



The Practice Assessment: Tuning Up Your Operation

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You may have a sense that all is not well with your practice, but—like your patients—you may be too close to the situation and too involved in your daily responsibilities to pinpoint the problem. An objective practice assessment can not only help you to identify the difficulty, but can also show you how to fix it.

Physicians advise patients to schedule an examination once a year to monitor any health changes. A medical practice is no different: It needs a periodic review to assess its “health” (ie, financial statements, billing practices, appointment processing procedures, and personnel). A practice assessment is not only a highly useful tool to improve your operations but it can also be a “life-saver” to recognize near-fatal trends in your practice before it is too late.

BENEFITS

A practice assessment evaluates your practice to discover ways to boost efficiency, lower operating expenditures, increase revenues, enhance cash flow, improve processes, and maximize

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patient satisfaction. In short, it identifies ways to make your practice as healthy as possible.

Assessments usually involve extensive data collection regarding demographics, operating procedures, and management challenges. After these data are collected there is typically an on-site observation and interview. Finally, a written report is prepared detailing key findings and recommendations.

A practice assessment also compares your practice with those of peers in your specialty or geographic area. Such “benchmarking” helps to further identify your practice’s weaknesses or inefficiencies.

Practice assessments have proved to be a successful tool for all types of “users,” including hospital-owned practices, potential buyers of practices, physician owners, and boards of directors. Any specialty can benefit from a practice assessment.

DOES YOUR PRACTICE NEED AN ASSESSMENT?

What are some signs that your practice may need an assessment? Perhaps it has recurring operational problems that never seem to be resolved, the number of overdue accounts is rising, or you are busier than ever but profits are down. If you think your practice could operate more efficiently or profitably, you are probably right. Ask yourself some simple questions about your practice, including:

- Are revenues declining?
- Are costs higher, especially as a percentage of revenues?
- Do you have collection problems?

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- Are accounts receivable taking longer to collect?
- When was the last time your fee schedule was reviewed?
- Are you concerned about fraud or embezzlement?
- Do you have a high claims-denial rate?
- Are you having to “string out” accounts payable?
- Has your production declined or remained flat for an extended period?
- Does your staff fully know and comply with your policies and procedures?
- Do you experience a high rate of employee turnover?
- Do your performance measurements lag behind industry standards?
- Is your *Current Procedural Terminology* coding correct?
- Do you always file claims on a timely basis?
- Have you encountered problems with ancillary services?

Comparisons can be made between your practice and industry data giving you a benchmark to measure your practice against the practices of your peers. This can be very revealing in objective terms, and you might be surprised to see the results.

For the health of your practice, it is important that you know the answers to all of these questions. If not, a practice assessment will provide the data you need.

WHAT IS COVERED IN A PRACTICE ASSESSMENT?

To begin a practice assessment you hold a planning session with an assessment firm to identify the issues most important to your practice. Practice assessments are usually performed by an outside

firm—perhaps an accounting firm—to ensure an objective evaluation. Goals are then developed specifically for your practice (Table).

Assessments can also be tailored to a practice’s specific needs and concerns, which may include modifications of the items in the table or additional areas. When the practice assessment is completed the outside firm will analyze the results to determine what can be done to improve your practice, as well as

Table. Elements of a Practice Assessment.

Depending on who is conducting the assessment and the parameters that you set together, it may include a review of some or all of the following areas:

- Financial statement analysis
- Billing and reimbursement processes
- Appointment processing procedures
- Personnel assessment
- Ancillary services, facilities, and equipment
- Coding practices
- Computer software and report generation
- Document flow and handling
- Employee benefits and health care plans
- Financial systems and controls
- Managed care contract administration
- Physician analysis
- Physician employment agreements
- Practice history and background
- Systems overview
- Telephone systems and procedures
- Vendor relations.

to see where you are meeting or exceeding industry benchmarks.

Financial Statements

A key aspect of the assessment is the financial analysis. This involves an examination of your balance sheets and income statements for a specified period (eg, 3 years). Various ratios and percentage statistics will be considered. Variations from year to year will be evaluated to discover increased or decreased expenditures as well as any specific revenue trends. The overall financial performance of your practice is analyzed to identify trends and pinpoint areas of strength and concern.

Comparisons can be made between your practice and industry data giving you a benchmark to measure your practice against the practices of your peers. This can be very revealing in objective terms, and you might be surprised to see the results. For example, if your operating costs are higher than those of your peers a practice assessment can determine why and offer suggestions for bringing costs in line.

When it comes to the “bottom line,” bear in mind that net income is a function of practice philosophy and strategy. For example, patient-encounter volume and fee schedules have a dramatic impact on profitability and therefore must be considered in the analysis.

Billing Practices

A practice assessment typically measures accounts receivable data (eg, agings, collection ratios) in comparison with industry averages. These data help you to quickly recognize whether there are any problems within your billing and collections systems. As these problems can be caused by a number of factors it is generally best to analyze this information with a breakdown by payer class. You can then identify which payers are slow in payment, which collections are failing on self-pay patients, and which accounts are not appropriately written off.

Also available in the practice assessment is an extensive evaluation of your coding practices. Physicians typically lose a significant portion of revenue through improper coding. Further, if you “overcode,” you run the risk of Medicare sanctions or exclusion from the program.

You may discover that you have not changed your fee schedule for a number of years. Indeed, payers may typically reimburse other practices for more than you are charging. By revising the fee schedule, your practice may realize significantly more revenue; in one case handled by the author’s firm \$80,000 more in revenue was added to the bottom line.

Appointment Procedures

The cycle from the time a patient makes an appointment until the bill is paid can have a significant impact on a practice’s efficiency and profitability. The analysis of this process can lead to recommendations that can improve your patient relations and your bottom line.

Personnel

A personnel assessment provides a detailed analysis of staffing levels compared with industry averages. It also may offer a comparison of wages to a local compensation survey, if available. Because staff levels vary according to specialty, it is useful to know the personnel levels

in place at similar practices. Staff compensation comprises the largest expense area in your practice, and it helps to understand where you stand versus the competition.

Payroll costs depend on two major variables. The first is the number of staff required for the size and type of practice, and the second is how much you pay your staff. During a recent assessment the author’s firm noted that the practice had been giving 10% annual salary increases while the cost of living rose by only 3% per year. We are now compiling local salary survey data to assist our clients in this important area.

Ancillary Services, Facilities, and Equipment

The ancillary service analysis includes a review of laboratory and imaging services. This is not a compliance audit, only a general overview. The facilities section describes the facilities and provides general information about your office. The equipment section describes major equipment owned or leased by the practice, as well as future capital requirements for equipment purchases. Although this aspect of the assessment is usually performed for outsiders (such as potential buyers of your practice) it also provides information that is useful for internal practice management.

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CONCLUSION

If your practice has not undergone an assessment in the last few years, or if you have noticed disturbing trends, you may want to consider engaging a professional to perform an assessment—and sooner rather than later. As demonstrated, this type of evaluation helps a practice pinpoint problems that are preventing it from reaching its potential. If your practice is showing signs of poor health, or just needs a check-up, a practice assessment may be the best medicine.