

Staying Independent

Strategic Partnerships and Key Business Principals for
Financial Success

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Looking back at the Independent Physician Practice

2010



Factors include – Financial Hardship, EHR Regulations, ICD-10, Market Competition, Payer Audits, Billing Complexity

2017



Factors include – Lack of Freedom, Low Pay, EHR Regulations, Performance Requirements, Corporate Regulations

Case Study Results

Income - After Expenses

- Urologist - 2014 Group Income \$220,000.00
- Urologist - 2017 Independent Income \$570,000.00
- OBGYN - 2014 Group Income \$180,000.00
- OBGYN - 2016 Independent Income \$340,000.00
- Internist - 2011 Group Income \$165,000.00
- Internist - 2014 Independent Income \$415,000.00

How is this possible?

Key Strategic Partnerships

- Accounting & Finance
- Accountable Care Organizations (ACO)
- Independent Physician Associations (IPA)
- Billing and Collections
- Bookkeeping, Payroll, Bill Pay
- Group Purchasing

What is a Financial Statement?

- A financial statement is a quantitative way of showing how a company is doing.
- Three different ways of representing the financial state of the company:
 - Cash Management (Can the Practice meet its obligations?)
 - Profitability - Is the Practice making money (Income Statement)
 - Assets versus Liabilities - What is the value of the Practice? Who owns what? (Balance Sheet)

Each one of these questions can be answered by your
Financial Statements

Where Do I Start?



Analyzing Your Financial Statements

- To obtain optimal management information from the numbers on your financial statements, they should not just be looked at alone, but compared against other numbers.
- To know if your numbers are “good”, you must compare them to:
 - Your expectations and needs (budget-to-actual)
 - Your competitors and industry norms (benchmarking)
 - Historical performance (trending)

Expense Management

- Importance of Keeping Good Books and Records
 - Helps identify strengths and weaknesses in your business
 - Makes it easier to get a loan
 - Makes it easier to position your practice to sell
 - Helps to maximize expenses you claim and reduce your tax obligation
 - Don't over complicate your chart of accounts
 - Keep business and personal expenses separate



KEEP
THINGS
SIMPLE

Expense Management (cont)

- 40/60 Rule - Expenses should be no more than 40% of your gross practice revenue for an established practice.
- Primary Reasons Practices Do Not Achieve 40/60
 - Process and Staff Inefficiency
 - Poor Management of Scheduling
 - Poor Expense Auditing
- How are your expenses trending?
- What are your highest categories of expenses?
- Which expenses are fixed vs. variable?
- What is your cost of goods sold?
- How do your expenses (as a % of revenues) compare to others in your industry?

Expense Management (cont.)

- Benefits of a Budget – Budgeting is the best way to get a grip on finances and takes into account the past, present and future.
 - Identifies where you spend your money
 - Helps you understand your business and to establish long term financial goals
 - Helps you prepare for emergencies and plan for capital expenses
 - Helps manage cash flow

Income Management

Planning and Projections

- Understanding what you do daily
 - Procedures your perform
 - How you schedule patients
 - How you communicate with patients and peers
- How “what you do” relates to your income
 - Are the procedures profitable?
 - Are you scheduling to maximize revenue?
 - Do your patients and peers believe you care about them?
- How much do you understand about you income
 - Who do you have looking out for you?
 - What performance indicators do you regularly review to ensure proper income and cash flow?

Developing KPI's

- What to measure?
 - Don't just collect data (Data does not always = information)
 - KPI's help you make better business decisions and find solutions to problems
 - Choose KPI's according to relevancy
 - Apply KPI's where you can affect change
 - Develop indicators for each process at the department/functional level as well as overall RCM indicators.

Important decisions will be made based on KPI's.
Choose them wisely!

Developing KPI's (cont.)

- Define how to measure selected KPI's (i.e., operational definition)
 - A precise description of the specific criteria used for the measures
 - The methodology to get the value for the characteristic you are trying to measure
- Develop a baseline – where are you today?
- Where have you been?
 - Trending information is more valuable than one point in time
 - Calculate values for the previous 12 – 18 months
 - Track 3 – 6 month rolling average

Developing KPI's (cont.)

