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# Profitability Consulting for a Medical Practice

December 02, 2011

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*CPAs & Profitability Consultants*  
**Marc Lion, CPA, CFP**

# Marc H. Lion, Managing Partner Lion & Company, CPAs, LLP



Marc H. Lion CPA, CFP is the founding member of Lion & Company, CPAs, LLP a highly competitive accounting and consulting firm specializing in individual, corporate, trust, partnership, and estate taxation. Prior to founding the Firm over fifteen years ago, Mr. Lion was a supervisor at *Coopers & Lybrand's* (now PricewaterhouseCoopers) personal financial services group and later worked at *Mahoney Cohen & Company*, the seventeenth largest accounting firm in New York.

Mr. Lion brings over 20 years of experience to his clients and is an authority in the areas of Taxation, Estate, Financial and Retirement planning. His current roster of clients includes high net worth individuals and business owners in the Healthcare, Investment Banking, Real Estate and other Professional areas. Mr. Lion is Partner in Charge of the Firm's "**Healthcare Advisory Group**" where he continually advises numerous healthcare providers on a wide range of tax, personal finance, business advisory and practice management issues. Mr. Lion has shared his experiences in working with physicians and their businesses by speaking to a variety of groups in the healthcare industry and medical societies. Mr. Lion also served as an adjunct professor at Hofstra University where he taught Healthcare Economics in the University's Masters of Healthcare Administration (MHA) program.

Mr. Lion received his degree in Economics from SUNY Albany and his Masters of Business Administration with a dual concentration in Accountancy and Taxation from Hofstra University. He is a member of the FPA (Financial Planning Association), AICPA (American Institute of Certified Public Accountants), and NYSSCPA (New York State Society of Certified Public Accountants) where he has served on the Society's Personal Financial Planning, Individual Taxation, along with the Medical and other Professional committees. Mr. Lion is also a member of the HCAA (National CPA Health Care Advisors Association) and currently serves on the organization's executive committee as Past President.

# Outline



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- How to approach a Profitability Consulting Engagement
- The Business of Medicine
- The Process of Engaging a Prospect
- Commencing a PCE
- Profit Leaks
- Case studies

# Why a healthcare professional should listen to us?



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- We are CPA's and profitability consultants who focus specifically on medical professionals.
- We view your careers and/or practices as a vehicle to your quality of life and the income to support it.
- We also do accounting and taxes.
- Those medical professionals we are right for see a significant impact in their quality of life and income.

# The Business of Medicine



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- At Lion & Company CPA's, LLP, it is our goal to advise and educate our physician clients in making well informed decisions with respect to their "*financial health*" throughout their careers. As your accountant and financial consultant, your "*financial health*" and well being is our number one priority !! Since we are in the business of building long-term relationships with all of our clients, you can rely on us to guide you throughout every stage in your career (from internship through attending, or even going into business for yourself).
- We are cognizant of the fact that the concerns of the physician are different than the concerns of most individuals. As physicians, you enter the workforce at a much later stage in life (up to a decade later in most circumstances) and are faced with making important financial, career, and life planning decisions at a time when you have fewer income producing years than your non-medical contemporaries.

# Discovery



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- Understanding the business from the owner's perspective
  - What is the business?
  - What were the reasons for getting into the business?
  - What are your goals and ambitions?
- What are your frustrations?
  - Obstacles/Pain Points/Profit Leaks

# What Is Your Practice?



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- In many ways they are all alike...
- ...yet they are all very different
- A vehicle to your goals and dreams and the income to support them?
- Are you in control of the business or is it in control of you?

# What Are Your Goals?



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- Do you have a roadmap?
  - Short term (1 year)
  - Intermediate term (3 year)
  - Long term (5 years +)



# Where do you begin?



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- **Define specific destinations**
  - Your personal quality of life goals
  - Your personal income goals
- **Create a roadmap to follow**
  - Strategic Action Plan
  - Timeline for implementation

# Where do you begin?



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- **Create a method to monitor practice progress**
  - Know when you are on or off course
- **Look ahead**
  - Be prepared for contingencies and market change

# Question



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During a meeting with your physician client the topic of declining reimbursements comes up. Your client complains about this and how his income has declined the past year. In conjunction with that he asks you to reduce your fee. You do the following:

1. Skirt around the question and ask how their family is doing or how the weather is, hoping they will forget the question.
2. Lower you head and cut your fee because you're worried if you don't she will find a new accountant.
3. Tell the doctor he should work longer and harder instead of shorter and smarter to make up the difference in income.
4. Indicate that you understand fully and it will be your priority to see how the practice profit can be improved by engaging in a new profitability consulting engagement which will enable you to uncover many of the profit leaks in the practice.

