CPA for Physicians

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Accounting Specialists to the Medical Profession

Internal Controls

In every medical practice there are three areas of utmost concern when it comes to Internal Control: patient income; disbursement/payables; and payroll. A set of guidelines are listed for each of these important components of running a medical practice.

Patient Income

- 1. All mail should be opened by the physician, partner or member of the group.
- 2. All remittances should be immediately endorsed with a bank endorsement stamp, indicating the name of the practice, the account number and the words, "For Deposit Only."
- 3. Cash and checks should be deposited daily on pre-printed deposit slips with the name of the patient or the insurance provider next to the dollar amount on the face of the deposit slip.
- 4. Payments should be posted to patients' accounts by someone other than the person receiving payment or the accounts receivables clerk.
- 5. Patient payment adjustments should be reviewed in the Daily Activity Report for proper authorization by the practice administrator and/or physician. Total payments per activity report should be agreed to and reconciled with the daily deposit slips.
- 6. A bank reconciliation should be prepared monthly, and the deposit slips should be compared to the bank deposit column figures.
- 7. All accounts receivables should be aged by month. Any receivables outstanding for more than 60 days should be followed up by someone other than the accounts receivables clerk.
- 8. There should be a mandatory vacation policy for all staff employees.

Disbursements/Payables

- 1. Disburse by pre-numbered checks only.
- 2. When the check is presented to the physician for signature by the respective clerk it should be accompanied with the supporting documentation or invoice, which is subsequently stamped or marked, "paid." It should also include the check number.
- 3. Employees are prohibited from having personal business dealings with companies acting as major suppliers or the medical practice. Competitive bids should be obtained for large-dollar purchases.
- 4. Keep a running total of checks signed and compare it to the check side of the of the bank statement in the reconciliation process.
- 5. The physician or the practice administrator should be the petty cash custodian. A lockbox or safe should be used for cash-on-hand until the daily deposit is made.
- 6. There should be a mandatory vacation policy for all staff employees.

Payroll

- 1. The physician does all hiring and has final authority on all wage rates, including raises or bonus. Any termination of an employee must be carried out by the physician. However, the practice administrator can advise the physician as to which employees should be terminated and why. Use a standard job application form for all prospective employees.
- 2. Only pay by pre-numbered checks.
- 3. Sign checks by hand, paying particular attention to names and amounts.
- 4. The physician or the practice administrator should hand out the payroll checks.
- 5. Maintain a well-documented permanent-payroll file for each employee, similar to a patient chart. This will reduce the potential for legal action related to wrongful termination.
- 6. the physician should meet with employees periodically, but no less than yearly to assess performance, provide feedback and review salary. It is imperative that all decisions and discussions be documented in each employee's permanent file.
- 7. Institute a mandatory vacation policy for all employees.

Segregation of Duties

Segregation of duties means separating the recordkeeping function from the operational responsibility of that activity and from those who exercise physical control over the records.

Separation of recordkeeping and control of assets is aimed at the prevention of fraud.

- Unfortunately, employees can embezzle assets for which they are responsible because they can conceal their actions simply by manipulating the supporting records (i.e. fraudulently endorsing checks and positing adjustments to the patients' computer account or ledger card). The obvious drawback is that most medical practices lack the large number of employees required to realistically segregate these functions. Here are several examples of how practices violate the concept of segregation of duties:
  - Receipt and endorsement of daily checks are made by the accounts receivables clerk or practice administrator, who then posts them into the accounts receivables system.
  - Checks are written by the accounts payable clerk, who then brings them to the physician for signature without proper supporting documentation.
  - The payroll clerk distributes payroll checks.
  - Vendors are chosen and reviewed by the same individual.
  - Follow-up of accounts receivables and third-party insurance payments outstanding are pursued by the same individual, who is authorized to write off these accounts receivables.
- If clear-cut segregation exists, and office personnel understand their functions, their performance will be optimized. They can fulfill their responsibilities without hesitation because they know where they fit in. The physician, in turn, can measure the effectiveness of each employee within a well-defined sphere of performance.
- Once duties have been segregated and lines of authority developed, there is another problem: ongoing communication. Individuals tend to forget certain procedures as time passes. Also practices change and staff turns over. As a result, the procedures and policies originally established unofficially become modified or neglected.
- We can protect against this by information employees what their job functions are and how to implement them. How? Through job-description manuals. Rarely found in medical practices, job-description manual allow the physician to focus on the exact duties performed by each employee.

