



## **Due Diligence for Acquisition and Partnerships:**

How to Bring a Small Private Practice into a  
Large Health System or Academic Medical Center

### **Introduction**

John Allen, Administrator

Network development and financial analysis of new practice acquisitions and partnerships for various departments and service lines.

Cathy Masoud, Compliance Manager

Planning and implementation of new initiatives. Managing compliance with applicable Federal and State laws, regulatory requirements, and relevant policies and procedures.



## Objectives

- Outline and discuss the strategy, analysis and due diligence necessary for determining fit, aligning appropriate resources and implementing a successful transition for acquisition or partnership with another practice.
- Discuss common goals, areas of compromise and deliverables in order to navigate logistical hurdles and contractual negotiations.
- Share lessons learned and provide practical tips to ensure thorough due diligence from beginning to go-live and thereafter.



## This is Us.....



## UK HealthCare is

the University of Kentucky's clinical enterprise;  
integrated academic medical center offering regional  
and statewide leadership to health science, medical  
education, research, patient care and service.



## Overview

- UK Albert B. Chandler Hospital (currently 724 acute beds with CON to add 141 more)
- UK Good Samaritan Hospital (221 acute beds)
- Kentucky Children's Hospital
- Over 80 specialized clinics, 140+ outreach programs and a team of 9,000 physicians, nurses, pharmacists and health care workers
- Six health profession colleges:
  - Dentistry
  - Health Sciences
  - Medicine (regional campuses in Bowling Green and Northern Kentucky)
  - Nursing
  - Pharmacy
  - Public Health



## Background

Our hospital was named for Albert Benjamin Chandler, Sr. also known as “Happy” former Commonwealth of Kentucky governor, United States Senator and commissioner of American baseball.

Chandler is a 724 bed acute care hospital, central and eastern Kentucky’s only Level I trauma center and the only Level IV neonatal intensive care unit in the area.

In February of 2018, UK HealthCare applied for a Certificate of Need (CON) to add 141 acute care beds. If approved, Chandler Hospital would become an 865-bed facility. With the inclusion of Good Samaritan Hospital, the total number of beds would equal 1,086 acute care beds.



## Constantly Changing

Healthcare delivery continues to change for many reasons, including: aging (people are living longer) increased population, costs of doing business, providing care, regulatory requirements, maintaining and improving infrastructure, state-of-the-art equipment, information technology, electronic medical records, decline in the number of primary care physicians, the availability of specialty care in urban versus rural areas, adequate staffing, over-crowded emergency rooms, complex disease management, serious injury/trauma, drug addiction, overdose, payment denials, audits, law suits, etc.



## **Joining a team or asking for help**

As a result of the changing healthcare industry, some solo and small practices might decide they need to join a larger practice or bring in additional help.

When that happens, the physician practice owner or owners contact a colleague at a large health system or academic medical center.



## **Opportunity knocks, now what?**

Regardless of how the potential acquisition or partnership presents itself, there are basic questions to ask, such as:

- Can we do this?
- Do we want to do this?
- Why does the private practice owner want to do this?
- Why should or shouldn't we do this?
- How much will it cost?
- How long will it take?
- What can we expect once implemented?



## **Please note**

In the interest of clarity, we will discuss acquisition and partnerships separately to avoid confusion.



# **Acquisition**



## **Acquisition [ak-wuh-zish-uh-n]**

Noun

1. The act of acquiring or gaining possession: *the acquisition of real estate.*
2. The purchase of one business enterprise by another: *the acquisition of a rival corporation; mergers and acquisitions.*



## **Acquisition 101**

Acquiring a practice is basically a purchase, so do what smart consumers do....Research!

Acquisition of a practice is similar to buying a house. The owner/seller thinks their practice/house is worth more than the buyer wants to pay.

Obtaining an independent valuation for Fair Market Value (FMV) provides assurance to both buyer and seller.



