Financial Management in the Dental Office

Chapter 63
Learning Objectives
Lesson 63.1: Accounts Receivable and Collections

1. Pronounce, define, and spell the key terms.
2. Discuss account management, including the gathering of financial information.
3. Discuss accounts receivable, including types of systems and recording of payments.
4. Describe the importance and management of collections in the dental office, and demonstrate ways to make financial arrangements with a patient.
Introduction

- The business assistant has the responsibility of maintaining complete, accurate, and up-to-date:
  - Financial records for billing and collection procedures
  - Financial planning
  - Declarations of money earned to federal and state agencies
Account Management

- Begins with a clearly defined financial policy established by the dentist
- Once these guidelines have been determined, it is the responsibility of the business assistant to follow through with them
- Basic practice financial policies should include statements on gathering financial information, presenting the fee, making financial arrangement with patients, and collecting overdue accounts
Gathering Financial Information

- The registration form gathers all the basic financial information needed to manage the account history and complete the patient identification portion of an insurance claim form.
- Information on the form includes:
  - Name, address, telephone number(s), and place of employment of the person responsible for the account.
  - Information specifying the patient’s coverage under a dental insurance plan.
  - Identification information for all individuals included in the account.
Credit Reports

- Dentistry today is costly, especially in the area of specialty procedures such as implants, surgical procedures, or orthodontics.
  - A credit report of the responsible party may be requested.
  - If this is the dentist’s policy, the responsible party should be informed before application of the credit report.

- Consumer credit reporting agencies, commonly referred to as credit bureaus or agencies, provide a financial profile of the patient.
Fee Presentation

- Before a case is presented to the patient, an estimate is developed as part of the treatment plan.
- This estimate is prepared in duplicate: One copy is provided to the patient, and the other is retained with the office records.
- After the dentist has completed the case presentation to the patient, the business assistant may be asked to handle the discussion of the fees involved.
Making Financial Arrangements

- Financial arrangements are made with each patient when professional services are performed.
- These arrangements should be made before treatment is initiated, except in such instances as emergency treatment.
- The arrangements should be reasonable to both parties.
- The arrangements should be made in a private setting.
Accounting

- Accounting is the means or process of recording, classifying, and summarizing financial transactions
- Bookkeeping is recording the accounting process
Accounts Receivable

- The accounts receivable system manages all money owed to the practice.
- Involves maintaining financial records regarding all transactions related to collecting fees for professional services provided to a patient.
- The dentist may choose to obtain bonding insurance on staff members who handle practice funds by receiving and banking patient payment or writing checks.
Types of Accounts Receivable Systems

- The most frequently used type of accounts receivable bookkeeping system in a dental practice is the computerized system or a pegboard system.
- Increasingly, offices are switching to electronic practice management systems because they are capable of integrating technology with accounting.
Pegboard Accounts
Receivable Management

- Pegboard accounting, also known as a *one-write system*, is a manual bookkeeping system
- All records are completed with a single entry
- Through positioning of the daily journal page, ledger card, and a carbonized receipt, all financial records for each patient visit are completed by writing information just one time
Computerized Accounts
Receivable Management

- Data entered into computer program and used to maintain account histories and practice records
- Essential that information be entered accurately because this is used to generate account totals and daily and monthly summaries
- Important that the data stored in the hard drive of the computer is protected by being backed up daily
- An additional set of backup files should be stored in a safe place outside of the office
- These backup records are vital in the event of theft, fire, or other disaster that makes it necessary to reconstruct the loss
Computerized Accounts Receivable Management System

Receive Payment for Angie Abbott (8)

Patient: 8 Angie Abbott
Resp. Party: 8 Angie Abbott

Receive Payment On:
- Patient Account
- Payment Plan

Payment Information:
- Acct Due Now: $942.38
- Date: 01/11/20
- Payment Type: Check
- Number: 5424
- Amount: $200.00
- Provider: Young, DDS

Account Aging:
- Current: 1,040.42
- 30 Days: .00
- 60 Days: .00
- 90 Days: .00
- Contract: 251.96
- Balance: 1,292.38
- Insurance: 350.00
- Due Now: 942.38

Last Payment: 10/1/20 for $537.62 Check Number 1101

<table>
<thead>
<tr>
<th>Patient</th>
<th>Last Visit Date</th>
<th>Due Now</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angie Abbott</td>
<td>Aug, 07 2003</td>
<td>$690.42</td>
<td>200.00</td>
</tr>
</tbody>
</table>

