Introduction to Financial Management

By Margie Satinsky

If you are a physician who is baffled by finances but uncomfortable talking about your knowledge gap, rest assured you are not alone. Many of your colleagues who are not practicing in large group or academic medical center settings share your discomfort and hope that their practices will somehow survive and thrive without financial oversight. This article describes financial management, identifies concerns that often deter physicians from mastering it, provides suggestions for learning the basics, specifies reports that you should regularly review and provides guidance for obtaining help.

WHAT'S INVOLVED?

The financial management of a medical practice involves at least six different areas: financial planning, budgeting, accounting, practice management (operations and clinical) and revenue cycle management, including managed care contracting. Previous articles in this series covered revenue cycle management and managed care contracting.

Every medical practice should have a formal strategic business plan, as well as a supporting financial plan. The financial plan should include five-year forecasts, your plan for financing your practice and an annual budget that projects your volume, revenue and expenses. Use your annual budget as a tool for comparing your actual revenue and expenses against your expectations.

In my role as a practice management consultant, I encounter many practices that don't budget. So long as this month's revenue exceeds last month's and the practice continues to make money, why bother? I think there are many reasons to "bother" with a budget. You work hard to earn money from patient care, and you want to be a good steward of what you make and what you spend.

If you are still not convinced, consider an upcoming change that will impact many practices in North Carolina. Effective October 1, 2006, state employees will have the option of selecting a PPO plan as well as the current indemnity plan. The reimbursement between these two products differs significantly. If you have many state employees in your practice, and these people select the PPO, your revenue will decrease dramatically. Without a budget, you can't analyze the potential impact of this situation on your practice and prepare for the change.

The assumptions behind the budget are important. What are your plans for the coming year? Will you hire additional physicians, clinical and administrative staff? Are you opening a satellite location? Do you want to introduce electronic health records into your practice? Decide these issues before you fill in the numbers.

The accounting aspect of financial management involves documenting and reviewing what has actually happened in your practice. What activities (e.g., patient visits, procedures, surgeries and diagnostic tests) have occurred, and how have these activities translated into dollars for your practice? Do you have more dollars in accounts receivable than you should, and if so, why?

The third aspect of financial management concerns your practice operations and provision of clinical care to patients. You must manage and control the dollars that you earn by controlling your overhead expenses and by developing internal controls. The overhead costs of your practice are those not connected with the production of goods or services. These costs are not directly connected with the provision of patient care. Examples are rent or building depreciation.

Use industry standards as a guide in assessing overhead costs. MGMA provides good information on a specialty-specific basis. If your overhead costs exceed industry standards, determine whether one or more of the following characteristics is causing the problem:

low patient volume, outdated and inequitable fee schedules, lack of administrative oversight of expenses, inefficient staffing, managed care contracts that have not been renegotiated in many years, failure to develop and use operating and capital budgets, and/or lack of strategic expenses.

What can you do about high overhead costs? The American Medical Association (AMA) suggests purchasing a postage meter and scale for your practice; using bulk mailing services when possible; reducing the cost of clerical services by employing high school students who are 17 or older; investigating optional telephone systems; reducing the number of phone calls to your office by creatively using your website; saving money on energy costs; with the exception of senior management, paying employees on an hourly and not a salaried basis; being reasonable and not overly generous with employee benefits; using a competitive process to select vendors; and reviewing ratios and financial reports regularly.

Internal controls are very important, and your accountant can help you set up systems for bank accounts, the management of incoming and petty cash, and the development of checks and balances.

DETERRENTS TO MASTERING FINANCIAL MANAGEMENT

Financial management sounds straightforward, yet many physicians don't do it. The deterrents are common. It's easy to presume that your practice administrator/manager, accountant or another physician is keeping a watchful eye on the economics of the practice. In reality, nobody may be watching. Information overload can be another barrier. Ask your accountant or practice managers to develop a standard set of reports that you can review regularly and make sure you understand what they mean. Finally, practice management systems vary in their ability to produce timely and useful information. Make sure that the information you need is easily accessible. If it isn't, consider changing to a different vendor.

WHERE TO LEARN MORE

If you want to learn more about financial management for medical practices, take one or more of the following steps: read, familiarize yourself with the vocabulary of financial management, sign up for courses offered by professional organizations and ask for guidance from a practice management consultant.

WHAT REPORTS SHOULD YOU REVIEW REGULARLY?

I recommend regularly reviewing three types of reports. First, your accountant should produce a standard monthly package that includes an income statement, balance sheet and cash flow statement. These reports not only provide dollar amounts, but relate dollar amounts to time. Since revenue and expenses are seasonal, it's important to compare each month and year-to-date with the same time period from last year. Second, use reports from your practice management system to review volume, revenue and accounts receivable on a plan-specific basis. If there are any problems, you need the plan-specific detail to determine what corrective action to take. Third, regularly review standard ratios related to the financial health of your practice. Some practice management systems produce them automatically.

WHERE TO GET EXTERNAL HELP

If you learn to review financial information on your practice in a methodical and timely way, you can quickly identify any problems. To whom can you turn for assistance? Your practice administrator/manager may have a good explanation. Your accountant can help you review historical information. You may decide to engage an external consultant with experience in workflow and/or financial management.

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