# Profit Leaks



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- Billing
- Collections
- Fiscal Management
- Human Resources
- Practice Growth

# Profit Leak: Billing



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*Billing is an opportunity for income optimization*

- Coding (Distribution)
- Documentation
- Charge Capture
- Technology - PMS/EMR

# Profit Leak: Collections



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*Collections is how we manage:*

- Denials
- Accounts Receivable
- Technology - Web/PMS/EMR

# AR claim status report



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AR Status:

Claim Status	As on 11/30	
	Volume	\$ Balance
ADDITIONAL INFO REQ	13	\$ 8,686.58
CPT NOT ON WCP FEE SCHEDULE	101	\$ 45,335.00
LEFT VOICEMAIL	216	\$ 146,636.40
NATIONAL DRUG CODE REQUIRED	4	\$ 940.00
NEED CODING ASSISTANCE	63	\$ 38,335.99
NEED TO BILL PATIENT	6	\$ 4,785.00
NEED TO CALL	10	\$ 4,149.53
PENDING - CASE IN REVIEW	83	\$ 53,950.00
DENIED - EXCESSIVE/FREQUENT	38	\$ 17,665.84
DENIED FOR LATE FILING	21	\$ 15,715.00
DENIED FOR NO AUTHORIZATION	61	\$ 40,339.83
DENIED FOR NO REFERRAL	64	\$ 47,060.00
DENIED FOR PRE EXISTING CONDITION	1	\$ 1,200.00
APPEALED CLAIM DENIED	24	\$ 12,304.86
NEED TO WRITE OFF	1	\$ 890.00
NON COVERED SERVICE	49	\$ 18,946.56
PROVIDER NOT CONTRACTED	523	\$ 257,180.51
<b>Total</b>	<b>2771</b>	<b>\$ 1,482,426.16</b>

# Profit Leak: Fiscal Management



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## *Fiscal Management is...*

- Internal Controls
- Financial Reporting & Budgets
- Profit Centers
- Key Performance Indicators (KPI)
- Benchmarks
- Exception Reports



# Internal Controls



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- Have written policies and procedures in place.
- Division of job duties
- Employee behavior
- Daily reconciliations (see daily collection log)
- What are the areas of risk to identify
- Compare accounting records to PMS billing records
- Staff accountability
- Some examples

# Daily reconciliations



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XYZ Medical Group - Daily Collections Log

Date: December 2, 2011

Pat #	Patient Name	Cash	Check	Amex	MC/V	Insurance	DOS	Comments
1	Doe, John	300				Prv. Bal.	12/02/11	PIF
2	Doe, John			225		Self-Pay	12/02/11	PIF
3	Parker, Peter		25			Oxford	12/02/11	Copay
4	Lincoln, Abe			250		Self-Pay	12/02/11	Spa
5								
6								
7								
8								
9								
10								
11								
12								

# Financial Reporting & Budgets



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- We are different yes, but we are accountants after all
- Implementing the proper F/S format
- What are we trying to measure
- Yearly comparisons and variances
- Cost/Benefit of adding a new service or equipment purchase
- Overhead as a % of Income
- Category analysis

# Profit Centers



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- What are some profit centers within a medical practice
  - Medical Spa services
  - Office Based Surgery Suite
  - Ancillary services
  - Measurement

# KPI, Benchmarks, Exception reports



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- Revenue Cycle Management
- A/R measurement and reporting
- Clinical Encounters
- New Patient Encounters
- Charge Analysis
- Collections Analysis
- Time Management
- MGMA Benchmarking