Totals: 690.42 200.00

Courtesy Patterson Dental, St Paul, MN.
Accounts Receivable Management Basics

- **Charge slips**
  - Used to transmit financial information between the treatment area and the business office

- **Daily journal page**
  - Record of all transactions for the patients seen each day, including the name of each patient, charges, payments, and adjustments to the account

- **Receipts and walkout statements**
  - Similar to a receipt but shows the current account balance
A Walkout Statement
Recording Payments

- All payments must be entered promptly into the bookkeeping system so they are recorded in the account history and on the daily journal page.
- Payments received by mail are entered in the same manner as those made in person.
- As a safeguard, checks should be stamped immediately with a restrictive endorsement, which prevents anyone from cashing a check if stolen.
Patient Account Records

- Organized on the basis of information regarding the responsible party
  - The person who agrees to be responsible for payment of the account is known as the *guarantor*
  - This is not always the patient

- The patient account record is used to track all account transactions

- A current account balance is maintained at all times
  - This information is used to generate statements, insurance claims, and other collection efforts
Payment

Accounts can be handled in several ways, including:
- Payment at the time of treatment
- Cash
- Check
- Credit cards
- Professional courtesy and discounts
Daily Proof of Posting

● End of each day
  ➢ Listings on the daily journal page are compared with the appointment book to be certain that all patient visits have been entered
  ➢ The total for receipts must match the amount of money received
Bank Deposits

● Deposit slip
  ➢ An itemized listing of the cash and checks taken to the bank to be credited to the practice’s account
    • The slip must bear the practice name, address, and account number
    • The slip must be legible
    • Cash is listed together
    • Checks are listed together
Monthly Statement

- A request for payment of the balance due on the accounts receivable
- Under this plan, the patient is expected to pay the balance in full on receipt of the statement
- Cycle billing
  - Statements for patients with last names in each part of the alphabet are mailed at specified times during the month
- Divided payment plans
  - The patient pays a fixed amount on a regular basis
Collections

- Accounts receivable report
  - This report shows the total balance due on each account, plus an analysis on the age of the account

- Management of collection efforts
  - All collection efforts must be handled tactfully
Management of Collection Efforts

● **Fair Debt Collection Practice Act**
  ➢ It is illegal to:
    • Telephone the debtor at inconvenient hours
    • Threaten violence or use obscene language
    • Use false pretenses to get information
    • Contact the debtor’s employer, except to verify employment or residence
Collection Telephone Calls

- When placing a collection call:
  - Have all necessary information ready before making the call
    - Exact amount owed
    - Payment due date
    - Previous conversation notes
Collection Letter Follow-Through

● Timetable

➢ 30 days: A statement including financial arrangements is sent
➢ 60 days: A second statement is sent, accompanied by a kind printed collection message or a telephone call
➢ 75 days: Another telephone call is made and an amicable collection letter is sent
Collection Letter Follow-Through (Cont.)

● Timetable
  ➢ 90 days: A third statement is sent with a stronger collection letter noting that the account will be turned over to a collection agency for action
  ➢ 105 days: A telephone call is made, stating, “Unless account is paid by a specified date, account will be turned over to a collection agency for action”
  ➢ 120 days: The account is turned over to a collection agency
Final Collection Options

- The final decision regarding turning accounts over for collection must be made by the dentist.
- An account is never turned over without the dentist’s specific approval.
Collection Agency

- A collection agency makes additional efforts to collect the balance on an overdue account
  - The agency’s charge is a percentage of the amount collected, and this is deducted before the balance is remitted to the dental office
  - Some attorneys also attempt to collect overdue accounts in exchange for a percentage of the amount collected
Small Claims Court

- Another option is to take the debtor to small claims court.
- Sometimes arrangements are made so that the business assistant, not the dentist, appears for the hearing.
- One drawback to the option of seeking a small claims court judgment is that even if the court rules that the debtor must pay, it is still up to the practice to collect the amount of the judgment.
Learning Objectives
Lesson 63.2: Accounts Payable, Payroll, and Dental Insurance

5. Discuss accounts payable management, including overhead, disbursements, and expenditure records.

6. Discuss the writing of checks in the dental office, including the purpose of business summaries.

7. Discuss payroll, including the following:
   - Discuss the financial responsibility of the employer.
   - Identify common payroll withholding taxes.
Learning Objectives
Lesson 63.2: Accounts Payable, Payroll, and Dental Insurance (Cont.)

