



Winners or Losers – Ways to Better Evaluate Your Practice's Lines of Business/Providers

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Presented by

Maureen West McCarthy, CPA

Partner/Director HealthCare Consulting Division

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

Phone: 301-652-6700, ext. 333

Email: mcarthym@cpahelp.com

Web: www.cpahelp.com



Maureen West McCarthy, CPA

Maureen is a partner with the firm Snyder, Cohn, Collyer, Hamilton & Associates, P.C. and is the Director of the Health Care Consulting Division. Her extensive 25+ years of experience with healthcare organizations has allowed her to be one of the firm's most valuable assets. She has worked closely with organizations to provide not only accounting and tax advisory services, but aided many organizations by consulting on a wide variety of practice management projects for private practice physicians, hospitals, medical trade associations and medical billing companies. Other services include general business consultation for mergers and acquisitions. Maureen is actively involved in the healthcare community and is frequently called on by the local medical societies, hospitals, and practice management associations. She has taught the HealthCare Management Certificate program at Georgetown University for many years. In addition, she has taught at American University and at George Washington Medical School. Ms. McCarthy is the editor of Snyder Cohn's in-house newsletter, Doctor's Perspectives, which is published in five major cities across the country.

Maureen holds a Bachelor of Science in Accounting from the Robert Smith Business School at the University of Maryland. Maureen is a member of the AICPA, MACPA, MGMA, and the Leadership Montgomery Class of 2004. She is also listed in the Who's Who of Financial Management.



Topics

- Economic Outlook & the Healthcare Industry Today
- Overall Practice Review
 - Financial Statements
 - Trends and Benchmarking



Topics

- Drilling Down/Profit Center Accounting
 - By Department
 - By Location
 - By Provider
 - By Line of Business



Topics

- How to Use the Data
 - Decision Making
 - Behavior Modification
 - Strategizing for the Future
- Questions



The Economic Outlook – What’s Ahead?

We are in the longest and most severe recession since the Great Depression.

The economy remains very weak:

- **High Unemployment**
- **Weak Housing Market**
- **Low Consumer Confidence**



The Economic Outlook – What’s Ahead?

Recovery will be slow and may take many years.

More so now than ever, medical practices will need to actively manage all aspects of their business. Well run and efficient practices will enjoy future success.



The Healthcare Industry Today

Private Insurance Companies

- **Generally, insurance premiums are increasing on a yearly basis at rates far higher than the cost of living**

This is not sustainable.



The Healthcare Industry Today

Private Insurance Companies

- Although premiums increase year after year, reimbursement to healthcare providers is not increasing at the same rate.

However, the costs of practicing medicine continue to increase...



The Healthcare Industry Today

Medicare & Medicaid

- The number of patients in these programs is growing quickly.
- Fraud and abuse within these programs is widespread.
- Declines in reimbursement is a distinct possibility.
- The money that funds these programs is dwindling and more people are being covered



The Healthcare Industry Today

- The population is aging.
- The number of uninsured and underinsured has increased dramatically.
- The toll on the available resources is huge.
- Costs are spiraling out of control.



The Healthcare Industry Today

Maintaining 'status quo' is not an option in today's environment.

- Being busy does not equate to being profitable.
- Do not assume that all lines of business or all of your providers are making money.



What Can Medical Practices Do?

There are many ways for you to analyze your practice's profitability to see where you are making money.

You have huge amounts of data available to use. You must learn how to use this data to benefit your practice and your bottom line!



Review Your Financial Statements

It is important to monitor the financial health of your practice on a regular basis. Net losses over time can lead to cash flow problems and, if not addressed, jeopardize the operation of the practice.



Review Your Financial Statements

Try to get your financial statements from your accountant (or office staff) on a timely basis – no later than the 20th of each month. It is extremely important to have current financial information available to use in decision making and strategic planning.



Review Your Financial Statements

Balance Sheet: This includes cash balances and money owed on loans or lines of credit.

Income Statement: This includes your revenue and expenses. It also shows whether you are profitable or not.

