SATINSKY CONSULTING

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Mention the words risk management and the medical world snaps to attention. The usual focus is on the avoidance of malpractice suits, Medicare fraud and abuse, and self-referral. The Health Insurance Portability and Accountability Act (HIPAA) added another dimension to risk management with its emphasis on Protected Health Information (PHI). The traditional focus of risk management is important – but we think it's the tip of a larger iceberg.

TIPS FOR MANAGING RISK IN YOUR MEDICAL PRACTICE

What Is Risk Management?

Let's start with the definition of risk management – i.e., the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunity. Well-managed medical practices manage risks in many ways, focusing at the very least on **organization and management**, **financial management**, **management of staff and outside resources**, **improvement of healthcare delivery and clinical outcomes**, and **compliance** with numerous government rules and regulations. Here are some helpful tips in each of these categories:

1. Organization and Management

Practices with poorly structured organization and weak management place themselves at risk in many ways. Ineffective leadership, unclear direction, muddied division of responsibility, and lack of accountability can open the door for undesirable clinical and financial outcomes. Start by taking strategic planning seriously, regardless of the size of your practice. Follow the standard planning process by assessing strengths, weaknesses, opportunities, and threats. Reach consensus on practice mission, goals, and priorities. Then, you can put the staffing and budget in place to support your plans. Allow an experienced external professional to facilitate the process. Confusion over the physician's role in management can also create risk in medical practices. Some physicians are "hands on" owners who know every detail of their business. Other physicians take a "hands off" approach, leaving the entire management of the practice to staff. The more successful practices use a partnership approach.

Here's one more way that sound organization and management can minimize risks in your practice. Take an honest look at both work done internally and work that is outsourced to external consultants or other professionals. Responsibilities that are often outsourced are billing and collections, payroll, IT support, and managed care contract negotiation. The goal is to get the work done in a way that best suits the practice and employee skill sets. One individual doesn't need to do everything. We've seen practices fail to pay their taxes on time and experience a painful and costly IRS audit because the Practice Manager was overwhelmed with responsibilities – not because he/she deliberately withheld money. Don't take that risk in your practice; be smart about the division of responsibilities.

2. Financial and Revenue Cycle Management

The financial health of your practice is of utmost importance. We're amazed that so many practices equate financial well-being with seeing more patients or billing more gross revenue than the preceding month! Such a narrow approach carries major risk. Financial health has many layers, and it's best to dig deep into the details of both financial and revenue cycle management.

a. Financial Management

Financial management of a practice includes budgeting, accounting, practice management (operations and clinical), and financial planning. With respect to budgeting, prepare an annual budget showing expected revenue and expenses. Reduce financial risk by comparing actual versus expected income and expenditures on a monthly basis – not at the end of the year. If revenue dips, reduce expenditures. If revenue is at a healthy level, you may have an opportunity to invest in new services and staff.

Accounting means documenting and reviewing what has actually happened in your practice. What services have you provided, and how have they translated into net income for your practice? With assistance from your CPA, review the following monthly reports:

- **Income statement** showing revenue collected from patients and payers and practice expenses during a particular period of time. The income statement is often called the operating statement or the profit and loss (P & L) statement.

- **Balance sheet** showing your financial position at the end of a particular point in time by listing your practice's assets, liabilities, and owners' equity. Most practices use a modified cash balance sheet so they can show items other than pure cash and recognize assets and liabilities that they expect to pay for or receive within one year.

- **Cash flow statement** summarizing the sources and uses of funds. This report shows how much money came into and went out of your practice during a particular time period. It covers operations, investments, and financing.

Those three reports will provide a big picture of your practice. They are most helpful when you look not only at the reports themselves but also at the detail contained in additional reports generated by your practice management system. For example, if your CPA's reports show that net revenue has fallen below expectations, you don't know why it dropped. Only by looking at payer-specific information can you identify and hopefully address the issue(s) that created the problem.

The third important component of financial management is practice management, including both administration and the delivery of clinical care. Manage your overhead, using industry standards to review and control your overhead expenses on an ongoing basis.

Finally, develop and maintain internal controls. Set up multiple bank accounts to best manage your cash. The cash balance in your operating account should support your accounts payable and payroll. Put money that you don't need immediately in a separate interest-bearing money market account and transfer money from that account to your operating account when you need it. Manage incoming cash and petty cash carefully. Set up internal checks and balances, particularly if you have a small practice. Protect against fraud with bonding.

b. Revenue Cycle Management

Revenue cycle management refers to multiple activities that impact the bottom line of your practice: controlling the service mix, setting and revising practice fees, managing patient registration, verifying insurance, coding and billing properly, managing denials, managing collections, matching expected versus actual payments, and regularly reviewing and renegotiating insurance contracts.

Service mix is particularly important. If you provide both services that are regularly reimbursed by insurance companies and services that patients pay for out-of-pocket (not covered by insurance), does the mix produce the desired financial outcome? If insurance companies are reducing the reimbursement for particular services, have you taken that change into consideration and modified your budget? Do you review and revise the fees that you charge? For practices that provide services for which patients pay out-of-pocket, it is particularly important to regularly update pricing.

Verify insurance coverage in advance. Regardless of uncertainties about the implementation of the Affordable Care Act (ACA), the number of new patients is likely to increase. There's also a 3-month grace period for patients who don't pay their premiums, and providers are at financial risk for care they deliver during 60 of those 90 days. Strive to obtain coverage information prior to patient visits. If eligibility and benefit information are not readily available, treat patients as self-pay until you have the required documentation of third party coverage. If patients are responsible for some or all of the services you provide, make sure they understand their financial obligations before you provide care. We recommend providing a clear statement of financial responsibility that every patient reads and signs before receiving services.

You work hard; protect your practice's financial health by regularly reviewing all claims denied by insurers. Careless errors such as incorrect data entry are easily correctable. Other denials are more difficult to resolve.

For example, if you are unaware that an insurer has changed claims submission policies, you may repeatedly make the same error. Regularly review denials, and make appeals when appropriate.

What about reimbursement? We've already mentioned the importance of regularly reviewing and updating your fee schedule. Some but not all managed care plans use it to determine reimbursement. Managed care plans often change their strategy with respect to reimbursement. Take the initiative and renegotiate contracts every few years to make sure that reimbursement keeps up with the inflation in practice operating expenses. Understand the meaning of *hold harmless* clauses in managed care contracts. If a patient sues both the provider and the insurer, what is your personal and corporate liability? Regularly review the expected versus actual payments from insurance companies. Mistakes happen far more often than you realize. If you don't look, you won't know. Finally, take advantage of financial incentive programs offered by both public and private payers, making sure that you understand the specific requirements for measurement and documentation. If you are a member of an Accountable Care Organization (ACO), make sure you know how your organization works and how the results are affecting your practice. For example, do you share only in profits or also in losses? On February 5, 2014, CMS released interim financial results for select ACOs. Of the 54 ACOs that exceeded their benchmarks for lowering Medicare expenditures, only 29 generated shared savings.

3. Managing Staff and External Resources

Risk management in human resources applies to the staff and clinicians within your practice and to external consultants who help you run your business. Capable, efficient, and happy employees contribute to success. By contrast, unqualified, inefficient, and dissatisfied employees can negate all your efforts to provide both quality care and a good patient experience. You can take many steps to minimize the risk of high turnover and costly lawsuits by disgruntled employees and/or patients.

With respect to your internal workforce, hire carefully and build a team that supports your clinical excellence. Develop job descriptions that clearly delineate workforce expectations and responsibilities. Develop formal written personnel policies and apply them equitably across the workforce. Use a performance evaluation system that matches performance against expectations. Termination of employees is an inevitable fact of doing business. Put procedures in place before you need them, and seek legal guidance if you need it.

Manage external as well as internal resources. Your attorney, CPA, banker, management consultant, IT support vendor, and other service providers need your guidance and feedback on a timely basis. Minimize your own risk of dissatisfaction or unexpected costs by executing written agreements or Letters of Engagement with every service provider. With respect to external consultants and vendors who regularly use PHI as part of the work that they do with you, make sure you have in place up-to-date Business Associate Agreements that meet the requirements of the 2013 HIPAA Omnibus Final Rule.

4. Improving Healthcare Delivery and Clinical Outcomes

If you've been practicing medicine for a decade or more, you have seen dramatic changes regarding the concept of quality care. Delivering quality care, whatever its definition, has always been your goal; that's why you opened your practice. But now more than ever, quality means not just what you define as good care for patients, but also how you meet standards set outside your practice and document what you've done. We're talking about being accountable for a population, measuring quality, using the results to make improvements, regulatory compliance, and public reporting.

There is great risk in not understanding expectations. The quality programs created by both the public and private sectors are all different. Some pay for reporting quality. Others pay for using quality data to make improvements. Still others combine the payment for reporting and making effective improvements and pay for value. Unfortunately, at this point in time, different payers use different standards, so meeting requirements for one payer’s program doesn't guarantee that your practice will meet the standards for all programs for all payers. Until there homogeneity among quality measures used by different organizations, your challenge is to work with variety.

An important component of quality is satisfaction by both patients and other clinicians. These groups judge their overall experience with your practice not only by clinical outcomes, but also by your processes for delivering care and for communicating with them. Regularly measure the satisfaction of both groups, and use the information that you gather to help you make improvements. Analyze your workflow regularly so you can correct any bottlenecks in the processing of patients and information. Purchase information technology that supports your clinical needs and meets your financial requirements. Focus on both quality of care and quality improvement.

Many practices use information technology to communicate with patients. Use it wisely to avoid two major risks – security breaches and failure to respond in a timely manner. Here are examples. Email communication is easy, but it's not secure. Communicate with patients and with other providers through a secure portal, and make sure you respond on a timely basis. When test results require immediate follow up, play it safe and don't depend entirely on electronic communication. Call the patient, and don't risk someone's not checking email promptly.

How do you know if you're doing a good job? Compare the data that you collect in your Electronic Health Records (EHR) and Practice Management Systems with reliable benchmarks for your specialty.

5. Compliance

We began this article by mentioning the importance of managing risk in relationship to government requirements. Risk management involves not only HIPAA, but also attention to coding and billing, and compliance with OSHA, CLIA, and other programs. Take them seriously! An ounce of prevention makes a huge difference.

Who's Your Risk Manager?

It's easy to wax eloquent about managing risk in your practice. Hopefully this newsletter has pointed you in new directions. However, understanding the concept of risk in its broad sense isn't enough. The real question is "Who's responsible?" As a practice owner, it's your job, and we recommend you use this approach:

1. Educate yourself on the areas of risk.

Some of our recent newsletters can help you better understand many components of risk identified in this newsletter. Click on the topical links below to learn more.

- **Creating a Prosperous Practice**
- **Starting Your Own Practice**
- **Fast Path to HIPAA Compliance**
- **HIPAA Penalties and Breaches**
- **HIPAA Final Rule - 2013**
- **Meaningful Use Stage 2 Final Rule**
- **The Reality of the ACO**

For additional information on risk-related topics, please contact us and we will help you find the right resources.

2. Be proactive, and seek guidance from experts when appropriate.

Don't expect that you, or a designated staff member, can become an expert in any one of these complex areas of risk management overnight. And don't assume that doing what another practice is doing is adequate for your practice. A wise investment in legal and/or knowledgeable consulting services may result in a huge savings for your practice.

3. Develop a prioritized plan to better manage your risk.

Rome wasn't built in a day. Many practices have multiple areas where they are knowingly or unknowingly exposed, and they can't fix everything at once. Prioritize risk management work items based on the extent of risk and the financial magnitude of potential exposure, rather than on the ease of implementing the change. The degree of potential risk will likely vary from practice to practice, and from specialty to specialty. Ask a consultant to assist you with a "big picture" risk assessment specific to your practice, if appropriate. Assign responsibilities and due dates to risk management work items in your plan, then monitor them closely and regularly.

If we can assist you with any one of these steps,
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