## Acquisition 101

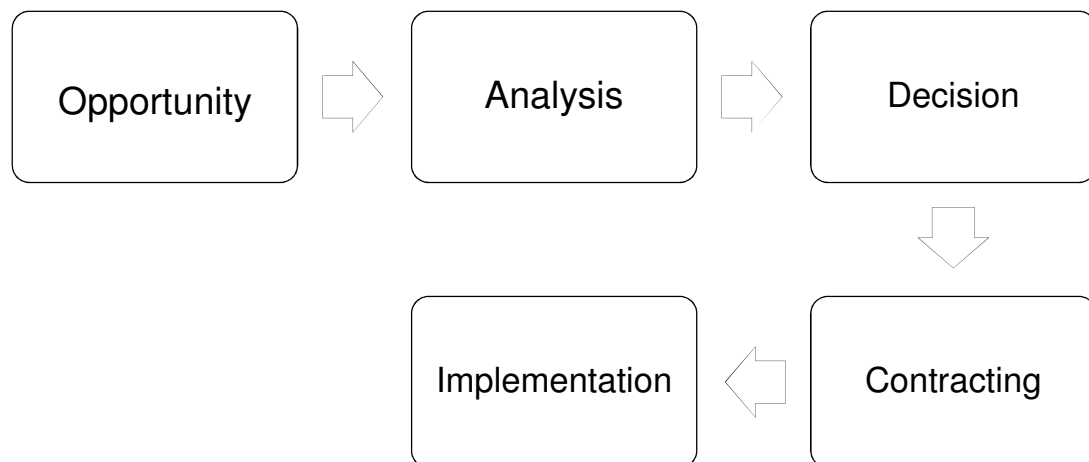
Acquiring an additional practice or hospital is complicated and should not be rushed.

What might seem like a good idea and relatively simple process, could turn out to be a problem.

Just because the practice is available doesn't mean you have to buy it.



## Process





1. Confidentiality Agreement
2. Analysis
3. Decision to Pursue
4. Letter of Intent
  - # 5, 6 and 7 will take place concurrently
5. Asset Purchase Agreement, Lease Agreement with Landlord (landscaping and housekeeping)
6. Start Planning Implementation
7. Contracting



## **Getting Started**

- Inform necessary individuals about the opportunity; assign code name to protect project confidentiality
- Execute confidentiality agreement (generally one-year)
- Assemble appropriate team members
- Gather publically available information about the practice
- Develop tentative time-line
- Assign project owner



## Confidentiality Agreement

Parties should enter into a Confidentiality Agreement that outlines:

- consideration for entering into a business transition
- furnishing confidential information
- obligations with respect to the other's confidential information
  - Neither party shall use confidential information for any purpose other than to engage in discussions in contemplation of a potential business relationship
  - "Confidential Information" shall include, but not be limited to .....



## Sample Briefing

Initiative Name	Recommended Action	Strategic Alignment*	Compliance / Risk*	Implementation Complexity*	ROI*	Urgency*	Final Decision
<b>Project Red Box</b>	Level I	High	Medium	Medium	TBD	Low	<i>Include final decision from ELT here</i>

Objective: Acquire private cardiology practice .  
 Opportunity to support local hospital care for patients who do not wish or are not able to travel for specialty care.  
 Notes and Key Considerations

- Dr. X – cardiologist wants to retire and sell practice in Any City, KY
- Practice is located in an older office building with ample parking and on the bus line
- Office suite contains approximately 2000 square feet of space with 4 exam rooms, 2 offices, lobby, registration, patient and staff restrooms
- Distance from hospital would not require provider-based status
- Medical Records are in paper form
- Staff includes 1 RN, 1 LPN and 2 clerical support (all reportedly would like to remain with practice)
- Equipment and furniture are old
- Desired completion January 2019

Next Steps  
 Continue due diligence process, team members projects and recurring meetings

### Initiative Leadership

Initiative Sponsor:  
 Implementation Lead:  
 Lead Partner Contact:

### Implementation Team

Business Development Lead:  
 Clinical Operations:  
 Finance Lead:  
 IT Lead:  
 Marketing Lead:  
 Compliance Lead:  
 Clinical Contracting Lead:  
 College of Medicine Lead:



## Acquisition Tips

- The potential acquisition of an existing practice must follow a very strict “need to know” model.
- An executed confidentiality agreement is required prior to reviewing the practice’s financial, clinical and/or personnel data.
- Team members might include representatives from areas of administration, clinical, compliance, contracting, finance, legal, risk management and strategy.
- Inform team of opportunity and any publically available information.
- Develop a time-line (these things don’t happen quickly).
- Identify project owner and/or coordinator to keep things on track.



