

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	Real and personal property tax filings
Payroll tax returns	Sales and use tax returns

Engage with management to review the following:

Articles of Incorporation and all amendments	Shareholder/member agreements
Bylaws and all amendments	

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

Comments:

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 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	Fixed assets	Accounts payable
Prepaid expenses	Leased assets	Retirement obligations
Pharmaceutical and supplies inventory	Payroll liabilities	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	Non-recurring revenue sources
Turnover ratios (days in accounts receivable [A/R], days in accounts payable [A/P], etc.)	Changes in physician complement affecting historical revenue streams
Collections, as a percentage of charges, by month, by payer, and service type	Non-recurring and/or owner expenses
Expense analysis per FTE or as a percentage of medical revenue	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.

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3. Malpractice Coverage and Claims
Review and understand the organization’s current malpractice coverage policy.
Obtain a report and inquire as to outstanding claims.
Comments:

4. Revenue Cycle and Coding	
Perform a key revenue cycle metrics review, including the following:	
Adjusted collection ratio	Days in A/R
A/R aging analysis	Amount of credit balances on account
Obtain and review a copy of the organization’s billing policies and procedures.	
Complete a non-statistical 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.	
Comments:	

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 OSHA 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.
Comments:

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6. Contracts

Evaluate the following physician- and non-physician-related contracts:

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| Employment agreements | Other contract labor agreements |
| Professional services agreements (i.e., medical director, on-call coverage, etc.) | Non-competition and/or non-solicitation agreements |
| Staffing and recruiting agreements | |

Obtain and review material contracts with suppliers including the following:

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

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

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

Comments:

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 ADA, COBRA, drug testing, EEO, and FMLA.

Understand incentive and benefits plans.

Understand policies and procedures for paid time off.

Understand any company sponsored retirement plans.

Comments: