Steps to Control and Reduce Practice Operating Overhead
Analyzing Practice Overhead

• First Two Steps
  – Comparison as a percentage of collections
  – Financial statement analysis
    • Comparison to prior year
      – Total overhead
      – By individual category
    • Do you have the right F/S format?
Comparison - % of Collections

• Industry Benchmarks
  – MGMA
  – Medical Economics
  – National Association of Healthcare Consultants
  – Other practices in similar specialties
    • Colleagues – Admin or physician
    • Advisors – CPA or healthcare consultant
Comparison - % of Collections

• Flaw in this Analysis
  – Assumes practice has maximized its collections
  – Assumes there has been no decrease in production/collections
  – Assumes a comparison of “apples to apples”
Financial Statement Analysis

• Monthly Financial Statement Review
  – Comparison to prior year
    • Must see comparative financials
    • First step: compare total overhead amounts
  – Line item overhead category analysis
  – Department overhead analysis
Opportunities for Overhead Reduction
Payroll Costs

• Analyze Total Personnel Needs
  – Too many or too few?
• Analyze Actual Compensation Levels
  – Overpaying for specific positions?
  – How to handle long term employees
  – Cash bonuses vs. time off
• Analyze Overtime Pay
  – Exempt vs. non-exempt employees
  – What is causing excessive overtime?
Employee Benefits

Analyze Health & Other Insurance Costs
  – Benefit coverage
  – Employee subsidy

• Analyze Retirement Plan Costs
• Hidden Costs
  – Vacation leave payouts
  – Sick leave payouts
  – PTO payouts
Supply Costs

• Medical, Office, Drugs, etc.
  – Standardize the catalogs

• Review Vendor Relationships and Pricing
  – Bid periodically
  – Centralized management
  – Use purchase order system
  – Utilize internet purchasing
Lease Agreements

• Occupancy Costs
  – Analyze Inefficient Use of Space
    • Clinical
    • Business
  – Analyze Operating Stop Provisions in Office Lease

• Purchase vs. Lease of Assets
Other Cost Saving Opportunities

• Have Proper Internal Controls
• Bank Charges
• Financing Costs
• Payroll Taxes
  – Cafeteria Plan
  – Subchapter S Distributions
• Advertising and Marketing
• Physician Cell Phone Costs
Other Cost Saving Opportunities

• Outside Billing Agency
• Postage Costs
  – Utilize internet opportunities
  – Outsource patient statement mailings
• Telephone Costs
• Petty Cash Costs
• Professional Fees
• Insurances
Unique Cost Saving Strategies

• Merging Medical Practices
• MSO Formation/Utilization
• IPA Formation
• Adding a Physician
• Changing the Physician Compensation Formula
• Office Sharing with Another Practice
• Implementation of EMR
• Make Stakeholders out of the Employees
Questions and Answers

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