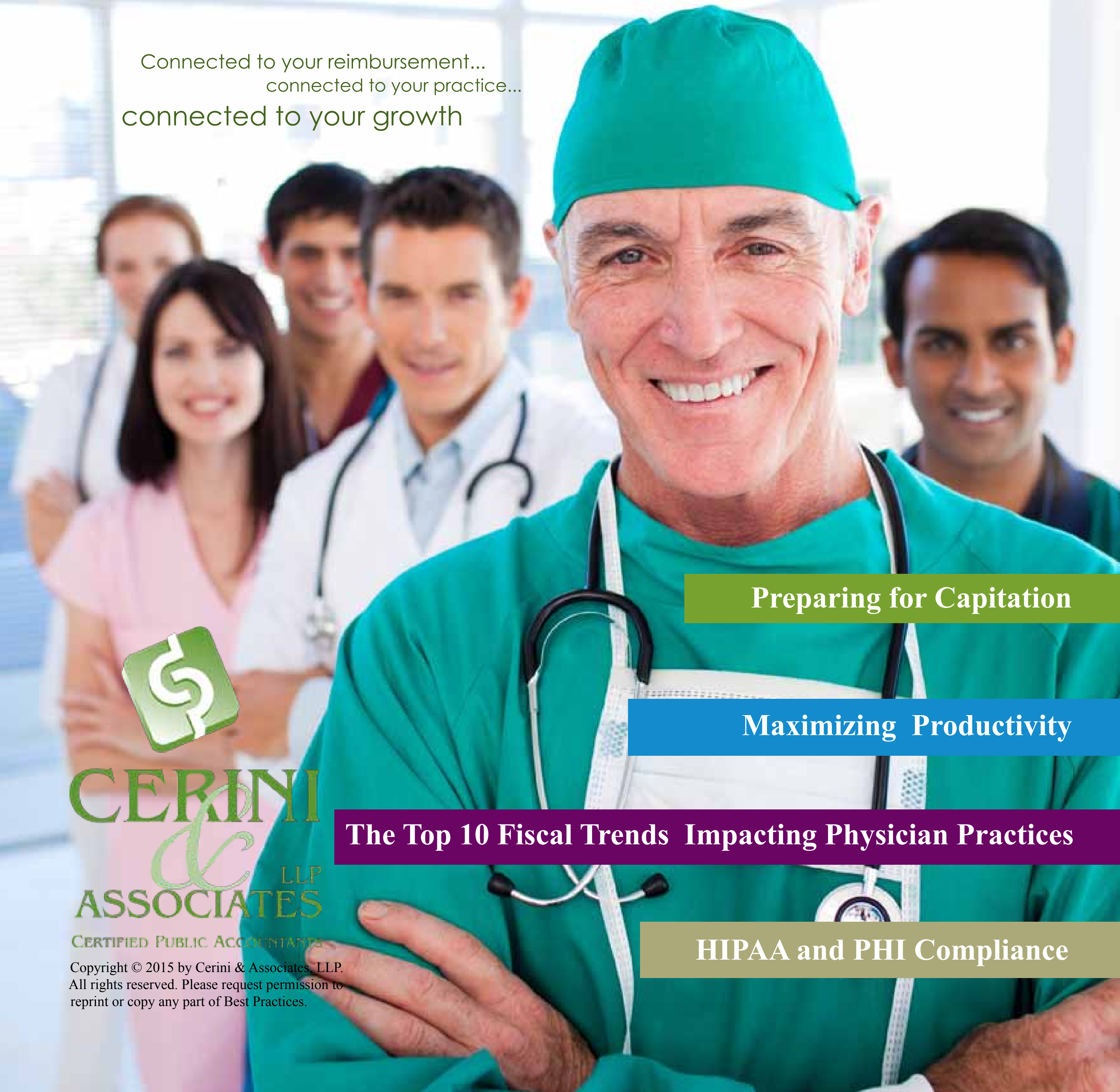
BEST PRACTICES

Vol. 9

Cerini & Associates, Certified Public Accountants, bringing a unique understanding of key issues facing the healthcare industry.