8. Discuss dental insurance, including the following:
   • Explain the purpose of dental insurance.
   • Identify the parties involved with dental insurance.
   • Identify the types of available prepaid dental programs.
   • Define managed care.
   • Discuss and define basic dental insurance terminology.
   • Explain dual coverage.
   • Identify dental procedures and coding.
   • Detail claim forms processing.
   • Describe the procedure and purpose of claim forms follow up.
   • Identify insurance fraud.
Accounts Payable Management

- All the money that is owed by the practice
- Expenses and disbursements determine the cost of doing business in the dental practice
  - Expenses are called *overhead*
- As these expenses are incurred, they become accounts payable
  - Disbursements are the payments made for these accounts payable
Dental Office Overhead

- **Fixed overhead**
  - Business expenses that continue at all times, including rent or mortgage, utilities, insurance, and salaries

- **Variable overhead**
  - Expenses such as dental and business supplies, independent contractor fees, laboratory fees, and equipment repair fees
Gross versus Net Income

● Gross income
  ➢ Total of all professional income received

● Net income
  ➢ Gross income minus all practice-related expenses

● A certified public accountant (CPA) is often employed on a retainer basis
  ➢ It will be the CPA’s responsibility to handle the major financial records, such as annual profit and loss statements, tax returns, and other government reports
Disbursements

- Effective management of a dental practice requires organized handling and prompt payment of all bills for practice-related expenses
- Packing slip
  - Itemized listing of the goods shipped and recipient of the shipment
- Invoice
  - Detailed list of goods shipped and services rendered; is an itemized bill
- Statement
  - A summary of all charges, payments, credits, and debits for the month
Organized Expenditure Records

- Statements and invoices that have not yet been paid are placed in the accounts payable folder.
- As part of the organization of expenditure records, expenses are classified into categories:
  - These usually include groups such as professional supplies, laboratory fees, salaries, rent and maintenance, utilities, and business office supplies.
  - At the end of the year, this expense documentation is removed and filed, in the same categories, with other business records for that year.
Payment of Accounts

- Monthly payments
  - Check all invoices from suppliers to make sure they match the statements

- Cash on delivery (C.O.D.)
  - Payment is due at the time of delivery
  - There is also a handling fee

- Petty cash
  - This is for small expenses or supplying patients with change
Writing Checks

Check terminology

- **Check**: A draft, or an order, on a specific bank account for payment
- **Payee**: The person named on the check as the intended recipient
- **Maker**: The one from whose account the amount of the check will be withdrawn
- **Check register**: A record of all checks issued and deposits made to the account
Check Endorsement

- Before the payee can receive cash for the check, he or she must endorse it.
- With a restrictive endorsement, the check can be deposited only to the account of the named individual.
- A rubber stamp with the appropriate restrictive phrase and the payee’s name may be used in place of the payee’s signature.
- As a safeguard, such a restrictive endorsement should be placed on all checks as soon as they are received.
Stop Payment Order

- If the maker of the check, for various reasons, does not want the bank to pay a check he or she has written, the maker may request that the bank issue a stop payment order for the check.
- The written stop payment order must reach the bank bookkeeper before the check is presented for payment.
- The bank charges for this service.
Nonsufficient Funds

- A check will be returned to the payee marked N.S.F. if there is not enough money in an account to cover the check.
- When a check from a patient is returned, the amount of the check must be “charged back” against the patient’s account.
- Often a telephone call to the maker will resolve the problem, and the check may be redeposited.
Business Summaries

• All checks must be accounted for in a specific expense category
• With a computerized system, posting to the appropriate category is part of the check-writing process
• Totals from monthly summaries are carried forward to an annual summary
• Through the keeping of these records, the dentist and the accountant at any time can quickly tell what the practice expenses have been to date
Payroll

- Complete and accurate employee records must be kept at all times
- A separate payroll sheet should be maintained for each employee
- This sheet must have the employee’s full name, Social Security number, address, and number of exemptions claimed
Payroll Deductions

- Income tax withholding
  - State and federal
- Federal Insurance Contributions Act (FICA)
  - Commonly known as Social Security
- Other deductions
- Government remittance
Dental Insurance

- A plan that assists a patient financially with the cost of dental care
- A person can obtain dental insurance:
  - Traditional dental care insurance plan
  - Managed care dental insurance plan
  - Government programs
Managed Care Dental Insurance Plan

- Capitation plans
- Preferred provider organizations
- Exclusive provider organizations
- Direct reimbursement plan
- Individual practice
- Affordable Care Act
- Government programs
Parties Involved in Dental Insurance

- **Patient/subscriber**: The person who carries the plan
- **Dependent**: Subscriber’s spouse or child
- **Group**: The union or employment organization that has negotiated dental insurance as part of its benefits package
- **Carrier**: The insurance company that pays the claims and collects the premiums
- **Provider**: The dentist who renders treatment to the patient
How Benefits Are Calculated

- Usual, customary, and reasonable fees
  - Usual fee: The fee that the dentist charges for a given service
  - Customary fee: Fee within the range of the fees charged for the same service by dentists with similar training and experience within the same geographic area
  - Reasonable fee: Fee justified by special circumstances necessitating extensive or complex treatment
How Benefits Are Calculated (Cont.)

