



CPAs & Business Advisors

# Pulse Check

Business & Practice Management Issues for Health Care Professionals

SPRING 2010

## Is Your Practice's Compensation Fair?

**M**any physician groups are operating with compensation systems that were developed years ago for reasons that may no longer be relevant in the current environment. But, before you embark on changing your current system, you'll need to review all aspects of compensation.

### Strengths and weaknesses

No system is perfect. That's why you must start by judging the strengths and weaknesses of your system. Does it account for all costs incurred, or only a subset of expenses? In allocating revenues and expenses, does the system use RVUs, equal shares or professional service charges? Charges and cash collections may be tracked for individual physicians. A good way to determine whether your practice is on the correct path is by reviewing market averages and benchmarking statistics.

### Components of a fair package

A good, fair compensation package will take many factors into account. For example, look at trends in average revenues and expenses by individual full-time equivalent (FTE) physicians. Call coverage is a critical and demanding physician responsibility. Some practices allow their physicians to cease or limit on-call obligations under certain circumstances, such as age or disability, and define the terms in written policies. Doctors with limited on-call duties will generally be subject to a decrease in compensation.

Physicians need to take vacations and have other forms of time off. Concerns sometimes arise when there are wide differences in the amounts of time off taken by different physicians. Make sure your compensation package outlines a policy on the acceptable number of vacation weeks and personal time off doctors can take based on their years of service or some other criterion.

### Beyond normal compensation

Perceptions about the allocation and use of practice resources often influence physicians' satisfaction with a group's compensation system. Disparity among doctors can lead to resentment and conflicts. A good cost accounting system can identify the costs associated with a procedure or CPT code. Have a professional develop the data, or obtain data from your specialty association. Once cost data is developed, the group can decide whether such costs should be allocated to specific doctors or to the entire group.

Because performance is a critical driver of compensation, make sure you give your physicians comparative data for benchmarking their performance levels. This data should include regional or national averages, as well as internal production reports. Seeing is believing. Such reports can help validate the compensation system and motivate doctors to improve their performance.

Finally, make sure you include rules for handling any outside income your physicians earn through medical directorships, expert witness service, teaching and so forth. This income may or may not be treated as practice income. Many physicians make a significant amount of money through such activities, while other physicians who perform outside, but critical, nonclinical activities (such as teaching continuing medical education courses, or performing administrative duties for the local medical society) receive very little compensation. Seek to construct a compensation package that fairly compensates

each physician for all outside activities that benefit the practice or enhance its reputation.

### Develop the right culture

Every physician group must eventually address the inherent culture and values that exist among its physicians. These will strongly influence the overall compensation system in areas such as expense- and revenue-sharing among doctors to promote group cohesiveness, minimum performance expectations, and willingness to make compromises for the common good.

HMWC CPAs & Business Advisors can help you develop a compensation package that addresses the current needs and expectations of your physicians. Contact us with your questions.



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(formerly known as "G.A.B. Sessions")

## Healthcare Practice Managers Education Series

Mark your calendar for the next session (held at the HMWC offices at 17501 East 17th Street, Tustin, CA 92780-7924):

**Thursday, April 22, 2010, 12:00-2:00 p.m.**

**A Current Medicare Update:  
What are they up to now?**

### Questions?

Contact Lori Stodd, (714) 505-9000 ext. 127 or [MES@hmwc CPA.com](mailto:MES@hmwc CPA.com)

# Reduce the Risk of Employee Theft

**F**raud is rampant, not only in the finance industry, but also among health care organizations. In 2008, the National Health Care Anti-Fraud Association (NHCAA) estimated conservatively that 3% of all health care spending — or \$68 billion — is lost to health care fraud.

Physician practices can experience their own types of fraud — through employee theft.

## A system open to opportunities

The problem of employee theft is exacerbated by the frequent lack of close oversight and the complexities of a payment methodology that offers multiple opportunities for chicanery. And it's only getting worse as practices attempt to collect payments directly from their patients.

So how can your practice minimize the risk of employee theft? Here are a few examples:

- *Perform an annual fraud risk assessment for the entire practice, including a parallel assessment of the confidentiality and integrity risks in your IT systems.*
- *Publish a code of employee conduct, including how to report suspicious behavior.*
- *Conduct reference and background checks on all new job candidates.*
- *Institute policies on preventing and detecting financial and medical identity theft.*

Finally, rate employees on their ethics principles, legal compliance and fraud prevention awareness in their performance evaluations.

## Monitor workers handling finances

Most fraud is perpetrated by employees who have direct contact with the practice's books and requires the perpetrator's regular attention to keep it hidden. So you can help alleviate fraud opportunities by requiring all employees handling practice finances to take annual vacations of at least a week. During that time, other employees perform vacationing employees' job duties. If an absent employee is perpetrating fraud, the employee filling in may uncover signs of it.

You can also reduce fraud risk by segregating duties. For instance, separate general ledger posting from the cash receipts and accounts receivable (A/R) functions; separate bank reconciliation from the deposit preparation, A/R, accounts payable, purchasing and payroll functions; and separate posting of charges from posting of receipts and write-offs.

You can further deter fraud by making sure all receipts are processed and deposited on the same day they're received. Also have refund and account credit requests reviewed and approved by a person who doesn't also process A/R and billing. In addition, make certain that the bank statement is mailed directly to a physician or employee with no financial duties. A quick look through disbursements can uncover unauthorized transactions.

## Work with the pros

These are just a few of the specific recommendations that will come out of an annual fraud risk assessment. By working with professionals experienced in financial accounting system design, your practice can develop policies and procedures appropriate to its size and level of fraud risk. Contact **HMWC CPAs & Business Advisors** with your questions.



## Healthcare Practice Leader

**S**teve Williams, CPA, is HMWC's Managing Partner and Healthcare Practice leader. He has worked extensively with physicians and other high income taxpayers for over twenty years. He specializes in consulting services to medical practices, as well as tax and financial planning. He is a member of the American Institute of CPAs, the California Society of CPAs, the Medical Group Management Association, and Affiliated Healthcare Advisors. Steve is a frequent speaker on medical consulting and tax issues.



**HMWC CPAs & Business Advisors** specializes in business strategies for healthcare professionals. We offer a wide range of services, including sophisticated techniques to help your practice improve productivity, reduce costs, and maximize reimbursement.

Our clients include primary care physicians, specialists and dentists throughout Southern California. As a member of the Affiliated Healthcare Advisors, we are continually up-to-date on the issues facing the healthcare industry and have access to the Association's resources to develop solutions to our clients' challenges. Our active membership in the Medical Group Management Association provides access to current medical practice data, as well as ongoing professional education.



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