Connected to your reimbursement...
connected to your practice...
connected to your growth

Preparing for Capitation

Maximizing Productivity

The Top 10 Fiscal Trends Impacting Physician Practices

HIPAA and PHI Compliance

CERINI & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

From the Editor - Ken Cerini

A new year is upon us… a time for reflection and change. Use 2015 as a year to not just work in your practice, *also work on your practice this year.* Technological advancements, such as electronic medical records and more integrated billing systems, can help you to expedite billing and collections while also helping you to strengthen your documentation and support in the event of an audit.

Much of the revenue generated in medicine is still a function of time. While capitation is slowly changing this (see article on page 3), right now most doctors are paid on a service delivery basis and you can only serve so many patients a day. Consider ways to expand your practice by leveraging the efforts of others … be it other doctors, physician assistants, or nurse practitioners.

Take the time to analyze your practice economics over the last few years. How many patients did each doctor in the practice see each hour? What was each doctor's average RBRVU intensity each of the last 3 years? How is your payer mix trending (more higher paying HMO's or less) and where are your referrals coming from? How many new patients have you added each year and how many have you lost? Once you have the data, you can work on improving your internal metrics through shifts in practice management.

Having a robust patient list can provide you with leverage in negotiating contracts with HMO's. Are you making sure you are meeting your patient's needs and keeping them happy? Consider performing a patient satisfaction survey.

Surround yourself with strong advisors. When it comes to practicing medicine, you are awesome, but when it comes to the practice of medicine, it's O.K. to ask for help. We have found that doctors that surround themselves with a strong team of professionals have a much better understanding of their practice, are more forward thinking, and are more effectively making decisions to drive enhanced profitability to their practice.

Remember, the new year brings with it new challenges, but it also brings new opportunities. Take the time in 2015 to make a difference in your practice. If you need help in the process, give us a call; we're more than happy to help.

Sincerely,

CERINI & ASSOCIATES LLP
Certified Public Accountants
3340 Veterans Memorial Hwy
Bohemia, N.Y. 11716
631-582-1600
www.ceriniandassociates.com

Contributors

Editor
Kenneth R. Cerini
CPA, CFP, DABFA
Cerini & Associates, LLP
Managing Partner

Associate Editors
Tim Mchale, CPA
Cerini & Associates, LLP
Partner

Jacob Lutz, MBA
Cerini & Associates, LLP
Staff II Accountant

Lula Lukasiewicz
Cerini & Associates, LLP
Marketing Coordinator

Writers
Kenneth R. Cerini
CPA, CFP, DABFA
Cerini & Associates, LLP
Managing Partner

Kimberly Roffi, CPA
Cerini & Associates, LLP
Partner

Edward McWilliams, CPA
Cerini & Associates, LLP
Tax Supervisor

Bruce Malyon
MaxxVault, LLC
CEO

Page Layout & Design
Michael Feeney
Cerini & Associates, LLP
Graphic Designer/Marketing Assistant

Connected to your reimbursement...
connected to your practice...
connected to your growth

PREPARING for CAPITATION

Unlike traditional insurance, which is based upon services provided, capitated payment systems are based on a set payment per person. According to the American Medical Association, there are several different types of capitation such as per member per month (pmpm) case management payments to primary care physicians involved in patient centered medical homes, pmpm payments covering all professional services and pmpm payments covering the total risk for all services including professional, facility, pharmaceutical, clinical laboratory and durable medical equipment, among others. In addition, there are numerous variations on these basic capitation types that depend on the particular services the parties decide to "carve out" and either handle on a fee-for-service basis or delegate to a separate benefit management company. To put it simply, capitation is like a gym membership; doctors make money if they can limit the amount of services their members receive and they lose money if their members receive a high level of service.

Back in the early 1990's capitation was on the rise. It was seen as the future of managed care. By the mid 1990's, it only played a minor role in the managed care spectrum since it was not accepted on the east coast. Today, capitation is once again on the rise and it represents between 10% and 15% of what healthcare insurers spend. Blue Shield will be looking to more than double its capitated contracts by 2018. The recent up-tick in capitation is an attempt by insurance carriers to change behavior since the limited incentives to doctors and hospitals, which allow them to keep some of the savings from cost-control efforts or impose penalties for low performance on quality measures, have not had the impact that they were looking for. Capitation provides for risk sharing by managed care companies which creates more predictable costs and profit margins. For providers, capitation provides a greater level of risk, but it also provides a greater level of reward.

