Setting Up Accounts Payables And Your Chart Of Accounts

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Chief Financial Officer- Greenwood Pediatrics, Denver
Purpose of Today...

- Today explore what options are out there to help you think about your current processes
  - Every practice is unique
  - Logistical concerns for everyone

Purpose of Accounts Payable

Accurate Reporting

Internal Controls

Timely Payment of Invoices

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Who Are You?

Scenario 1
Doctor pays bills themselves

Scenario 2
Office Manager pays the bills
Handles all functions
Approves invoices & signs checks

Scenario 3
Office manager / clerk enters invoices
Prepares checks for signature(s)
Physician(s) review/sign checks

Scenario 4
Dedicated bookkeeper
Prepares checks for signature(s)
Physician(s) review/sign checks

Internal Controls
The Fraud Triangle:
A framework for spotting high-risk fraud situations

Pressure
Financial or emotional
Pushing towards fraud

FRAUD

Opportunity
Ability to execute plan
Without being caught

Rationalization
Personal justification of
Dishonest actions
The Fraud Triangle:
A framework for spotting high-risk fraud situations

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Dishonest actions

Internal Controls

Internal Controls Are Necessary…

1. Risk Assessment
   Identify Weaknesses
   - Mail
   - Checks

2. Control Environment
   Limit Access
   Cash Drawers

3. Control Activities
   Credit Card Terminals
   Charge & Adjustment Posting

4. Information & Communication
   Education
   Daily & Weekly Reports

5. Monitoring
   Cash Handling Audit
   Deposit Reconciliation
Usual Workflow

Convenience / Simplicity
• Minimal Time Devoted
• Done between other duties
• Seen as a burden

Internal Controls
• Transparency
• Accuracy

1. Vaccine Count Taken
2. Log Into VaccineShoppe.com
3. Place Order

1. Verify Count
2. Send Slip to A/P Person

1. Sits In Folder Until Time to Be Paid
2. Resolve discrepancy
3. Entered Into QuickBooks
4. Check Drafted
5. Forward to Physician for Signature
6. Checks Mailed Out

2. Validation

3. Payment Processing
What’s Missing?!?

• Appropriate Internal Controls Require
  • Requisitions
  • Purchase Orders
  • Levels of Authority

• Expense Authorization
  • Appetite for Risk
  • Weigh past issues with likelihood of problems in the future

Requisition vs. Purchase Order (PO)

- Requisition
  • Request for someone to purchase something

- Purchase Order
  • Formal agreement with vendor
  • Avoids duplicate orders
  • Avoids surprises
  • Quantity
  • Price
  • Track Incoming Orders
  • Reduces reactive work

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Comprehensive Workflow

1. Need Determined
   1. Vaccine Count Taken

2. Requisition
   1. Created
   2. Approved

3. P.O. Generated
   1. Contact Vendor
   2. Track PO Number & Details

4. Order Placed
   1. Log into VaccineShoppe.com
   2. Place Order

5. Validation
   1. Verify Count
   2. Send Slip to A/P Person

6. Payment Processing
   1. Enter Invoice Into A/P System With Due Date
   2. Resolve discrepancy
   3. Check Drafted
   4. Forward to Physician for Signature
   5. Checks Mailed Out

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Purchase Authorization
Driven by Experience / Trust
Appetite for Risk
Varies by Practice

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Balance Effort With Results...

Progressively smaller increase in results as one increases the time/energy addressing an issue.

Concern #1...Autopayments

- Credit Cards
  - Very convenient but an Internal Control nightmare
- Button it Up....
Concern #2...Stacking Invoices

- Pile up invoices in folder
- Enter invoices and pay at the same time

Concern #2...Stacking Invoices

- Pile up invoices in folder
- Enter invoices and pay at the same time
  - Need to enter invoices as they arrive and set due dates
  - Provides better understanding of cashflow needs over time
Concern #3...The Approval Process

- Person signing the check needs to see all supporting documentation
- Have time to review

Concern #4...Rates & Timeliness

- You need a good accountant and a better bookkeeper!
- Don’t pay accountant rates for bookkeeping services.
- You should have expense report by 5th day of the month...otherwise you are flying blind...for every day that goes by, you may have 100 encounters....
- What is the best use of a dollar?!?

Accountants are qualified to handle the entire accounting process, while bookkeepers are qualified to handle recording financial transactions. To ensure accuracy, accountants often serve as advisers for bookkeepers and review their work.

Bookkeepers record and classify financial transactions, laying the groundwork for others to analyze the financial data.