- Where do you want to be?
 - Use resources for best practice benchmarks
 - Try to find benchmarks more specific to your specialty or geographic area
 - Look for opportunities to create your “own” target
- Example KPI's
 - Net Collections Rate as a % of Revenue
 - Point-of-Service Collection Rates
 - Missed appointments and no-show rates
 - Accounts Receivable Collection Rates (Days in A/R)
 - Claim Rejection Rates

Using Your KPI's

- Determine how you will display and track KPI's
 - Charts, graphs, dashboards, spreadsheets, etc.
- Decide which indicators will be tracked and how often (daily, weekly, monthly, quarterly)
- Put someone in charge of collecting the data and automate wherever possible
- Schedule regular meetings to review with leadership team

KPI's give you the ability to set goals and make projections!

They are specific to your organization and will allow you to customize solutions!

Income Management

Planning and Projections (cont.)

- Acceptable Statistics for Billing

Do you want to be average or better than average?

Accepting the industry average as your standard is the first step toward the financial collapse of and independent medical practice!

Acceptable Benchmark

Days in A/R = >15

Collection Rate/Percentage = 100%

Up Front Collection Rate = 100%

Bad Debt Adjustments = 0%

Industry Average

Days in AR = 35.60

Collection Rate/Percentage = 85%

Bad Debt Adjustments = 15%

Income Management

Planning and Projections (cont.)

- Inside Billing or Outside Billing Company
 - Which works best for you and why?
 - Is your biller or company looking out for you?
 - Do they understand the procedures your perform
 - Are they receiving and processing all of your billings
 - How do you know if your biller or billing company is performing well?
 - What auditing tools do you use to ensure accuracy?

Income Management Planning and Projections (cont.)

- Align yourself with organizations that yield you the highest reimbursements. (ACO's & IPA's)
 - Engage in "Pay for Performance" programs.
 - Engage in Quality care initiatives.
 - You must compete in this market to win!
 - If your EHR is your excuse, replace it!
 - If your staff will not participate in your performance goals, replace them!
 - If your billing company or staff does not perform, replace them!
 - If your CPA does not understand your business, replace them!
- You must align yourself with the right organizations to win as an independent physician or Small Group. If you do, you could find your income tracking similarly to the case studies at the beginning of this presentation.

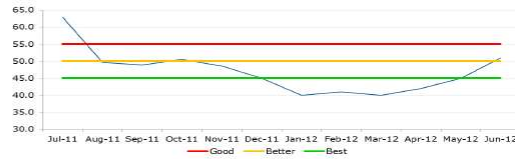
Lets look at some sample
Key Performance Measures



If these were your KPI's, what would you do?

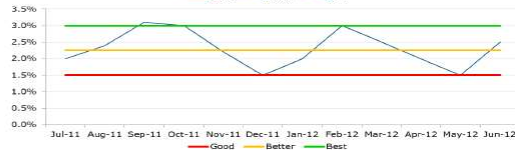
51 days

Net Days in A/R
Recommend Range:
45 – 55 days



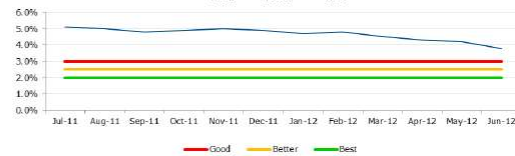
2.5%

POS Collections Ratio
Recommend Range:
1.5% - 3%



3.8%

Denials Write-off Ratio
Recommend Range:
2% - 3%



SESSION BREAK 10MIN

PART II – STAYING INDEPENDENT

HOW SALES AND USE TAX AFFECTS YOUR MEDICAL PRACTICE

Does a Medical Practice Owe Texas Sales & Use Tax?

- You owe Texas “Use” Tax on out-of-state purchases for:
 - Medical supplies and equipment
 - Leased equipment
 - Computer hardware and software, office equipment, and furniture
 - Cloud-based computer programs for scheduling, storage, and etc.

Does a Medical Practice Owe Texas Sales & Use Tax? (cont.)

- What happens if you get a Sales & Use Tax Audit?
 - Audits generally go back 2 to 3 years.
 - State will review all fixed asset purchases and select a sample of expenses.
 - Practice will be assessed “use” tax including penalties and interest.
 - Generally, penalties will be abated for first time audits.
 - Contact a professional to assist you through the audit process to make sure you are not overpaying tax.

