

# The Secret to Cash Reconciliation: Making Sure Your Revenue Cake Rises

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## EXECUTIVE SUMMARY

While collecting cash is vital, reconciling cash is an important function for both Finance and Revenue Cycle operations which often goes overlooked.

Historical underinvestment in cash reconciliation has led to a number of highly manual solutions that require resources and still have significant risks of failure.

A modern, effective, and efficient cash reconciliation process tracks by deposit and utilizes technology to ensure clarity in the relationship between the cash you have in your bank and the cash you say you have in your GL and PAS systems.



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## INTRODUCTION

You don't have to be a gourmet baker to appreciate the delicate, moist goodness of a well-baked cake. Whether for a wedding or a kid's birthday party, great cakes come from the right proportion of flour, eggs and sugar being beaten together and correctly baked – appropriate time and temperature. But there's one key, easily overlooked ingredient in every cake: the right proportion of baking powder. It's the baking powder that injects air to the batter, making the cake rise and giving it an airy texture. Without baking powder, the cake would fall flat, creating a dense, thick, heavy confection: oh, it'll still be cake, but not one you will enjoy.

In running a hospital revenue cycle, plenty of attention is paid to collecting patient information, managing the pricing and charge description masters, and, of course, watching the AR. If those things are done well, the ingredients for a great revenue cycle are all present. However, there is one ingredient that many managers overlook and which can ruin your revenue cycle cake: Cash reconciliation.

Even if claims are being paid, failure to appropriately reconcile cash can cause hours of rework, headaches with a variety of stakeholders, like cash posters, follow up staff, and finance (not to mention auditors!), as well as create uncertainty about whose cash is whose. Especially in more complex operating environments, where payers often mingle physician and hospital payments in combined remits and where overlapping relationships between hospitals and their affiliated or owned physician groups create confusing cash flows, reconciling cash is a critical process than can easily go wrong.

To avoid the messy mixing bowl of unreconciled cash, organizations should understand the causes of the problem, avoid the common mistakes in cash reconciliation, and focus on adding one simple – though potentially hard to execute – ingredient: **track cash by deposits.**



## THE INDUSTRY PROBLEM

When hospitals were all one entity and had straightforward relationships with a small number of payers, cash reconciliation faced one relatively simple problem. Checks and remittances often arrived at different times. That disconnect, along with potential delays in cash posting processes, meant that cash in the bank had not necessarily been posted against the claims that had been paid with it.

The problem became slightly more acute when cash was received near the end of one month but the remittance was received or posted in the following month. The imbalance of postings and deposits could be resolved with a simple comparison so Finance knew whether the cash associated with payment on an account had been deposited.

### **Today's Kitchen Confusion**

As hospital and payer environments became more complex, so did the cash posting and reconciliation process. Owned physician groups should generally receive separate remittances, but payers often combine payments, delivering one check with a series of remittances. Hospital based billing arrangements added another layer of complexity, and a proliferation of payers with a variety of payment methods – including bundled payments and various quality or population health focused methodologies – create a new set of challenges. Even the common experience of secondary or tertiary payments causes complexity in the cash posting process.

More recently, the consolidation of administrative functions, including the growth in RCM outsourcing functions has added yet another layer of complexity. For example, if a hospital has moved from posting patient payments itself to doing so in some centralized function, it is commonly the case that payments can get batched up ways that may make reconciliation more difficult.



With more entities sending cash, receiving cash, and posting cash, reconciling payments has become more challenging. A single deposit may consist of multiple payments and those payments likely consist of multiple batches in multiple systems.

## HOW HOSPITALS RESPOND

The constant flow of payments (including takebacks) and remittances led hospitals to implement a variety of tracking mechanisms. Even in an industry not known for being particularly adept at utilizing technology, cash reconciliation processes can be shockingly rudimentary.

### **A Case in Point**

For example, in one hospital we worked with, the revenue cycle department had used a highly manual, paper based system to tie out deposits and postings. The process was so manual and antiquated, the revenue cycle department had to contact multiple office supply vendors looking for a supplier of carbon paper, a key element in their reconciliation process!

Most hospitals have advanced past 1950s typewriter based technology and use some version of an excel spreadsheet or access database to reconcile cash. However, the many-to-many relationships inherent in tracking batches and payments can make the process difficult to track.

