

Commentary

Developing a Chart of Accounts: Historical Perspective of the Medical Group Management Association

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The public health system is facing increasing challenges and competing priorities as it is called upon to respond effectively to both traditional and emerging threats to the nation's health status. These escalating challenges dictate the need to carefully analyze and demonstrate the cost-effectiveness of services provided by public health organizations.¹ The documentation of expenditures, costs, and effects all require the institution of uniform methods of collecting and reporting financial data. The absence of broadly adopted uniform and standardized methods of accounting for resource allocation and utilization has made the analysis of relative cost-effectiveness of alternatives very difficult to establish. The general adoption of a standard *chart of accounts* for public health organizations would be a significant contribution toward generation of uniform financial information to be used for administrative, planning, and analytic purposes. Standard charts of accounts have proven immeasurably useful in laying the foundation for comparative studies of medical groups and other healthcare delivery organizations.

● Chart of Accounts Described

The *chart of accounts* is the foundation for accounting information systems within organizations and industries. Charts of accounts are lists of account titles and corresponding numerical coding structures used to record financial data such as revenues and expenses as well as to describe assets and liabilities. Using a chart of accounts, financial data can be uniformly sorted and aggregated into operating classifications such as product lines, cost centers, operational functions, or other categories specific to particular organization and industry needs. These accounts serve as the nucleus for

the compilation of standard financial statements and managerial reports beneficial to internal and external stakeholders. The chart of accounts is a fundamental component of 21st-century private and public industry accounting information systems. The profession of public health does not currently have an industry-wide chart of accounts. This historical perspective on chart of accounts in a segment of healthcare is offered as information that could be valuable for public health purposes.

● Benefits

Businesses use accounting to record, monitor, and report their financial information and condition to managers, owners/shareholders, creditors, and governmental bodies. With the chart of accounts, the production of uniform accounting information for these purposes is possible. This is particularly beneficial for practices such as industry-wide comparative financial analysis and highly utilized concepts such as benchmarking of peer organizations.

All business and public entities have similar legal requirements to maintain comprehensive, representative

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accounting records that accurately show the financial status of the organization. Healthcare organizations, in particular, have unique business requirements that dictate how financial information should be categorized. Healthcare entities need to understand their sources of revenue, how discounts and contracts are applied, and how expenses are incurred, and to have a detailed understanding of the costs incurred to provide services. The complexity of decision making necessitates that healthcare organizations use a chart of accounts developed to meet their specific needs.

● Chart of Accounts Development Timeline

The Medical Group Management Association (MGMA) was founded in 1926 to assist the profession of group practice with information needs, education, and research. In 1976, the WK Kellogg Foundation provided funding support to the Center for Research in Ambulatory Health Care Administration (the research arm of MGMA) to develop a chart of accounts specifically designed to record the financial information needed to manage a medical group practice. The chart of accounts was the key component of the first financial management text written for medical group practice managers, *Practical Financial Management for Medical Groups*, published in 1979.² The book provided a comprehensive guide to financial management, and it also included the first chart of accounts that generated information to satisfy management needs of a medical group administrator or financial manager. The data accumulation systems were designed with great flexibility and were readily adopted by medical groups of all sizes, settings, and types.

In the late 1970s, health maintenance organizations (HMOs) became more common form of health insurance. When the original medical group chart of accounts was designed in 1979, only a few medical groups were reimbursed under capitation contracts. The 1979 edition of the medical group chart of accounts intentionally left segments of the chart of accounts coding structure vacant to accommodate future account numbers that would provide appropriate record-keeping for capitation contracts.

The WK Kellogg Foundation recognized the need to assist physicians and medical groups in understanding the unique accounting and financial management needs of HMO capitation contracts, and in 1980 provided grant support to the Center for Research in Ambulatory Health Care Administration to develop a new financial text, *Management Accounting for the Fee-for-Service/Prepaid Medical Group*.³ This book was designed to complement and augment *Practical Financial Management for Medical Groups* with an update to the medical group chart of accounts to meet the accounting and record-keeping needs of medical groups that provided

both fee-for-service and prepaid healthcare services. *Management Accounting for the Fee-for-Service/Prepaid Medical Group* was published in 1985, with a second printing in 1989.

As the healthcare industry continued to evolve, the accounting and record-keeping needs of medical group managers also changed. The Center for Research in Ambulatory Health Care Administration convened an advisory panel of expert stakeholders to recommend revisions to medical group chart of accounts. The new publication, *Medical Group Chart of Accounts*,⁴ was published in 1996.

In 1999, the medical group chart of accounts was again revised.⁵ The Center for Research in Ambulatory Health Care Administration worked closely with an expert panel to review the previous charts of accounts to adopt the medical group chart of accounts to the changing information needs of medical group managers, and to better accommodate the needs of medical groups in different organizational settings. The *Chart of Accounts for Health Care Organizations* contained not only a revised medical group chart of accounts but also chapters on how to adopt the chart of accounts to meet the information needs of not-for-profit organizations, hospital-based practices, academic faculty practice plans, and community health centers.

In 2006, the MGMA and its research arm, renamed the MGMA Center for Research (the name change from the Center for Research in Ambulatory Health Care Administration was made in 2002), began the process of evaluating and revising the existing medical group chart of accounts. The text with the fifth revision of the medical group chart of accounts is scheduled for publication in the summer of 2007.

● Summary

Creation of a chart of accounts explicitly designed to meet the accounting and management information needs of medical groups is one of the most significant events and essential tools in group practice management. The common accounting system has substantially improved the financial management of medical groups, enabling practice managers to better understand their organization's cost structure and for their organizations to become much more efficient care delivery systems. It has also facilitated benchmarking among medical groups, along with corresponding improvements in lowering operating overhead. The seed planted by the WK Kellogg Foundation in 1976, and cultivated by MGMA, has now reached maturity. It continues to bear fruit and benefit physicians, their patients, and the larger healthcare community.

Given the number and complexity of government organizations that deliver public health services across the nation, overlaying MGMA experiences with

developing a chart of accounts may not be suitable for public health. However, public health could benefit from a feasibility study to determine the applicability of a standard chart of accounts to categorizing data, conducting comparative financial analysis and benchmarking, and to increasing the utility of financial information provided to stakeholders.

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