OCCUPATIONAL FRAUD

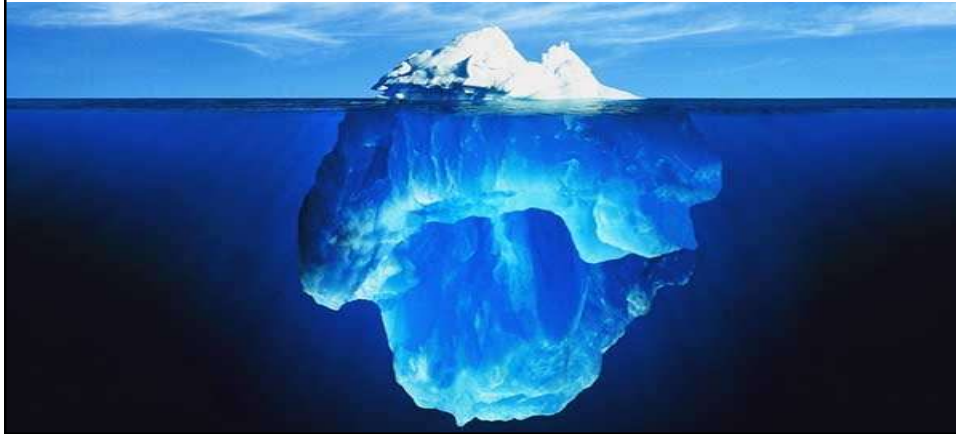


Occupational Fraud Defined

- Employee deliberately misappropriates or misuses company assets for personal benefit.
- “Company assets” is not just cash.
- Might be referred to as embezzlement or theft.

Occupational Fraud (cont.)

Detection is difficult because you only see what's showing.....like an iceberg.



Occupational Fraud Risk Facts

- 5% of annual revenue lost to fraud
- Median loss of \$150 thousand (18 mos.)
- 85% of fraudsters are first-time offenders
- 79% displayed warning signs
- Asset misappropriation, billing and check schemes were most common frauds.
- Weak or no internal controls
- Too much control limited to one person

The Fraud Triangle

- Three common elements of fraud:

- Motive
- Opportunity
- Rationalization

(*MOR... as in more than they deserve*)



When motive and opportunity meet,
rationalization is just a baby step away.

Motive

Motives are everywhere and ever changing.

- Personal finance issues
- Greed
- Addictions (drugs, alcohol, gambling, etc.)
- Health issues and medical costs
- Divorce
- Elderly parent care
- Living beyond their means
- The thrill of “getting away with it”

Opportunity

The Keys to the Kingdom

Whenever someone in the organization can initiate, execute and conceal a monetary transaction without any checks and balances.

- Giving someone signature authorization on your checking account without compensating controls
- Allowing employees access to the office at times other than normal working hours
- Allowing employees to make deposits with no crosschecks
- Not reconciling bank statements timely and accurately
- Not reviewing your 401K employee deferral deposits
- Not reviewing your payroll tax deposits.

This is the only factor in the fraud triangle you have any control over!

Rationalization

(aka moral breakdown)

Rationalization for fraud can take many paths:

- I am not paid enough
- I work hard, I deserve this
- I'll just borrow the money and pay it back
- No one will ever miss it
- Wow, wonder if I can get away with this – the thrill of the challenge

Fraud Case Study

- Practice Manager for compounding pharmacy
- Timeframe 24 months
- Stole credit card vouchers from insurance companies
- Employee ran credit card payments on personal “square” device and deposited into personal account.
- Total loss \$300,000
- Employee overbilled insurance companies so theft would not be noticeable.
- Discrepancies were found when insurance companies audited records and discovered overbillings resulting in an additional loss of \$300,000 owed back to insurance companies.

Actional Anti-Fraud Steps

- Don't give your employees a reason to take from you.
- Be aware of changes in employee habits or circumstances. (Living beyond means, medical bills, poor personal credit, bankruptcy, recent divorce, gambling)
- Establish AND maintain the perception of detection.
- Design your controls around the position not the person
- Segregation of duties
- Mandatory vacations

Actional Anti-Fraud Steps (cont.)

- Clearly communicate expectations to all personnel in writing as well as verbally, including ethics training.
- Background checks of employees
- Fidelity bonding of employees
- Be sure your systems are secured and backed-up daily where only you can control access.
- Be proactive and unpredictable.
- Have your outside CPA conduct a “surprise” review.



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