- **Schedule of benefits**
  - This is a list of fixed specified amounts that the carrier will pay toward the cost of covered services.
  - The patient is responsible for the difference between what the carrier will pay and what the dentist actually charges.

- **Fixed fee schedule**
  - This is an established fixed fee for any treatment received by the patient.
  - The dentist must accept the amount paid by the carrier as payment in full.
Determining Eligibility

- When a subscriber starts a new job, a 30- to 60-day waiting period is commonly required before coverage becomes effective.
- If a subscriber changes jobs, is laid off, or retires, his or her coverage is customarily terminated within 30 days of the change.
  - The subscriber has the option to continue coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985.
Determining Benefits

- Information that explains the coverage under a specific plan is found in the benefits booklet
- Limitations
  - Least expensive alternative treatment
- Dual coverage
  - Determining primary and secondary coverage
  - Birthday rule
  - Coordination of benefits
- Nonduplication of benefits
Dental Procedure Codes

- The Code on Dental Procedures and Nomenclature was developed by the American Dental Association (ADA) to speed and simplify the reporting of dental procedures
Dental Procedure Codes (Cont.)

- These codes are provided in Current Dental Terminology (CDT), which is published periodically by the ADA
- The codes are very specific
- Each procedure has a designated code number
Claim Forms

- Claim form preparation
- Claims for dental treatment are filed in one of two ways:
  - By submission on a claim form that is mailed to the carrier
  - By electronic transmission, in which information is submitted electronically to the carrier
- Both types require the same three primary areas of information
  - Patient and subscriber identification
  - Dentist identification
  - Details concerning the treatment provided
Paper Claim

- A dental insurance claim form is used to:
  - Submit a predetermination of benefits for planned treatment
  - To request payment of claims for services that have been rendered
- The ADA provides a standardized claim form that is accepted by most carriers
- The completed claim form is generated in duplicate
  - One copy is submitted to the carrier
  - The other copy is retained with the practice records
Paper Claim (Cont.)

- The claim form includes two boxes for patient signatures
  - These relate to release of information and the assignment of benefits
- Release of information
  - Permission to reveal to the insurance carrier information regarding the patient’s dental treatment
- Assignment of benefits
  - Authorization to make payment of allowable benefits directly to the dentist
Electronic Claim

- Software data are downloaded to generate and submit claims from the practice’s computer to the carrier’s computer
- Advantages
  - Speed of claim submission and payment
  - Reduction in paperwork
  - Fewer errors
HIPAA and Electronic Transactions

- Transaction standards to protect the integrity and promote the standardization of electronic claims submissions
- The goal of this program is to allow one standardized format for each specific transaction, along with a standard set of procedure codes
- By doing this, electronic data transmissions are more efficient, which results in a cost savings for healthcare providers
Claim Form Processing

- It may be necessary to file a predetermination for planned treatment
- All charges are entered into the patient’s account history or ledger
- A claim for payment is submitted to the insurance company
- Financial arrangements are made with the patient for payment of his or her portion of the fee
Tracking Claims in Process

- Claims that have been submitted for predetermination but have not yet been returned
- Claims that have been submitted for payment but have not yet been paid
- Charges for claims that have been generated but have not yet been submitted
- Claims that have been returned for any reason and have not yet been resubmitted
Payments from Insurance Carriers

- Checks received from insurance carriers should be accompanied by an explanation of benefits that tells which benefits have been paid and which have been denied.
- The explanation of benefits breaks down how payment was determined.
- If, after making this payment, the patient owes a balance, he or she should be notified that the insurance carrier has paid its portion and that the patient is now responsible for the unpaid balance.
Handling Overpayments

- Credit the check from the carrier to the patient’s account
- Write a check from the practice to the patient to refund the amount of the overpayment
- Make an entry on the account ledger
Insurance Fraud

Some examples of dental insurance fraud are:
- Billing for services not provided
- Changing fees on a claim form to obtain a higher payment
- Disregarding a copayment or deductible, accepting only the insurance payment, and writing off the deductible
Questions?