Accounts Receivable: If You Act Like a Bank, Use Their Tools

Wilson C. Taliaferro, BSBA

Not every practice can require payment at the time of service. An equine practice can add systems and tools used by collections agencies and financial institutions to prevent past due accounts and resolve problems when they occur. Author’s address: PO Box 152, Monkton, MD 21111; e-mail: wilson@kalmiaconsulting.com. © 2011 AAEP.

1. Introduction

There are many reasons why payment at the time of service may not always be the best fit with your practice. This report will discuss how to improve documents, establish protocols, use powerful collections tools, and communicate with clients about past due accounts.

2. Improve Existing Documents and Prevent Problems

Any new client in a practice should fill out some type of paperwork to ensure proper contact and billing information for the account and establish a contract for services. Paperwork should include terms of payment and how and when finance charges are applied. It should also include phrasing that requires the client to pay any collection or court costs for resolving past due accounts.

Many practices collect credit card information on this form and state that any outstanding invoices greater than 30 days past due are automatically charged to the card. This is a good hybrid between an open account and payment at the time of service. Such a system allows a practice to have multiple employees ensure that billing is correct, and it allows the client a brief period of time to dispute any charges. The downsides to this are ensuring that the information is stored securely, and clients with severe debt problems may not have enough credit available on the card to charge off the balance. When constructing and using a new client contract, remember that reasonable people will accept reasonable terms.

How a practice bills for services conveys value and can be designed in a way to expedite the payment process. If the first thing a client sees when opening an invoice is a dollar amount; the invoice emphasizes how much the services cost, not what was actually done. Most practice management software can customize invoices to look like reports of findings. If line-item charges display medical notes about that charge, invoices will be not only a bill but a reminder of the attention to detail and the quality of service provided. Tear-off stubs at the bottom of invoices can be used for credit card payment information, similar to many utility invoices. This makes it easier for the client to pay their bill and ensures that when the payment is received in the practice that the payment is credited to the correct account.
3. Establish a Collections Protocol

Managing accounts receivable is usually not on the top of the list of tasks that people enjoy. Combine a lack of enjoyment with a busy schedule, and it’s easy to understand how some practices can have accounts receivable become large problems. Organization can make this task easier. Instead of handling an individual past due account as a special scenario, come up with a time line for how all accounts are managed, and then make special scenarios if you want to be more lenient toward specific accounts. Here is a sample time line:

- Day after service: Invoice is mailed to client.
- End of month: Balance is charged to credit card if available; otherwise a statement is mailed to the client at the end of the month.
- End of 2nd month: 2nd statement is mailed.
- Mid-month: A friendly reminder letter is mailed.
- End of 3rd month: Phone call and 3rd statement mailed.
- Mid-month: Phone call and a firm letter stating that account will be sent to collections.
- No later than end of 4th month: The account is sent to collections agency or attorney for resolution.

4. Tools and Resources

Credit cards are invaluable collections tools. With them, a practice has simple means to accept payments over the phone and enable clients to make payments for large balances over time without the practice becoming a financial lending institution. Some practices feel that the expense of accepting credit cards is too great. The majority of consumer transactions in the United States are paid for with some type of credit or debit card. Not accepting credit cards complicates the payment process for clients and limits a practice’s ability to be paid.

Many practices have trouble collecting accounts because they do not have accurate contact information on their clients. The practice of locating past due debtors is known as skip tracing. LexisNexis compiles information from public records and non-public sources to create a searchable database called Accurint. This database lists enormous amounts of information about individuals and companies. This is a subscription service used by debt collectors, law enforcement, and other government agencies. It is a somewhat costly monthly subscription, but the information it provides can be extremely helpful.

“The check is in the mail” is a common excuse for late or nonpayment. Fortunately there is an easy solution to resolve the excuse. Check Man software allows clients to fax in a copy of a check or even submit a payment over the phone using a client’s checking account information. That information is then entered into the software and a preauthorized electronic bank draft is created that can be deposited without the need of a signature, as if it were a check. If a client says the check is in the mail and the practice feels there is some risk collecting the account, ask the client to put a stop payment on the check, offer to reimburse their expenses for doing so, and get a check over the phone or fax instantaneously with this type of software.

5. Legal Concerns

As a business owner, you need to know what you can and cannot do when it comes to collecting accounts. The Fair Debt Collection Practices Act is a federal law that governs the actions of third-party collections activities. Common sense encourages you to use these as guidelines for your in house collections as well.

Do not:

- Telephone a past due account before 8 AM or after 9 PM.
- Telephone a past due account more than 3 times per week.
- Misrepresent yourself as other than who you are.
- Request payment that is greater than the amount due.
- Discuss the bill with anyone other than the debtor or spouse.
- Contact a past due account that has declared bankruptcy.
- Threaten or verbally abuse the debtor.
- Falsely tell a past due account that you will file suit or report the debt on a credit report when you have no intention or ability to do so.