Supervision

Each staff person should complete his or her own job description manual to be reviewed by the practice administrator. In the event of employee turnover, the manual can be used by the new employee as a reference and for training by the practice administrator. Properly trained employees increase office efficiency, and ultimately, profitability. The manual should be reviewed and revised periodically, as needed. Each employee should be responsible for drafting or compiling the data for their respective position, including any forms or schedules used in the performance of that person's job function.

Supervision is the best way to keep medical practice operation moving at a desired pace and to handle unusual situation as they occur.

- Supervision also allows employees to obtain feedback on their job performance and discuss any job uncertainties with the practice administrator. As an employee becomes more proficient in his or her job function, less supervision time is required.
- The primary responsibility for supervision rests with the practice administrator. The practice administrator should meet with each staff person, as necessary, but at least weekly to review job performance, discuss problem areas and to ensure that the employee is confident in his or her ability to perform well.
- It is also advisable for the physician to periodically visit each employee's work station to provide encouragement and to demonstrate an interest. The practice administrator acts as the liaison between the support staff and the physician, reporting any unusual circumstances as well as the results of the weekly review meetings. The physician can in turn, evaluate the performance of the practice administrator based on the frequency of those reports and their contents. Working meetings with the practice administrator should be scheduled at least weekly to assess and gauge the progress of the practice and anticipate potential problems.
- A monthly lunch meeting should be scheduled with the entire office staff. This meeting should be conducted as an open forum during which all individuals are encouraged to discuss any ideas they may have to improve their job efficiency. Many excellent recommendations have emanate and been implemented because of employees' observations and experiences.
- The practice administrator and they physician should schedule meeting for the entire year in advance and be sure to block out the time in the office appointment book. A by product of this meeting is the opportunity for the physician to interact with his office staff in a less formal manner and humanize the employer-employee relationship.
- At the weekly meeting the practice administrator or the physician should review and discuss the following:
  - The Daily Activity Report – noting total charges, payments, adjustments and net accounts receivables.
  - The Accounts Receivables Aging Schedule – noting witch accounts receivable are long past due and should be submitted for collections as well as which third party providers are lagging in payment and need to be pursued more aggressively.
  - The collection percentage, collecting period and the percentage of the front-office collections rate.

Tracking Accounts Receivable

- The physicians Patient Income System Questionnaire should be completed yearly and reviewed by the practice administrator periodically to ensure that all open items are followed through.
- On a monthly basis the practice administrator should obtain and review the Aging of Accounts Receivables Report with the physician to review all outstanding accounts receivables which are 60 days past due and need follow up action.
- We recommend that no more than two bills, after 15 and 30 days, be mailed to the patient to minimize handling and postage costs. Experience has shown that mailing repeated past-due notices is not as effective as telephone contact.
- All private, self-pay accounts receivables between 30 and 60 days are to be contacted by telephone. A systematic telephone call program is to be established with the proper notation indicated by the contact person. An effort should be made to obtain some sort of payment from the patient. Simple telephone calls to patients with past due accounts can produce immediate and positive results. Although most employees are as uncomfortable making collection calls as patients are receiving them, the techniques presented in our brochure can be used to ease this difficult situation.
- No less than three calls should be made per patient. If time and resources are limited, a dollar-factor determinant is to be used to maximize collection or large outstanding accounts receivables. At the 120-day period, the practice administrator and the physician should jointly determine which accounts receivables are to be written off and which are to be submitted to the collection agency. Only the physician is authorized to determine the patients which are to be submitted to the collection agency. For Medicare-covered services, a participating physician is required by law to make a Good Faith effort to collect the annual deductible or 20% coinsurance from Medicare patients. Routine waivers of the coinsurance by the physician are considered violations of Medicare regulations and can result in sanctions or reductions of Medicare payments.
- Each month, the medical office's effectiveness at collection charges should be measured. To do so the following should be calculated:
  - The collection Percentage – This is a moving average compilation that measures the office's ability to collect what it bills. Medical practices should strive for a collection percentage of 90% or higher. A lower percentage may indicate failure to collect payment at time of service and may mean that insurance claims have been rejected or disputed.
  - The Collection Period – This is the average number of days needed to collect professional fees. A collection period of more than 90 days is generally considered to be a sign of trouble.

