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Due Diligence Checklist for Physician Practice Acquisitions

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Here are some key considerations when conducting due diligence in acquisitions. The checklist was developed by PYA. View the checklist at <https://bit.ly/3PaIGVO>.

Key Physician Practice Due Diligence Considerations

The following represents a sample of key physician practice due diligence considerations. It is not a comprehensive checklist, and further analysis may be required depending on the nature of the contemplated transaction.

1. Practice Tax and Corporate Background

Obtain and review the following documents filed for the last three tax years:

- ☐ Local, state and federal returns
- ☐ Payroll tax returns
- ☐ Real and personal property tax filings
- ☐ Sales and use tax returns

Engage with management to review the following:

- ☐ Articles of incorporation and all amendments
- ☐ Bylaws and all amendments
- ☐ Shareholder/member agreements

- ☐ Confirm that the organization is in good standing with the secretary of state in the state where the practice is incorporated.

2. Financial Review

☐ Obtain and review externally prepared (if available) financial statements for the last three years.

☐ Conduct a quality-of-earnings review to understand normalized, accrual-basis historical revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) trends.

☐ Inquire whether any of the organization's physicians are under audit by any governmental or commercial payer.

Obtain a copy of the balance sheet, and review the following:

☐ Accounts receivable

☐ Prepaid expenses

☐ Pharmaceutical and supplies inventory

☐ Fixed assets

☐ Leased assets

☐ Payroll liabilities

☐ Accounts payable

☐ Retirement obligations

☐ Paid time off liabilities

☐ Understand any risk-sharing arrangements.

Perform a key metrics and statistics review:

☐ Charges and net revenues per procedure, payer and provider

☐ Turnover ratios (days in accounts receivable [A/R], days in accounts payable [A/P], etc.)

☐ Collections, as a percentage of charges, by month, by payer and service type

☐ Expense analysis per full-time equivalent (FTE) or as a percentage of medical revenue

☐ Nonrecurring revenue sources

☐ Changes in physician complement affecting historical revenue streams

☐ Nonrecurring and/or owner expenses

☐ Transactions with related-party entities

☐ Reconcile bank deposits to posted collections in practice management system and general ledger.

☐ Consider federal funds received and operational impacts associated with the COVID-19 public health emergency.

3. Malpractice Coverage and Claims

☐ Review and understand the organization's current malpractice coverage policy.

☐ Obtain a report and inquire as to outstanding claims.

4. Revenue Cycle and Coding

Perform a key revenue cycle metrics review, including the following:

☐ Adjusted collection ratio

☐ A/R aging analysis

☐ Days in A/R

☐ Amount of credit balances on account

☐ Obtain and review a copy of the organization's billing policies and procedures.

☐ Complete a nonstatistical medical records documentation and associated coding and medical necessity review by provider.

☐ Compare productivity levels to benchmarks (i.e., work relative value units) and/or Medicare coding distribution benchmarks (i.e., bell curve analysis) to identify potential coding risk areas and/or opportunities.

☐ Review publicly reported data to identify uses of codes or modifiers and analyze further as necessary.

☐ Review quality metric usage and reporting.

5. General Compliance

☐ Obtain copies of all licensure for licensed professionals and complete exclusion checks.

☐ Obtain and review the organization's compliance plan document.

☐ Inquire about any previous or current governmental audits or inquiries.

☐ Obtain and review copies of the organization's Occupational Safety and Health Administration and HIPAA privacy and security policies and procedures manuals.

☐ Obtain and comment on any participation in clinical research studies, and review the Centers for Medicare & Medicaid Services Open Payments Database for payments made to the organization's providers.

☐ Inquire whether any of the organization's physicians are under audit by any governmental or commercial payer.

6. Contracts

Evaluate the following physician- and nonphysician-related contracts:

☐ Employment agreements

☐ Professional services agreements (e.g., medical director, on-call coverage)

☐ Staffing and recruiting agreements

☐ Other contract labor agreements

☐ Noncompetition and/or nonsolicitation agreements

Obtain and review material contracts with suppliers, including the following:

- ☐ Medical supplies
- ☐ Pharmaceuticals
- ☐ Information technology
- ☐ Billing and collections
- ☐ Management services

Inquire about operations contracts, including, but not limited to, the following:

- ☐ Capital and equipment leases
- ☐ Equipment maintenance contracts
- ☐ Facility leases (including evaluation of fair market value assessments of renewal rates)
- ☐ Computer systems
- ☐ Document management agreements
- ☐ Electronic medical record system
- ☐ Management agreements
- ☐ Marketing agreements
- ☐ Medical waste disposal agreements
- ☐ Off-site storage agreements
- ☐ Outstanding letters of intent for contracts for sale or acquisition of capital assets

7. Human Resources

☐ Obtain and review up-to-date employee list, including description of position title, dates of hire and termination, FTE status and salaries and benefits.

☐ Request and review documentation on personnel turnover.

☐ Obtain and review a copy of the employee handbook.

☐ Obtain documentation, and describe all current policies and procedures that pertain to various employee matters, including the Americans with Disabilities Act, the Consolidated Omnibus Budget Reconciliation Act (COBRA), drug testing, equal employment opportunity and the Family and Medical Leave Act.

☐ Understand incentive and benefits plans.

☐ Understand policies and procedures for paid time off.

☐ Understand any company sponsored retirement plans.

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