# One page financial report



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	Statistic	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr to Date
1	Total Charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Avg Daily Charges (ADC)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Total Charges Physician #1													\$0
	Total Charges Physician #2													\$0
	Total Charges Physician #3													\$0
	Total Charges Other													\$0
2	Total Payments (or Receipts)													\$0
3	Total Refunds													\$0
4	% Copayments Collected													0.00%
5	Total Accounts Receivable (A/R)													\$0
	Total over 90 days													\$0
	% over 90													
6	Days of Charges in A/R													
7	Net Receipts - Budget													\$0
	Net Receipts - Actual													\$0
8	Operating Expenses - Budget													\$0
	Operating Expenses - Actual													\$0
9	Net Income													\$0
1	Total encounters 0													0
1	Total new patient visits 1													0
	% new patient visits													

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# Annual Utilization Report



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	Statistic	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
	<i>Utilization</i>					
1	Total encounters	0				
2	Encounters/day					
3	Total proc/tests/etc.					
4	Total bed days					
5	Avg length of stay (ALOS)					
	ALOS Provider # 1					
	ALOS Provider # 2					
6	Total RVUs					
	RVUs Provider #1					
	RVUs Provider #2					

# Annual Financial Snapshot



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	<i>Financial</i>	Year 1	Year 2	Year 3	Year 4	Year 5
7	Total Charges					
	Charges Site #1					
	Charges Site #2					
	Charges Site #3					
8	Total Receipts		\$0			
9	Total Gross Income		\$0			
10	Ancillary & Other Receipts					
11	% anc & other receipts					
12	Physician compensation					
13	Total operating expense					
14	Tot op exp by site					
	Site #1					
	Site #2					
15	Overhead percent					
	Site #1					
	Site #2					
16	Capitation Payments					
17	Gross Collection Ratio		0.00%			



# Simple Snapshot report



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## Dr. Doolittle

### Snapshot Cash flow analytics 12.31.2010

Practice income gross & W-2	\$	3,414,825	
Practice expenses	\$	(3,086,130)	90.37%
Practice net income	\$	328,695	9.63%
addback salary inc Hospital	\$	1,475,119	43.20%
addback retirement contribution	\$	310,994	9.11%
addback fringe benefits (estimated)	\$	30,000	0.88%
Adjusted net income	\$	2,144,808	62.81%
Federal income tax on earnings	\$	(465,000)	21.68% of adj net inc
State income tax on earnings	\$	(156,335)	7.29% of adj net inc
Social security tax	\$	(34,633)	1.61% of adj net inc
Sub total taxes on earnings	\$	(655,968)	30.58% of adj net inc
Net disposable income	\$	1,488,840	
Practice income gross	\$	3,414,825	
Practice expenses net income and benefits	\$	(1,270,017)	37.19%
Practice adjusted net income	\$	2,144,808	62.81%
Tax liabilities	\$	(655,968)	19.21%
Disposable income	\$	1,488,840	43.60%

# Profit Leak: Human Resources



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*Human Resources is the framework around which...*

- Organizational Chart
- Staffing (FTEs/\$ vs. Benchmarks)
- Job Descriptions – roles and responsibilities
- Policies & Procedures
- Employee Manual
- Employee Questionnaire

# Profit Leak: Practice Growth



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*Practice Growth is achieved through...*

- Additional Services
- Physician Extenders
- Satisfaction Surveys
- Scheduling
- Marketing

# Case Studies



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- Plastic Surgery Practice
  - Overhead was 90%
- Pain Management Practice
  - Billing & Collections
  - Staff Accountability
- Anesthesia Practice
  - New Financial Modeling and Compensation Format

# Why a Healthcare Accountant?



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- Different philosophy
- Different relationship
- Different approach/ different result
- Not right for every business
- **Significant impact to income and quality of life**

# Healthcare Related Services



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- Consultative Accounting
- Profitability Consulting
- Mergers/ Acquisitions
- Fair Market Value Determinations
- Outsourced CFO/COO
- Financing/ Credit/ Leasing Facilities
- Many, many other



# Thank You



**Lion & Company CPAs, LLP**  
*CPAs & Profitability Consultants*

75 Jackson Avenue  
Syosset, NY 11791  
(516) 488-4411

Marc Lion - [mlion@lcllp.com](mailto:mlion@lcllp.com)  
[www.healthcareaccountants.com](http://www.healthcareaccountants.com)