PMI Tip: Find a “stay at home” parent who wants to work a few hours per week...
Automation Is Key…

Receive Bills

- Emailed Bills
- Paper Invoices
- Auto Payments

Electronic copy to designated person

- Emailed Bills
- Paper Invoices
- Auto Payments
Automation Is Key...

Receive Bills
- Emailed Bills
- Paper Invoices
- Auto Payments

Electronic copy to designated person

Process Invoice
- Enter into QuickBooks
- Route for Approval
  - Supporting Documentation

Authorization
- Based on level of authority
- Review supporting documentation
- Approve/Reject Expense Payment

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Automation Is Key...

Receive Bills ➔ Electronic copy to designated person ➔ Process Invoice ➔ Authorization ➔ Disburse Funds

• Emailed Bills
• Paper Invoices
• Auto Payments

Enter into QuickBooks
Route for Approval
-Supporting Documentation

Based on level of authority
Review supporting documentation
Approve/Reject Expense Payment

Best Practices

Generate and Send PO ➔ Receive Order ➔ Enter Invoice ➔ Approve Payment ➔ Pay via ACH or check ➔ Store Payment Audit Trail and Documents

Intuit QuickBooks Online
Bill.com

The Leader in Digital Business Payments.
**Double Entry Bookkeeping**

The essential basis of good bookkeeping practices

**Debit**
- The everyday activities of a business result in business transactions.
- Sales, Purchases, Returns, Loans, Payments, Banking

**Credit**
- Business transactions produce documents.
- Invoices, Receipts, Check, Checks, Deposit, Quizzes

The information from the documents is recorded into bookkeeping journals.
- General, Cash, Sales, Purchases

**Debits and credits have the effect of either increasing or decreasing each account.**

Journals describe which ledger account to debit and which account to credit.

A summary list of ledger accounts is called Chart of Accounts.

**Chart of Accounts**

- System to categorized:
  - Assets
  - Liabilities
  - Owner’s Equity
  - Income
  - Expenses
- Logical system is key to efficient recording/reporting
Chart of Accounts...Why so important?

- The chart of accounts is like the framework of shelves and storage bins in a warehouse. Accounts are the specific "bins" that hold accounting transactions. The chart of accounts is simply the organized list of all the bins and shelves.

- Month end financial statements (balance sheet and income statement) simply summarize and group the balances that are in the individual accounts at month end.

- Accordingly, financial statements can be no more detailed or informative than the underlying chart of accounts structure.

Chart of Accounts Mindset

1. Should be set up to help you better manage the business (managerial accounting)

2. Currently, too much focus on tax preparation

3. Too much emphasis on Owner vs. Non-Owner Expenses
   - Many accountant treat employed physicians the same as a receptionist...not practical to monitor the health of your practice.
Chart of Accounts Design

Priorities
• Tax Preparation
• Financial Management/Monitoring

Influences
• Practical
• Preferences/Norms
• Objectives For End User

Accountant usually builds the Chart of Accounts from their point of view (Tax Preparation)

General Chart of Accounts Groupings

1. **Assets:** Cash, Accounts Receivable, Prepaid Expenses, Fixed Assets, Intangibles, etc.
2. **Liabilities:** Accounts Payable, Accrued Expenses, Credit Card Payable, Line of Credit, Loans Payable, etc.
3. **Equity:** Common Stock, Additional Paid In Capital, Retained Earnings, Dividends, Partner Capital Accounts, Distributions, Owners Equity, Owners Draw, etc.
4. **Income:** Practice Receipts, Miscellaneous Income
5. **Expenses:** Operating Costs For Practice, etc.
Chart of Accounts

- Usually set up by your accountant for tax purposes (GAAP)
- Did not realize the needs of the owner/practice
  - COGS?
  - Readily identify all expenses prior to provider compensation to manage the costs of the practice
- Vaccine costs for location 1, 2 & 3 (Use Departments)
- Segmenting income/revenue on statements
  - They just need total income for tax prep
  - You need to see allocations to manage the business

Accounting vs. Managerial Accounting

<table>
<thead>
<tr>
<th></th>
<th>Managerial Accounting</th>
<th>Financial Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Decision making</td>
<td>Communicate financial position to outsiders</td>
</tr>
<tr>
<td>Primary Users</td>
<td>Internal managers</td>
<td>External users</td>
</tr>
<tr>
<td>Focus/Emphasis</td>
<td>Future-oriented</td>
<td>Past-oriented</td>
</tr>
<tr>
<td>Rules</td>
<td>Do not have to follow GAAP; cost vs. benefit</td>
<td>GAAP compliant; CPA audited</td>
</tr>
<tr>
<td>Time Span</td>
<td>Ultra current to very long time horizons</td>
<td>Historical monthly, quarterly reports</td>
</tr>
<tr>
<td>Behavioral Issues</td>
<td>Designed to influence employee behavior</td>
<td>Indirect effects on employee behavior</td>
</tr>
</tbody>
</table>

