



# A DEEPER LOOK

## **Does Your Practice Have Proper Financial Management and Reporting?**

*How to Evaluate the Effectiveness of Your Accounting Department and Improve the Financial Management of Your Practice*

**By: Lee Ferber, CPA**

**N**ot many years ago, the accounting, financial management and reporting functions in a medical practice could be handled by a part-time bookkeeper and periodic visits from their outside CPA. Collections were fairly stable, expenses were relatively predictable and cash flow was generally steady. Today the story is much different. Incomes are being squeezed due to reimbursement cuts and increasing administrative overhead is placing a greater financial burden on practices. So how does this all play into having proper financial management and, for that matter, exactly what “is” financial management, a term we use so loosely.

By definition, financial management is the comprehensive process of managing financial resources through planning, organizing, directing, measuring, developing and controlling the financial activities of an entity, and includes accounting and financial reporting. So how does this all pertain to medical practices in today’s health care environment?

Physician-owners are now having to make significant financial decisions; the most dramatic, perhaps, being whether to stay in private practice or seek employment in a large health system. Without having accurate, meaningful and timely financial information, uninformed financial decisions will likely be made; decisions that can have adverse financial consequences in the future.

Financial information that focuses on just the revenue side of a practice, e.g., collection rates, payer mix, number of days in A/R, etc., is no longer

enough. Physician-owners also need to fully understand the expense side of their practices; how decisions they make might impact practice expenses and, accordingly, the overall profitability and cash flow of their practices. Examples of some common situations that arise and the associated questions they raise are as follow:

- What will be the real financial impact of participating in pay-for-performance, such as in a bundled payment arrangement? What additional staffing or investments in technology will I need to make?
- Can I afford, and is there enough volume, to employ another physician? What are the direct and indirect costs associated with this decision?
- How much will outsourcing my billing and revenue cycle functions really save me? What are some of the hidden costs associated with this?
- Can I ever make money in a specific medical office with the location’s existing overhead structure? Will the patient volume ever cover the cost of rent and overhead? Do I need to consider re-locating?
- What are the costs versus benefits of adding a new service line, such as new diagnostic tests? What can I expect in terms of new revenues versus the associated direct costs, as well as any potential increases in existing overhead?

The above questions require an understanding of the basic drivers of profitability and cash flow. Understanding what practice costs are variable versus fixed, what level of patient or procedure volume is required to break even, or simply knowing the true costs of running a particular department should not be guesswork if sound financial decisions are going to be made.

So when all is said and done, many physician-owners are still hesitant to hire supervisory level accounting staff, such as accounting managers, CFO's or controllers; or to simply increase the size of their general accounting staff. They resist making investments in more robust accounting and financial reporting software; software that will allow them to do a better job and function more efficiently in such areas as budgeting, monitoring expenses, managing inventory, and overall strategic planning. They shy away from these investments because they do not see the value or the return on their investment. The return is there, but it may not be as transparent as when they hire a new physician.

There is no question that larger practices generally have greater resources to make investments like those above, but even smaller practices should consider upgrading their accounting department; even if done in "baby steps". This is true especially if a practice is starting to recognize the tell-tale signs that cash flow is starting to wane, or they believe that future changes in health care will negatively impact their practice's profitability.

With the right combination of staffing; proper oversight from an accounting manager, CFO or controller; as well as input from the practice's CPA, financial management and reporting can be improved and done so in a cost effective manner. New, more efficient accounting software can improve efficiencies in the accounting department and potentially offset the cost of new accounting hires. Outsourcing the accounting function may also be an option, as this may be more cost effective than "doing it yourself."

If you have concerns about your practice's financial management and reporting, or need help evaluating the effectiveness of your existing accounting department, please contact one of the partners in Gettry Marcus CPA's health care group.

*Gettry Marcus CPA's health care group is comprised of CPAs who provide accounting, tax, audit, financial, and business consulting to physicians, hospitals and other providers across the health care spectrum. If you would like to discuss how one of our health care CPA advisors can assist you, please contact Lee Ferber, CPA or Stuart Kertzner, CPA.*



**Lee Ferber**

CPA  
Partner & Co-Chair, Health Care Consulting Group

**Contact:**  
516.364.3390 x 206  
lferber@gettrymarcus.com

To learn more about Gettry Marcus visit [www.gettrymarcus.com](http://www.gettrymarcus.com)

The information contained in this communication is provided for informational purposes only, and should not be construed as legal or accounting advice on any subject matter. It is not intended or written to be used, and it cannot be used, for a particular matter. These articles are prepared to present matters of general interest relating to business valuation, forensic accounting and litigation support topics. They do not render an opinion by Gettry Marcus CPA, P.C. (Gettry Marcus), its partners, or employees on any technical matter; but rather are of an educational nature. Gettry Marcus disclaims all liability with respect to actions taken or not taken based on any or all of the contents of this communication.