If you routinely extend credit to your clients, have a payment plan of more than four payments, or charge finance charges, you may be subject to the Fair Credit Billing Act. What does this mean for you as a business owner?

You must:

- Notify your clients of their rights under this act in writing at least once per year. This is the tri-fold small-type pamphlet you get yearly from your credit card company.
- Have a due date stated on invoices.
- Clearly state the interest rate for finance charges on every statement.
- Disclose how you calculate finance charges.
- Postmark your statements at least 14 days before finance charges are assessed.

The Fair Debt Collections Practices Act does not offer clear guidelines to using social media as part of a collections effort. However, a Florida court ruling restricts the use of Facebook and other social media tools as a way to contact debtors about past due accounts. While this ruling is on a state level, the
Federal Trade Commission is currently evaluating how this can be resolved on a federal level.

6. Resolving Past Due Accounts

Collections efforts should be an extension of your customer service. Many clients withhold timely payment when they become dissatisfied with the perceived value they receive. Take the time to listen to their concerns. If the majority of the past due accounts are associated with dissatisfied clients, maybe the problem is not a collections issue. If the problem is a valid fault of the practice, make any and all efforts to resolve the problem quickly and in a way that exceeds the expectations of the client.

Letters can be a great collections tool, but only if they are opened. Here are a few ways to improve the chances of having letters opened:

- Use stamps instead of postage meters.
- Use non–business-sized envelopes.
- Use an envelope color other than white.
- Enclose something that can be felt through the envelope like a paperclip.
- Hand-address your letters.

When composing a collections letter, keep it concise and civil. Avoid statements of blame and include facts such as the date and amount of the last payment received. Stick to diplomacy to resolve a problem.

When making collections calls, ensure that you are in a calm and friendly state of mind. Your goal is to resolve a conflict. Have all the appropriate documentation in front of you, and have the ability to accept payment instantly. This can be with a credit card or software that enables creating pre-authorized electronic bank drafts as mentioned above. Keep a written record of the conversation with dates and times of calls. Any collection call should open with you identifying yourself and confirming the identity of the person on the other end of the phone. Present the facts of the situation, avoid any accusatory phrases, be friendly, firm, and concise. “I’m calling regarding your account with us. The current balance is $1200. How would you like to take care of this?” The most important thing you can do is listen and say nothing after asking questions. People want to fill in silence with talking, and this gives the debtor a chance to either come up with a payment plan or give excuses for nonpayment. If there are excuses, present helpful ways to defuse them as mentioned above with the “check is in the mail” solution. Make notes of the excuses and try to work through them in a way that prevents them from being used again. Once there is an agreed-upon payment plan, confirm it with the debtor, process the payment instantly if possible, and bring the conversation to a close. If after several conversations there is no progress made or the debtor avoids phone calls, it may be time to get outside help.

Many practices hang onto past due accounts in the hopes of getting payment, but if there has been no communication or payment in 120 days, then chances are good that internal efforts cannot resolve the problem. There are two ways to involve the services of collections agencies and attorneys. Most operate on a commission basis and take 30% to 50% of any recovered amount. Many attorneys will charge legal fees on top of the commission, whereas some collections agencies will not. If you feel unwilling to part with such a large percentage, ask which is better in the bank, 0% of nothing, or 50% to 70% of something that you were unlikely to get.

If past due balances are less than $1000, then a commission-based collections agency or attorney will only spend so much time trying to collect the account before they cross their own threshold of profitability. A letter-writing service usually charges a flat rate of $8 to $15 per account and sends a series of two to five letters encouraging the client to pay the account. This may be a more effective route for small balance problems.

One of the simplest and most powerful things a collections agency or an attorney can do is report past due accounts on credit reports. On average, most states have a statute of limitations of 3 to 4 years from the time of last payment for past due accounts. Credit reports list past due accounts for 7 years. During that time period, most individuals will be unable to finance a car, get a new credit card, rent an apartment, or refinance or buy a house until the debt is paid.

Involving outside resources in your collections efforts ensures there are real consequences to nonpayment. Even if a past due account is not resolved, the process can inform other credit-granting institutions of the risk associated with the individual or company in the future.

7. Additional Resources


The author is Director of Operations and Finance at Cooper Williams, VMD, an equine practice in central Maryland (June 2003 to present); President and Founder of Kalmia Consulting, LLC, a licensed and bonded debt collection firm. (January 2010 to present; and Research and Development Consultant for Eklin Medical Systems, Inc. (December 2006 to June 2009).