Source: Pearson Prentice Hall

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**Practice-Friendly Chart Of Accounts**

1. Define practice operating overhead correctly.
2. Organize operating expenses to reflect the nuances of the practice and match budgeting level of detail.
3. Separate location costs with “Classes” or “Departments”
4. Ditto for owner expenses
   • Salary costs for Dr. Smith, Dr. Jones, etc
5. Use accounts numbers, if you aren’t already.
6. Maximize the functionality of your accounting software.


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**Chart of Accounts**

Usually set up by the accountant when practice opened

1. Naming
   • 5000- Staff Wages
2. Ordering
   • 5010- Receptionists
   • 5020- Medical Assistants
   • 5030- Nurses
   • 5040- Billing staff
3. Roll Up
   • Work Location
   • Work Group
   • Work Type
# Chart of Accounts General Groupings

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>Bank/Clearing Accounts</td>
</tr>
<tr>
<td>2100</td>
<td>Credit Card &amp; Clearing Accounts</td>
</tr>
<tr>
<td>2200</td>
<td>Payroll Tax Payable</td>
</tr>
<tr>
<td>2400</td>
<td>Benefits Payables</td>
</tr>
<tr>
<td>2500</td>
<td>Loans</td>
</tr>
<tr>
<td>4000</td>
<td>Income/Revenue</td>
</tr>
<tr>
<td>5000</td>
<td>Non-Provider Compensation &amp; Benefits</td>
</tr>
<tr>
<td>6000</td>
<td>General and Administrative Expenses</td>
</tr>
<tr>
<td>7000</td>
<td>Medical Supplies &amp; Services</td>
</tr>
<tr>
<td>8000</td>
<td>Non-Owner Provider Compensation &amp; Benefits</td>
</tr>
<tr>
<td>9000</td>
<td>Owner Compensation &amp; Benefits</td>
</tr>
</tbody>
</table>

## 4000- Income/Revenue

<table>
<thead>
<tr>
<th>Subgroup</th>
<th>Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4000 Professional Fees</strong></td>
<td></td>
</tr>
<tr>
<td>4010</td>
<td>Insurance ETF</td>
</tr>
<tr>
<td>4011</td>
<td>Credit Cards</td>
</tr>
<tr>
<td>4012</td>
<td>OTC Deposits</td>
</tr>
<tr>
<td>4013</td>
<td>Mail Deposits</td>
</tr>
<tr>
<td>4014</td>
<td>EFT Recoupment</td>
</tr>
<tr>
<td>4015</td>
<td>Deposit- Unspecified</td>
</tr>
<tr>
<td>4016</td>
<td>Incentive Checks (PCMH, Etc)</td>
</tr>
<tr>
<td>4017</td>
<td>Capitation Payments (Medicaid)</td>
</tr>
<tr>
<td>4018</td>
<td>Capitation Payments (Commercial)</td>
</tr>
<tr>
<td>4019</td>
<td>Pharmacy</td>
</tr>
<tr>
<td>4020</td>
<td>DME</td>
</tr>
<tr>
<td>4900</td>
<td>Other Medical Revenue</td>
</tr>
<tr>
<td>4500</td>
<td>Refunds</td>
</tr>
<tr>
<td>4510</td>
<td>Patient Refunds</td>
</tr>
<tr>
<td>4520</td>
<td>Insurance Refunds</td>
</tr>
</tbody>
</table>

Prefer to track income by source of revenue than by provider.

You can always report the provider source of payments with billing system. Why do it twice?
**5000- Non-Provider Salary Costs**