With capitation making a resurgence, it is important for providers to properly understand the risks that capitation presents:

- 1) Providers need to gain an understanding of the demographics of the members that will be part of their network so they can evaluate the cost of delivering service. In the world of capitation, the goal is to control costs. You, as the provider, bear the risk if the capitated payments are not sufficient to cover the cost of service provision.
- 2) Providers need to project costs they will incur. By understanding your cost structure, you are in a better position to determine if the capitated rates that you are being offered are appropriate.
- 3) Providers need to make sure they have in place strong accrual-based accounting records to be able to track incurred, but not yet recorded claims based upon actuarial calculations so that they can monitor actual costs against capitated revenue.
- 4) Providers need to make sure their capitated contract provides a regular, predictable payment stream so they have the funds necessary to cover costs.
- 5) Providers need to make sure they properly consider carve-outs and mitigate risk through stop-loss coverage.
- 6) Providers should understand what services are included in the capitated agreement. Are they only services offered by the provider, or will the provider also be responsible for services rendered by others?
- 7) Providers need to understand the time-frame of the coverage period. Are they responsible for services after an employee's termination?

All of this requires access to information. Take the time to understand your practice and the frequency at which patients visit you. Make sure you have in place accurate accrual-based accounting systems (most physicians maintain their records on the cash basis) to ensure you truly understand practice costs. Determine what level of care is too much for you to provide to one patient so you can mitigate the risk through stop-loss insurance coverage. Assess your internal expertise and capabilities and consider bringing on additional external support where internal expertise does not exist (budgeting and forecasting, cost accounting, contract reviews, etc.). Providers need to take the time to fully understand the contract they are entering into and how the services they provide compare to the services they are required to provide.

Physicians are, once again, receiving invitations from commercial payers to enter into capitated arrangements. Governmental payers and federal policymakers are also reconsidering the possibilities of capitation as a means of controlling the growth of health care costs. In order to make capitation work, providers need to properly plan and prepare for it. If they do not, the consequences can be drastic.

MAXIMIZING PRODUCTIVITY of *your* OFFICE ASSET

Physician practices have unique office needs which include the need for proximity to large healthcare providers, access to specialized equipment, and the right design layout to maximize patient flow-through. These needs by physicians will typically lead them into two scenarios; they will either purchase the building space outright or enter into a lease and pay the price tag to modify the space. The building ownership and/or leasehold improvements are usually a significant investment by physicians. However, it is often the case that this space will remain dormant for periods of time, whether because of typical workweek structures, physicians operating in multiple locations to better target geographical areas and better access and serve different communities, or the inherent limitations of how many patients the physician can see per hour per day.

The facility costs are by nature a fixed cost. Unlike supplies or hourly labor, these costs will remain the same whether the facility is operational only ten days a month or thirty days a month. Like any other asset, the more you have the asset working for you, the better the income generation will be from the asset and the greater the potential margins. Physicians who have these assets should consider ways to maximize their use to get better returns.

Hire Additional Staff

In order for your practice to grow and to increase patient satisfaction, it is important to address the staffing needs of your practice. Staffing needs should take into account not only your patient counts, but also additional patient encounters that you could handle given your current spacing. Many doctors do not maximize their referral stream because they lack the additional staffing needed to get all of these patients through their doors.

For example, imagine you own a space which you operate your practice out five days per week. The space has six examination areas along with all the necessary equipment. Based on the case load and complexity of the procedures and patients, you are able to see three patients per hour and work ten hours per day, for a total of thirty patients per day. Since you are such an amazing doctor, your appointment calendar is already booked for months in advance and you barely have a free hour in the day.

Based on the above facts, you are likely not maximizing the use of a fixed asset, your office. Each hour, there are three exam rooms sitting dormant with a clear patient stream looking for your services and there are also two days per week that your office space is completely empty. By adding additional staff, whether it is another doctor, a physician assistant, or a nurse practitioner, you can potentially have those empty spaces and days filled. The costs of the asset will still materially be the same since they are mostly fixed, but the asset will be in use more often and therefore generate a greater return for you.