### **But if the Cake Doesn't Rise...**

Too often, hospitals literally give up, accepting that their reconciliation efforts will fall a few thousand (or a *few hundred thousand!*) short of fully reconciling and they accept the risk and costs of not being fully reconciled. And even where tracking is attempted, the effort is overwhelmingly tedious.

Another hospital we helped attempted to track payments and reconcile via excel spreadsheets. Daily deposit sheets were kept for each day and separate workbooks for each payer. Furthermore, separate accounts were maintained for various facilities and for the associated physician groups, meaning the number of worksheets quickly ballooned into the tens of thousands.



## **Baking Lessons**

While cumbersome, the process worked.....as long as it worked. If a deposit was entered incorrectly or if someone needed to find a historical deposit, searching through dozens of files and thousands of worksheets was theoretically possible, but functionally impractical.

Well-intentioned, well-meaning, and even well-informed efforts to reconcile cash have generally led the industry to incomplete and cumbersome outcomes that reduce, but do not the eliminate, the risk of failed cash reconciliation. Our experience tells us that one simple concept can fix those problems.



## THE RIGHT BAKING POWDER

For most bakers, baking powder is baking powder. But for elite bakers, there are a variety of choices – tartrate based, phosphate based, SAS, Double-Acting, Single-Acting, etc. – each of which is the right choice to be used in the right situation.

For the cash reconciliation cake, we think there is one secret ingredient that is vital to a good outcome: **tracking by deposit**.

If an organization tracks by deposit, it can reduce the many to many relationships that result from the complex posting world in which most providers operate. Tracking by deposit creates a data structure like this:

Deposit	
4/1/2016	5,000.00

Payments	
3/26/2016	2,500.00
4/1/2016	2,500.00

Batches		
4/8/2016	Athena	\$2,500.00
4/8/2016	EPIC	\$2,000.00
4/8/2016	Medipac	\$500.00

The deposit amount becomes the source of truth and cash, after all, is the ultimate truth in the revenue cycle. The deposit can be split into the various accounts where the cash belongs and can be posted into whatever



systems or batches are appropriate. This layout also quickly highlights any unposted or unreconciled amounts, allowing staff to resolve those exceptions quickly.

### **The BEST Baking Powder**

While creating and managing a database of this structure is a viable option for reconciling cash, it does have some limitations. For example, it requires a significant amount of data entry, and entails all the risks associated with manual keystrokes.

To help automate that process, Colburn Hill Group developed the Cash Application Management Solution (CAMS), which automates much of the work that is today performed manually. Through a secure interface, CAMS pulls bank statements for your accounts, creating the deposit source of truth. Matching up those deposits with batch and transaction files from your Patient Accounting System, CAMS can auto-reconcile 90%+ of the deposits, creating a worklist for those that fail the auto-reconciliation process. Because CAMS creates a relational database of all transactions, it also allows users to easily search for specific deposits or transactions and quickly see the activity (or lack thereof) associated with those items.

Along with streamlining and automating the reconciliation process, because CAMS becomes a central repository for data related to the cash posting process, it can provide managerial insight into staff productivity and cash posting backlogs. At a glance, managers can pull reports of deposited but unposted cash, posting productivity at an individual user level, and distinguish between outcomes by various payers. Neither excel spreadsheets nor carbon paper based processes can equal that kind of insight.

In sum, CAMS delivers superior insights to healthcare providers about their cash and remittance processing through real-time reporting, reconciliation, and staff productivity for increased financial control, cost insights, and forecasting abilities.



## CONCLUSION

While there is variation in performance levels of most revenue cycle functions, the performance level in cash reconciliation is uniformly poor, or at least rudimentary. Antiquated tools and complex environments lead to unwieldy and often ineffective solutions that can provide inaccurate outcomes and create audit risk for hospitals.

Tracking by deposit is one way to minimize that risk, but by using CAMS, you can create a comprehensive view into cash posting and provide real managerial insight. CAMS is the best way to pull a beautiful, tasty, light and fluffy cash reconciliation cake from the revenue cycle oven.



## FOR MORE INFORMATION

Please contact us with questions, comments, or for additional information.

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We look forward to hearing from you!