

## Running Your Medical Practice like a Business

By Jim Rice, CPA

In a survey released in June, 2010 by the Medical Group Management Association, rising operating costs and the uncertain Medicare rates were the biggest challenges medical groups were concerned about. These are tough times for all businesses but even more so for medical practices. Doctors are seeing declining revenues, rising expenses, the uncertainty of the real cost of the healthcare reform provisions, and expected increases in the income tax and payroll tax rates.

Running your practice like a business is even more important today. Here are a few ideas from the CPA's perspective to help keep more of your hard earned money:

1. Is the current choice of taxable entity for your medical practice the best choice? While the PLLC and PLLP seem to be common for tax reporting purposes, are they the best? If your medical practice has non-owner employees who are billed for their services, then an S corporation might be able to provide a lower self employment tax. The self-employment tax for many doctors is a very significant tax in addition to the income tax. If you are looking to sell or merge your medical practice, a regular C corporation may not produce the favored result of creating more long-term capital gain type income that is taxed at much lower rates than ordinary income. It is never too late to review what entity you are operating out of for tax purposes.
2. Are you reviewing timely, monthly financial statements on your practice? Are those financial statements comparative with the same time period as last year? If there is an unfavorable downturn as compared to last year, do you know why? Are benchmarks from the MGMA or Medical Economics being compared to your practice? Many doctors truly do not know how to read their financial statements. If you feel that your financial statements are almost meaningless to you, then the first step to running your practice would begin with a basic lesson from your CPA on how to read your financial statements. These financial statements should separate your salary and related expenses so that you can see what profit is going to the bottom line before your cut. Some of the benchmark indicators might tell you that your payroll costs are too high. Possibly long tenured employees are overpaid or your staff is underutilized. Supplies may be costing more than what your peers are paying. Do you regularly have your suppliers re-bid with other competitors so that you get the lowest price possible? What about office sharing with other referring practices or joining with other practices for competitive bidding for goods and services? Also, meet with your employees regularly and ask them for their ideas on how to cut down expenses or increase revenues. They can have some great ideas but may need to be asked.
3. Are your internal controls as good as they can be? How do you know all of your patients' co-pays are being deposited? Does someone check that the revenue on the income statement agrees with the payments posted to the billing system? Deposits should be made timely so that revenue agrees with posted collections in the accounts receivable software. Are the accounts payable adequately checked for fake vendors or even fake

employees? There is much discussion of embezzlement at medical practices because this is an all too common problem for doctors who are too busy running a medical practice and not a business. You may have the most honest employees in town but they can make mistakes as well. Try to segregate the various accounting tasks. Keep your eyes open for changes in an employee's attitude or an employee who never takes any time off. Insist that the bank statements come to your home address first. Scan the bank statements and its enclosures before giving them to the bookkeeper. Let your staff know you are going to take a more active role in all phases of your business. Have your CPA review the duties of your staff to identify weaknesses in your internal controls and the flow of cash in and cash out.

*Article to be continued next month...*

Jim Rice, CPA is a shareholder at Sol Schwartz & Associates, P.C. ([jprice@ssacpa.com](mailto:jprice@ssacpa.com)). He has 32 years of experience in public accounting. In addition to providing business consultation, financial planning and various other accounting services, Jim specializes in income tax planning and consultation. He works with a high concentration of physician practices and high net worth individuals. Contact Jim at (210) 384-8000 Ext. 112.