Additional staffing can also come in handy when a practice operates from multiple sites. With the rise of electronic health records and other mobile technologies, we are seeing more physicians who are operating out of multiple sites in order to maximize their geographic outreach and the communities in which they are able to serve. With this changing system, it is not uncommon to see office spaces empty for three or four days per week. By hiring additional staff in the practice, management can make sure that both sites are operational for seven days per week and thus maximize the use of the office space. In choosing this alternative, it is important to do an assessment of what additional costs, such as administrative or other support staff, will be so you can perform modeling to determine the best approach.

Hiring additional staff may not always be feasible. If the current patient counts, referral mix, and payor mix cannot support the additional staffing, it would be foolish to hire such staff. The practice would then have made their asset even more inefficient, as it would add additional labor costs without any additional revenue. There would also exist a high opportunity cost with the loss of income from other alternatives, such as renting the space.

Renting the Space

As mentioned earlier, the need for specialized equipment, layouts, and designs can often come with a huge cost in terms of improvements and build-outs. With so many doctors looking to break into new geographic regions and communities, many are looking for ideally designed spaces without having a six month plus lead time and having to lay out the capital on a build-out.

Assuming the space is dormant, renting out to another physician could be an excellent way to maximize the use of the asset. The renting physician will pay the practice for the use of the space and equipment and it will help defray the overall capital and financing costs needed for the space initially while also providing an additional revenue stream with very little incremental costs.

When considering renting out the space, a practice should consider factors such as how much the rent should be and what rights the rental of the space gives the other physician. One particular risk area that needs to be considered is exactly who owns the space. If it is the practice itself rather than another entity, such as an LLC, then the assets of the practice are now at risk if something were to happen in the space when the other physician is using the office.

A practice should do an analysis of how best to maximize the unused and dormant office assets it has available. Sometimes the best solution will be to hire additional staffing so that the practice can maximize the referral streams and grow the practice. In other cases, the referral streams and practice may not be strong enough to support more staffing so they may opt to forego that opportunity in favor of renting the space to another physician. Each case will be as unique as the practice itself, but one thing is clear: maximizing the productivity of the fixed cost assets should be something every practice looks to accomplish to make sure they are operating at their peak efficiency.

The Top 10 Fiscal Trends *Impacting* Physician Practices during 2015

As we enter 2015, it is important for physicians to understand the fiscal trends that will be impacting them in the coming year. Some of these are carryovers from 2014, as the landscape and funding continue to shrink, and some of them are new. Here is our list of top ten financial trends impacting physician practices for 2015.

- **1)** An increased rate of consolidation among hospitals and health systems continues to drive smaller, independent medical practices into larger systems. Physicians need to assess whether or not this is an appropriate option for them.

- **2)** Economic feasibility of an independent firm is declining due to declining reimbursement and growing mandates. Small practices simply do not have the bargaining power of larger practices.

- **3)** More hours will be spent on prior authorization activities than ever before. As a result, physicians will be seeing fewer patients and less financial benefit.

- **4)** A rise in high deductible plans means more paperwork and the need to provide cost estimates in advance since patients will be on the hook for their own healthcare costs.

- **5)** ICD-10 cuts down on errors and speeds up reimbursements, but physicians are not sure about the effectiveness of the work. More training and an upgrade to computer software will be necessary.

- **6)** More patients will use web and phone based physician service in 2015.

- **7)** Visits to walk-in clinics are anticipated to continue increasing due to an increased number of locations and appointment availability.

- **8)** In 2015, Medicaid reimbursements for primary care physicians will fall back to pre-enhanced levels, which are below Medicare rates. If Congress does not extend funding for 2015, primary care physicians will need to carefully consider how many Medicaid patients their practices can afford to keep.

- **9)** Starting in 2015, penalties will exist for those that do not report quality data for the Physician Quality Reporting System. This is no longer voluntary.