<table>
<thead>
<tr>
<th>5000 Support Staff Compensation and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>5100 Salaries-Support Staff</td>
</tr>
<tr>
<td>5110 Salaries-Administration</td>
</tr>
<tr>
<td>5120 Salaries-Billing</td>
</tr>
<tr>
<td>5130 Salaries-Clinical Support</td>
</tr>
<tr>
<td>5140 Salaries-Receptionists</td>
</tr>
<tr>
<td>5160 Salaries-Other</td>
</tr>
<tr>
<td>5170 Support Staff Deferred Compensation</td>
</tr>
<tr>
<td>5180 Support Staff Severance</td>
</tr>
<tr>
<td>5190 Support Staff 401K</td>
</tr>
<tr>
<td>5195 Support Staff Per Diem</td>
</tr>
<tr>
<td>5200 Support Staff Bonuses</td>
</tr>
<tr>
<td>5300 Payroll Taxes</td>
</tr>
<tr>
<td>5400 Support Staff Benefits</td>
</tr>
<tr>
<td>5410 Support Staff Insurance</td>
</tr>
<tr>
<td>5411 Support Staff Insurance - Medical</td>
</tr>
<tr>
<td>5412 Support Staff Insurance-Dental</td>
</tr>
<tr>
<td>5413 Support Staff Insurance-Life</td>
</tr>
<tr>
<td>5414 Support Staff Insurance-Disability</td>
</tr>
<tr>
<td>5415 Support Staff Insurance-Workers’ Compensation</td>
</tr>
<tr>
<td>5418 Support Staff Insurance - Vision</td>
</tr>
<tr>
<td>5500 Temporary Staff Expenses</td>
</tr>
</tbody>
</table>

**6000- General and Administrative Expenses**

<table>
<thead>
<tr>
<th>6000 General and Administrative Expenses</th>
<th>6300 Administrative Expenses</th>
<th>6300 Practice Education, Licensure, and Accreditation Expenses</th>
<th>6820 Information Technology Software Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100 Building and Occupancy Expenses</td>
<td>6331 Office Supplies</td>
<td>6381 Licenses</td>
<td>6821 Information Technology Software Purchase</td>
</tr>
<tr>
<td>6120 Building and Facilities Rent/Lease</td>
<td>6332 Office Equipment</td>
<td>6382 Books and Subscriptions</td>
<td>6822 Information Technology Software Development</td>
</tr>
<tr>
<td>6140 General Maintenance</td>
<td>6333 Office Lease</td>
<td>6383 Educational Materials</td>
<td>6823 Information Technology Software Maintenance</td>
</tr>
<tr>
<td>6150 Utilities</td>
<td>6334 Offsite Storage - Office Supplies and Equipment</td>
<td>6390 Other Administrative Supplies and Services</td>
<td>6824 Information Technology Subscriptions</td>
</tr>
<tr>
<td>6151 Utilities-Water</td>
<td>6335 Gifts</td>
<td>6391 Bank and Credit Card Processing Fees</td>
<td>6830 Information Technology Supplies</td>
</tr>
<tr>
<td>6152 Utilities-Electricity</td>
<td>6340 Purchased Professional Services</td>
<td>6392 Interest Expense</td>
<td>6831 Computer Lines</td>
</tr>
<tr>
<td>6153 Utilities-Waste Disposal</td>
<td>6341 Accounting Services</td>
<td>6400 Employee Meals and Meetings</td>
<td>6832 Computer System - EMR Expenses</td>
</tr>
<tr>
<td>6155 Other Utilities</td>
<td>6342 Legal Services</td>
<td>6500 Employee Relations</td>
<td>6833 Computer System - non-EMR Expenses</td>
</tr>
<tr>
<td>6160 Property Taxes</td>
<td>6345 Consulting Services Fees</td>
<td>6600 Marketing</td>
<td>6834 Computer System - Network Equipment</td>
</tr>
<tr>
<td>6170 Housekeeping/Maintenance</td>
<td>6346 Consulting Services Travel</td>
<td>6620 RV Rental</td>
<td>6840 Information Technology Services</td>
</tr>
<tr>
<td>6171 Housekeeping/Maintenance-Supplies</td>
<td>6347 Other Professional Services</td>
<td>6650 Charitable Donations</td>
<td>6844 Website</td>
</tr>
<tr>
<td>6180 Security</td>
<td>6350 Purchased Services</td>
<td>6700 Insurance</td>
<td>6850 Telephone Services</td>
</tr>
<tr>
<td>6190 Other Occupancy Expense</td>
<td>6351 Answering Services</td>
<td>6710 Business and Casualty Insurance</td>
<td>6851 Telephone - Data Lines</td>
</tr>
<tr>
<td>6200 Administrative Furniture, Fixtures, and Equipment</td>
<td>6352 Triage Service</td>
<td>6720 Professional Liability Insurance</td>
<td>6852 Telephone - Voice Lines</td>
</tr>
<tr>
<td>6300 Administrative Supplies and Services</td>
<td>6353 Biohazardous Waste Removal</td>
<td>6800 Information Technology</td>
<td>6853 Cell Phone Services</td>
</tr>
<tr>
<td>6310 Postage, Shipping and Courier Services</td>
<td>6355 Payroll Services</td>
<td>6810 Information Technology Equipment</td>
<td></td>
</tr>
<tr>
<td>6311 Postage Lease</td>
<td>6357 Patient Billng services</td>
<td>6815 Information Technology Remote Support</td>
<td></td>
</tr>
<tr>
<td>6320 Printing and Copying</td>
<td>6358 Other General and Administrative Purchased Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6370 Library/Books and Subscriptions</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7000- Medical Supplies & Services

