

Where did the Collections Go?

Once all of your charges are properly posted, you need to collect all of them. Unlike charges, which require a single posting, collections are posted many times over months or years. If there are too few controls in place, the collections will fall behind. Thus, while monthly charge changes are easy to figure out, monthly collection changes aren't.

If your charges are increased or reduced that month your collections will increase or decrease. But much of that amount charged (typically 30% or 100% if paid in full) is paid as the initial payment. Thus, for a \$1.5M practice collecting \$125,000/month, \$40,000 of it is collected as initial payments. But, should there be many high or paid-in-full initial payments that month, the collections will *increase* by as much as \$35,000. The opposite is true if the practice usually collects about 50% in initial payments (about \$60,000 for our \$1.5M practice) and drops down to 30%, causing a \$25,000 *decrease* in collections/month. Also, paid-in-full initial payments that are paid after the charges are posted will slightly decrease that month's collections and increase the collections in the month it is paid. Bottom line: have the TC and bookkeeper control the amount of the initial payment and make sure it is collected on the IP date.

About 60% of a typical practice's patients have some kind of orthodontic insurance. It can be as much as the entire fee (rare) or as little as 10% of the fee; typically it averages about 20% of the fee or about \$25,000/month in collections. If you use "preferred provider" insurance the fee is typically reduced by about 20% and it is paid in full at the start of treatment. This will automatically cause an increase in collections for the months more are started and a decrease in collections for the months fewer are started. But more importantly, no matter what type of insurance, and because they won't pay you if they are not notified, your collections can drop significantly after the loss of control (typically with a change in staffing). If your computer system controls your insurance payments, make sure that you have a past due control built in. If not, you need to periodically check all of your insurance accounts to make sure that they are up to date.

Most practices are about 5% to 20% past due ($\% = [\text{Total Past Due}] \div [\text{Average Monthly Collections}]$) and for a typical \$1.5M practice this can be \$25,000 past due, although some practices are much higher and some much lower. This amount is typically ongoing, unless there is a recession with a major increase in past dues or a practice cleanup and a major decrease in past dues. To clean up your past dues go to: http://www.thebioengineeringco.com/index.php?option=com_k2&view=item&id=237&Itemid=766

Some practices, in order to get the patients to start, decide to allow the patients to spread out their monthly payments over more months causing lower monthly collections from that point onward. And some practices decide to pay higher monthly payments over fewer years causing higher monthly collections from that point onward. This effect is ongoing, but it can be significant when the policy change.

Embezzlement is typically not a factor that changes monthly collections, it is typically long term and not noticeable. But if you notice a sudden drop in collections over a few months, and none of the above factors seem to be the cause, you need to look into embezzlement; see the following pearl:

http://www.thebioengineeringco.com/index.php?option=com_k2&view=item&id=174&Itemid=766

More than embezzlement, a drop in collections can be due to staffing incompetence or poor daily cash control (which makes embezzlement easier). Direct deposit and credit card payments also need to be controlled and can cause a large change in any month's collections. To make sure that all of your daily collections are under control by going to:

http://www.thebioengineeringco.com/index.php?option=com_k2&view=item&id=262&Itemid=766

I hope that this helps you to figure out "where the collections went".

Next month's final pearl in this series will deal with budgets and "where did the net go".