- **10)** Although there had recently been a reprieve in the typically climbing malpractice premiums for certain specialties (OB/GYNs, Internists, and General Surgeons), it is projected that these costs will start to rise again.

If you have any questions or would like additional insight on how these may impact your practice specifically, please do not hesitate to contact us.

Is Your Healthcare Practice Managing **HIPAA** and **PHI** Compliance?

HIPAA compliance and Protected Health Information (PHI) are two hot topics in the healthcare industry daily. When you add to the conversation Electronic Medical Records systems and all the requirements around digital recordkeeping, things can seem a little overwhelming for any size healthcare practitioner. Unfortunately, not understanding the rules can be costly because one HIPAA violation can reach a maximum penalty of $50,000 per incident.

I get asked all the time if there is software that is HIPAA certified. The answer is: ***no software on its own can be HIPAA compliant***. When storing HIPAA medical records and sending Protected Health Information (PHI), you need to ensure you are in compliance with both the physical and technical safeguards required by the law. In the market, there are some EMR software packages that can also store related third party supporting documents that are linked to the main records in the system. Buyer beware that not all solutions are created equal and they may not meet the HIPAA compliance guidelines for managing large document repositories. A number of EMR software companies do not even offer solutions for managing third party documents and information. This causes more confusion for healthcare practitioners because they are left on their own to find the proper document management solution that will work with their EMR software and help them remain compliant.

Several of the key players in the EMR space partner with document management companies that specialize in secure repository management and workflow. In order for your practice to adhere to the HIPAA rules, regulations and other privacy guidelines for software, you need to make sure your document management system at a minimum can meet the generalized HIPAA Compliance List below:

- 1) Give access to people that need to have access to the protected health information. Minimize risk by granting proper access rights to only the people that need to have access to do their jobs.

- 2) Safeguards in the software application must be in place to protect patient health information. Files must be securely stored and encryption must be used. Auditing systems and user events are a key part of the safeguards that must exist in the software.

- 3) Make sure you have proper Business Associate Agreements (BAAs) in place with any software vendor so that they safeguard and manage patient information properly. Limit access to information via secure logins and automated logging out of the system during a predefined period of inactivity. One of the most important things is user training and showing users how to safeguard the information in the software. Creating a culture of compliance is very important in achieving your HIPAA goals.

We have been doing enterprise document management for healthcare providers for twenty years so we understand the importance of staying on top of changing regulations and navigating them collaboratively with providers that utilize our solutions. It is important when selecting a software solution to choose one that is willing to work with you that both meets your needs and keeps you abreast of changing regulations. The annual maximum HIPAA fines of up to $1.5 million per healthcare practitioner clearly show the importance of overall compliance and working with the right software and technology partners.

Written by: Bruce Malyon, CEO of MaxxVault LLC*. MaxxVault provides software solutions for the management, distribution and control of corporate documents. Benefits of MaxxVault Enterprise include: reduced costs, increased efficiency, higher customer satisfaction and maintaining regulatory compliance. MaxxVault is an open system; it is built using the latest technology which provides enhanced security, dependability and interoperability with existing systems. For more information about MaxxVault LLC, visit: www.MaxxVault.com*

CERINI & ASSOCIATES LLP

CERTIFIED PUBLIC ACCOUNTANTS

Cerini & Associates, LLP
3340 Veterans Memorial Hwy.
Bohemia, N.Y 11716
www.ceriniandassociates.com

Presorted
Standard
U.S. Postage
PAID
Permit #1
Bethpage NY

Connected to your reimbursement...
connected to your practice...
connected to your growth

Helping you to operate with a clear mind

- Accounting
- Auditing
- Budget Modeling
- Healthcare Consulting
- Financial Modeling
- Business Valuations
- Forensic Accounting
- Internal Audit Services
- Management Consulting
- Litigation Support
- Operational and Internal Control Reviews
- Policy and Procedure Reviews
- PC Based Accounting and Data Systems
- Outsourced Accounting Department
- Strategic Business Planning
- Tax Planning and Preparation
- Tax Audit Representation and Defense
- Third Party Contract Negotiations

3340 Veterans Memorial Hwy., Bohemia, N.Y. 11716 • (631)582-1600 • www.ceriniandassociates.com