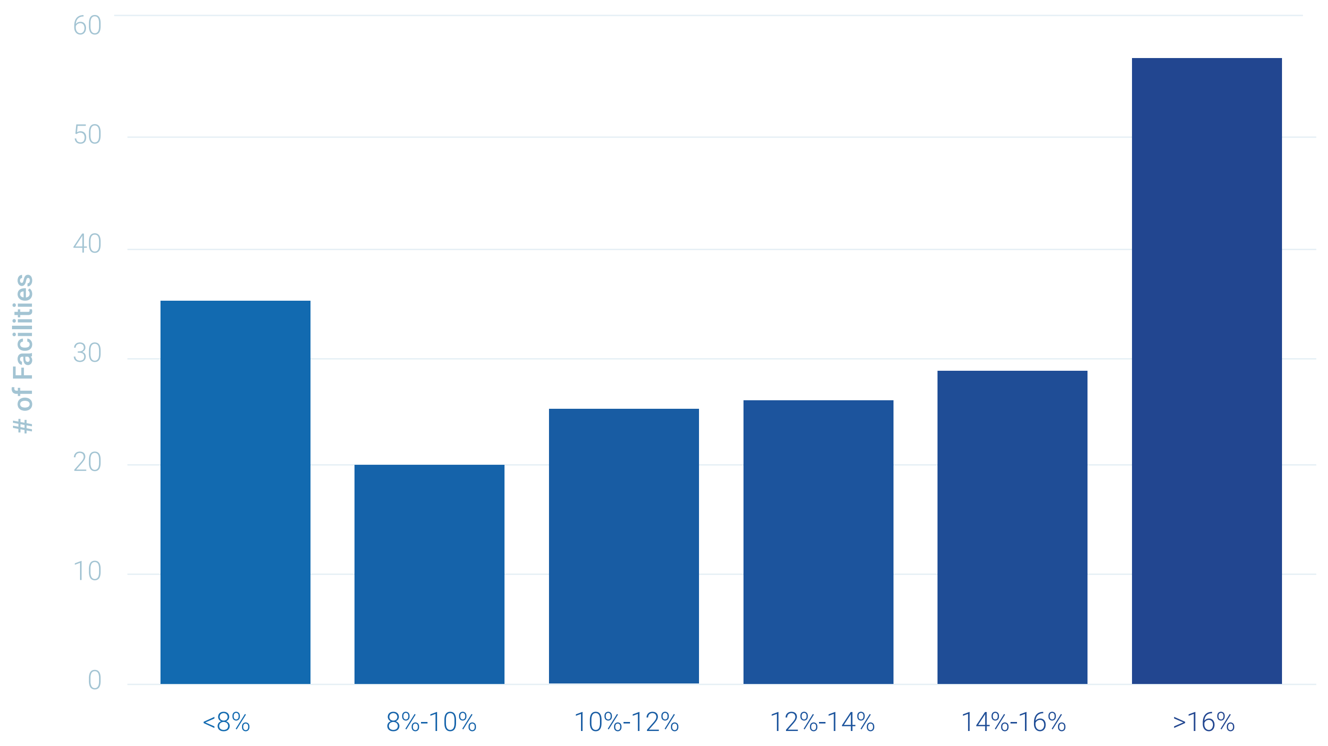
Understanding ASC cash flow challenges

Liquidity is the lifeblood of any business, including a healthcare organization. But just how much cash should your facility have on hand? **A financially healthy multispecialty outpatient facility typically has about 50 days of cash on hand, or 14 percent of total operating expenses**, according to recent VMG Intellimarker data:

Multispecialty ASCs: Liquidity analysis

$'s in thousands	Mean	25%	Median	75%	90%
Cash	$930	$359	$631	$1,172	$1,849
% of Total Operating Expenses	*13.7%*	*6.5%*	*10.1%*	*17.1%*	*25.8%*
Days Cash on Hand	50.1	23.7	37.0	62.3	94.3
Net A/R	$998	$513	$797	$1,229	$1,782
% of Total Net Operating Revenue	*9.9%*	*7.4%*	*9.1%*	*11.4%*	*14.4%*
Days A/R Outstanding	36.2	27.0	33.2	41.4	52.7
Net Working Capital	$1,515	$699	$1,276	$1,923	$3,244
% of Revenue	*13.6%*	*9.7%*	*13.3%*	*17.2%*	*24.2%*
Net Working Capital Less Cash	$551	$180	$435	$853	$1,315
% of Revenue	*4.4%*	*2.7%*	*5.3%*	*8.3%*	*11.0%*
Current Ratio	3.1	1.9	2.8	3.9	4.9

Multispecialty ASCs: Working capital as a percentage of net revenue



A dip in cash flow without a significant change in surgical volume usually means there's been a disruption or delay in a facility's revenue cycle. While it's difficult to determine exactly where breakdowns take place, optimizing the following three areas will help your ASC avoid cash flow disruptions:

Technology

Software tools, automation, increased security and analytics all play an important role in speeding up the billing process and improving profitability. For example, deploying the right technology allows the transcription and coding process to be completed in 12 hours, which allows bills to be sent out an average of three days faster and bolsters cash flow in high-volume centers. Technology also powers applications that allow business office staff to complete chart packs ahead of surgery dates, which prevents delays. Typos are another area where technology provides valuable assistance. Software-enabled quality checks on the front end of the process can eliminate a majority of claims rejections.

Contracting

Payer agreements can provide a critical source of volume for outpatient surgical facilities, as patients are more likely to select an ASC when it has a contract with their insurance carrier. The out-of-pocket costs are stated up front and are almost always lower than those incurred at an out-of-network facility. But pursuing new payer contracts is not recommended for the uninitiated. Negotiating these agreements properly requires a background in financial analysis so that all related costs and carve-outs can be determined. It's also important that whomever you pick to negotiate contracts on your ASC's behalf is knowledgeable in common payer tactics that can delay payments and disrupt cash flow.

Staffing

Losing an employee is very expensive. According to the Society for Human Resource Management, it takes 42 days and costs roughly $4,000 to fill a position. Turnover in the billing office can also cause claims to be submitted more slowly. And when remaining staff are overwhelmed, claim rejection rates could rise. What's more, having too few employees can also create inefficiencies, as A/R days may increase, collecting from patients becomes more difficult, and ultimately, cash flow is slowed down.

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