Also, review your billing reports to monitor the practice's cash flow and A/R balance.



BALANCE SHEET ABC PRACTICE AS OF DECEMBER 31, 2008

ASSETS	
Current Assets	
Cash - Operating Account	100,000
Cash - Money Market	25,000
Total Current Assets	125,000
Property and Equipment	
Office Furniture	80,000
Medical Equipment	100,000
Leasehold Improvements	75,000
Accumulated Depreciation	(170,000)
Total P & E	65,000
Other Assets	
Security Deposit	5,000
Other Loan	15,000
Surgey Center Investment	90,000
TOTAL ASSETS	290,000

NOTE: THIS IS WHAT YOU OWN!



Revenue

- Work accounts receivable actively and regularly
 - Adequately staff the billing department
 - Work appeals and denials daily
 - Close supervision and communication of issues



Expenses

The following expense categories make up 80% of total practice expenses:

- 1) Staff Salaries
- 2) Rent
- 3) Insurance (Health, General, Malpractice)
- 4) Medical Supplies and Vaccines



Expenses: Non-Provider Payroll

This should average 18-22% of your current revenue.

Suggestions:

- 1) Regularly review staffing needs vs. current staff to determine if each area is appropriately staffed.
- 2) Avoid overtime (at all costs)



Expenses: Rent

This should average 6-8% of your current revenue.

Suggestions:

- 1) Given the current excess of available real estate, if your rent appears to be higher than average, consider renegotiating or moving. You have more control in this type of economy.
- 2) Do your homework before you start negotiations. Study the market in your area to determine a reasonable price and terms.



Expenses: Insurance

Suggestions:

- 1) Review all policies on an annual basis (prior to the renewal date).
- 2) Consider alternative coverage (HDHP – HSA, HRA)
- 3) The portion of the premium paid by the employees should be reviewed and adjusted annually to help offset any increases faced by the practice.



Expenses: Medical Supplies

Suggestions:

- 1) Vendors should be price shopped on a regular basis.
- 2) Consider on-line vendors. Not only is their pricing competitive, but some also offer free shipping.
- 3) Consider buying in bulk, when possible, and if storage space is available.
- 4) Utilize group purchasing arrangements whenever possible (MCMS Vaccine Program)



Trends and Benchmarking

Performance Standards and Best Practices

- Operational Productivity
 - Collections %
 - Days in A/R
 - Claims Rejections and Denials
- Provider Productivity
 - Scheduling Effectiveness & Profitability (H & P's and Consults)
 - # of Patients
 - # of Procedures



Trends and Benchmarking

Compare your practice to industry standards (make sure you look for data relevant to your specialty and type of practice):

- MGMA
- AGMA
- Medical Society Stats
- Medical Economics



Profit Center Accounting

Identify various business segments of your practice and create financial statements that show revenues and expenses specific to that particular segment.

Your accounting software is most likely set up to handle this type of reporting.



Profit Center Accounting

You will be able to determine by segment where you are profitable and where you are losing money.

This can greatly assist a medical practice in planning for the future.



Profit Center Accounting

There are many different ways to segment your business for purposes of profit center accounting.


You will need to decide which type and level of segmentation will work best for your practice.



Profit Center Accounting

Type of Business Segments:


- 1) By Department or Service
 - Specialty
 - Sub-Specialty
 - Lab, Radiology, Infusion, Injectibles or Vaccines
 - Cash Procedures
 - Laser, Cosmetic
 - Products
 - Sports Physicals
 - Medical Record Release & Form Completion

 Profit Center Accounting

Type of Business Segments:

4) By Line of Business


- Carrier (MCO Contract)
- Carrier Product Line
- Capitated Volume
- Cash Pay

 Profit Center Accounting

Type of Business Segments:

3) By Provider

- Productivity
- Patient Volume
- Procedures (Look at Coding)

 Profit Center Accounting

Type of Business Segments:

2) By Location

- Office Location (if Multiple Sites)
- Other Service Location
- Hospital
- ASC

ABC Medical Practice
Analysis of Expenses
For the Twelve Months Ended 12/31/08

Overhead - Office Expenses	\$ 24,000.00	400 patients
Malpractice - Office Expenses	\$ 24,000.00	
Total Overhead Expenses	\$ 48,000.00	
Income Before Physician Compensation	\$ 41,000.00	(assume 1,200 visits/year = 22400)
Total Overhead Expenses	\$ 50,000.00	
Office Expenses	\$ 6,000.00	
Staff & Benefits (1 FTE)	\$ 22,000.00	
Mal - Office (Front Desk, Reception)	\$ 22,000.00	
Total Overhead Expenses	\$ 50,000.00	
Overhead - Office Expenses	\$ 182,000.00	
Malpractice - Office Expenses	\$ 182,000.00	
Overhead Total	\$ 364,000.00	
Office Expenses	\$ 44%	
Malpractice - Office Expenses	\$ 57%	



ABC Medical Practice
Analysis of Lab
For the Nine Months Ended 9/30/09

Lab - Fee Income	\$ 100,000.00
Total Revenue	\$ 100,000.00
Overhead Allocation: (includes rent, office expense, etc.)	\$ 20,000.00
Lab Supplies	\$ 25,000.00
Staff & Benefits (1 FTE)	\$ 50,000.00
Total Expenses	\$ 105,000.00
Net Income / (Loss)	\$ (5,000.00)



ABC Medical Practice
Income Statement By Physician
For the Nine Months Ended 9/30/09

Physician	\$ 300,000.00	\$ 300,000.00
Dr. A	\$ 200,000.00	\$ 200,000.00
Dr. B	\$ 200,000.00	\$ 200,000.00
Dr. C	\$ 0.00	\$ 0.00
Total Revenue	\$ 670,000.00	\$ 670,000.00
Direct Overhead Expenses	\$ 145,000.00	\$ 145,000.00
Staff (Front)	\$ 30,000.00	\$ 30,000.00
Staff (Back)	\$ 30,000.00	\$ 30,000.00
Medical Supplies (Based on Revenue)	\$ 22,000.00	\$ 22,000.00
Office Expenses (Direct & Allocated)	\$ 12,000.00	\$ 12,000.00
Rent (Medical, Reception, Health)	\$ 15,000.00	\$ 15,000.00
Malpractice (Direct & Allocated)	\$ 20,000.00	\$ 20,000.00
Total Overhead Expenses	\$ 181,000.00	\$ 181,000.00
Income Before Physician Comp	\$ 300,000.00	\$ 300,000.00
Physician Compensation	\$ 175,000.00	\$ 300,000.00
Physician	\$ 15,000.00	\$ 25,000.00
Malpractice, Other	\$ 8,000.00	\$ 12,000.00
Total Physician Comp	\$ 198,000.00	\$ 382,000.00
Net Income / (Loss)	\$ 2,000.00	\$ (28,000.00)





How to Use the Data

Deciding on the best way to format your practice data for review and analysis is only the first step.

More importantly.....

You will now need to determine how you are going to use that data to affect practice profitability.



How to Use the Data

Decision Making

- Continue a line of business or service?
- Close a location?
- Adjust charges?
- Add/Remove Employees or Providers?
- Additional Training?
 - Over the Counter Collections (Front Desk)
 - Billing and A/R
 - Scheduling, Authorizations, & Referrals
 - Internal Controls, Processes & Procedures



How to Use the Data

Behavior Modification

- Share Data
- Discuss the Results and Analysis
- Communicate Expectations
- Set Goals that are Achievable
- Monetary Incentives



How to Use the Data

Strategic Planning

- Use the Data to Determine Where You Can Grow Your Business
 - New Location
 - Expansion of Services or Hours
 - Additional Staff & Providers



There are many ways to use your data meaningfully. By incorporating the regular review, analysis, and use of data into your daily and monthly routine, you greatly increase the probability of increasing your practice's profitability.



Furthermore.....
Once you start this process, it will be easier to manage and utilize new data as it becomes available.