7000 Medical Supplies and Services
7100 Medical Equipment
7110 Medical Equipment - Repairs and Maintenance
7200 Vaccines and Injectibles
7400 Laboratory Expenses
7420 Laboratory Supplies
7430 Laboratory Services
7500 Linens
7800 Offsite Storage - Medical Records and Supplies

8000- Provider Expenses

8000 Provider Expenses
8200 Employed Physician Compensation and Benefits
8300 Non-Physician Provider Compensation and Benefits
8210 Employed Physician Compensation
8310 Non-Physician Provider Compensation
8220 Employed Physician Payroll Taxes
8320 Non-Physician Provider Payroll Taxes
8230 Employed Physician Insurance
8330 Non-Physician Provider Insurance
8231 Employed Physician Insurance - Medical
8331 Non-Physician Provider Insurance - Medical
8232 Employed Physician Insurance - Dental
8332 Non-Physician Provider Insurance - Dental
8233 Employed Physician Insurance - Life
8333 Non-Physician Provider Insurance - Life
8234 Employed Physician Insurance - Disability
8334 Non-Physician Provider Insurance - Disability
8235 Employed Physician Insurance - Vision
8335 Non-Physician Provider Insurance - Vision
8240 Employed Physician 401K
8340 Non-Physician Provider 401K
8250 Employed Physician Professional Development
8350 Non-Physician Provider Professional Development
8260 Employed Physician Bonuses
8360 Non-Physician Provider Bonuses
8280 Employed Physician Other benefits
8380 Non-Physician Provider Other benefits
8290 Employed Physician Retirement Contributions
8390 Non-Physician Provider Retirement Contributions
8400 Physician Contractor / Locum Tenens Compensation
9000- Owner Expenses

9000 Owner Expenses
9100 Owner Compensation and Benefits
9110 Owner Compensation
9120 Owner Payroll Taxes
9130 Owner Insurance
9131 Owner Insurance - Medical
9132 Owner Insurance-Dental
9133 Owner Insurance-Life
9134 Owner Insurance-Short Term Disability
9135 Owner Insurance-Long Term Disability
9136 Owner Insurance-Long Term Care
9137 Owner Insurance - Vision
9138 Owner Insurance- Buy/Sell
9140 Owner 401K
9150 Owner Professional Development
9151 Owner Professional Development- Fees
9152 Owner Professional Development- Travel
9160 Owner Bonuses
9161 Owner Auto-Lease
9180 Owner Other benefits
9115 Owner Stipends

Departments & Classes

<table>
<thead>
<tr>
<th>Departments</th>
<th>Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>Dr. Smith</td>
</tr>
<tr>
<td>Location 2</td>
<td>Dr. Jones</td>
</tr>
<tr>
<td>Location 3</td>
<td>Dr. XYZ</td>
</tr>
<tr>
<td>Location 4</td>
<td>Dr. LMNOP</td>
</tr>
</tbody>
</table>
Accountants Go Bananas

1. Multiple Payroll tax liability accounts
   - Staff
   - Non-owner providers
   - Owners
2. Multiple payroll benefit accounts (Single bucket versus detailed):
   - 401K Payable
   - AD&D Insurance Payable
   - Dental Insurance Payable
   - HSA Payable
   - Life Insurance Payable
   - LTD Insurance Payable
   - Medical Insurance Payable
   - STD Insurance Payable
   - Vision Insurance Payable
   - Splitting Retirement Expenses
     - Staff
     - Non-owner providers
     - Owners

How Do We Transition?

1. Not easy but worth the effort
2. Accountants will push back!
   - A lot of work (but important)
   - Need to review payroll set up / categories / departments to feed into the accounts payable system
3. Most practices wait until year end to change the CoA structure
   - Could lose year-over-year reporting
   - Some practice set up new QuickBooks account and go forward
   - Some practices simply rearrange existing GL accounts and add ones missing
   - Some practices set up crosswalks or spreadsheets to re-categorize things in a similar fashion
     - Export the General Ledger to Excel and use vlookup command in a template

Best Approach: Get with your accountant to find a way to readily report the cost of practice expense prior to any provider compensation and track all expenses by location & provider.