Eliminating Accounts Receivable

- To avoid an account reaching the accounts receivable stage, it is imperative that the front-office receptionist be trained in obtaining payment at the time of service. The staff must be polite but firm and inform patients of your policy. Don't accept promises to pay after the insurance pays. The insurance clerk should have complete fee information on all types of policies that come into the office, including Medicare. This will allow the clerk to compute the balance as soon as the physician is finished with the patient and collect the fee before the patient leaves the office. Be sure to consider deductibles which are a concern early in the year. We recommend that the office establish a "Merchant Account" to accept credit cards for patient payments.
- The patient Interview Form should indicate the following at the bottom:
  - How do you plan to pay for today's visit? Check _____ Cash _____ Credit Card ___
- The receptionist is to verify that the payment mode is checked off on the Patient Interview Form for each patient. If left blank, the receptionist is to approach the patient and determine the mentioned of payment prior to meeting with the physician.
- When scheduling appointments, the appointment secretary should advise patients as to what is expected of them financially. For Managed-care patients the co-pay is to be verified with the patient and consequently collected at the time of the visit.
- For services performed outside the office (at hospitals or nursing homes), the physician should note the billable services performed and provide this information to the accounts receivables clerk. Responsibility for obtaining this information from the physician and recording it should be assigned to a specific individual.
- During the weekly and monthly meeting, the practice administrator should reinforce the front-office policy of collecting for all services at the time of the office visit and set a goal of a 90% collection rate. The Patient Collection Worksheet-Office Visits should be used by the front-office personnel to reach the 90% goal.

Monitoring Insurance Payments

- An internal check system should be established to contact an insurance company when a claim is 25 days old.
- All claims must be filed no later than five days from the date of service. All rejected claims by the insurance company must be reviewed by the practice administrator and discussed with the billing clerk for resubmission – if appropriate.
- Review the possibility of filing claims electronically. This speeds up the process of getting a claim into the insurance company's payment system and making amendments to the claim easier. Electronic filing results in efficiency and more accurate information.
- Insurance calls should be batched and made weekly with the proper notations and remarks by the employees making the calls.

Conclusion

- Many physicians have difficulty realizing that to run a large, successful enterprise they must be concerned with all operations of the business, as well as the medical aspects of the practice. Another acute problem is that as the practice grows, physicians often become unable to perform the routine duties which once gave their practices the control and strength required. This can place the entire practice in a hazardous position.
- To empower employees, the physician should establish a weekly or monthly meeting with the practice administrator and the staff to discuss problem situations , solution to past problems, operational or employee issues, and allow an open forum for employees to make constructive recommendations about the operational scope of their functions.
- The involved physician should periodically stop by employees' work stations to briefly oversee their functions and inquire as to how they are coming along. If the physician is visible, the perception will be created that the physician is involved in the operational aspects of the practice.
- A physician must also recognize that their are certain functions which Internal Control will simply not do. For example:
  - Internal Control will not analyze or correct a situation. Its purpose is to bring attention to unusual situations. Therefore, it is up to the physician to recognize danger signals.
  - Internal Control must have employee acceptance. If controls are not established with the direct involvement of the employees, they will become passive resisters, instead of enthusiastic supporters.
  - The system must be economical! It's fine to have an airtight system utilizing all the controls we have defined, however it must be efficient and not increase your cost of doing business. They physician should balance the cost of controls with the risk of their absence.
- The physician must also keep in mind that the elements of Internal Control are complementary. They are used and tailored to individual degrees to fit each situation. Their collective strength determines whether an adequate structure exists.
- All practices with competent personnel and a concerned physician-owner will benefit from a strong system of Internal Control.