## Acquisition Tips

- Maintain frequent and recurring contact with the practice owner.
- Incorporate interaction with other team members whenever appropriate.
- Inform owner of team members roles and responsibilities.
- Keep on point, stay within defined scope, identify and follow through on deliverables.



## Analysis (includes Strategy and Due Diligence)

The most important step is to gather as much information as possible.

If you haven't already developed a list of questions for due diligence, do so now! Make sure the list is detail oriented and covers every possible issue associated with operating a medical practice. Don't expect the owner to know what to tell you or tell you everything they know about the practice.



## Due Diligence Collection - Template

Name	ABC Corporation
Distribution Date	March 5, 2018
Contact Person	John J. Jones
Phone	(859) 123-4567
E-mail	<a href="mailto:johnjjones@uky.edu">johnjjones@uky.edu</a>



## **Due Diligence Tips**

- Don't assume anything
- Ask questions
- Review financials
- Consider reviewing practitioner documentation and coding for educational purposes (training opportunities)



## **Categories for Due Diligence**

- Corporate, Legal and General Operations Matter
  - Description, articles of incorporation, location, history, all names under which corporation does business
- Compliance Matters
  - Sanctions, investigations conducted, status of regulatory compliance
- Financial Matters
  - Audited financial statements for the last 3 years
  - Long term financial projections
  - Revenue cycle (copies of existing contracts, schedule of third party payer agreements, reimbursement survey reports, policies related to charity and bad debt)



## Due Diligence

- Licenses, Accreditation and Health Planning
  - Copies of licenses, permits and certifications
  - Provider Based clinics
  - Planning permits, certificate of need
- Material Contracts and Commitments
  - Existing and proposed contracts, leases and agreements
- Personal Property
  - Fixed assets
    - Purchase date, useful life and annual and accumulated depreciation expense
  - Maintenance contracts
  - All debts, liabilities and obligations



## Due Diligence

- Labor and Employment
  - Name, position, salary, FTE and any special situation related to employment (immigration status, visa status, etc.), any family relationships between other employees, directors, material suppliers, owners, etc. (spouse, parent, domestic partner, child, brother, mother-in-law, etc.)
  - Copies of current job descriptions, including minimum qualifications
  - Resumes/Curriculum vitae
  - All employee terminations within last 12 months
  - Copies of personnel policies, employee handbooks and manuals, communication materials
- Employee Benefits
  - Tax-qualified retirement plan



## Due Diligence

- Insurance Claims and Risk Management
  - OSHA and workers compensation
- Environmental Compliance
  - Solid and hazardous waste, infectious medical waste, underground storage tanks, radioactive materials
- Medical Staff and Physician Matters
- IT and Phone Related Matters
  - System map, listing of hardware, copies of software license, owned/operated networks
  - Has firewall ever been penetrated?



## Red Flags



## Areas of Concern

- OIG Corporate Integrity Agreement
- Unresolved law suits (personnel and/or malpractice)
- Exclusion
- CMS payback
- Excessive number of collections and/or time in A/R
- Bankruptcy
- Billing process
- Paper medical records versus EMR
- Negative Social Media presence



## Payment for Exotic sports car lease





## Acquisition – Analysis

- Infrastructure (equipment, technology, capabilities)
- Location proximity to ancillary services and transportation (bus-line)
- Median household income, age, workforce opportunities
- Payer mix, CMI, and discharge data by county and diagnosis group
- Current methods for scheduling, documentation, coding and billing
- Adult and pediatric inpatient and ED incidence rates
- Transfer/referral frequency and receiving facilities
- Competing services
- Potential for growth
- Strategic fit
- Quantity and training of additional support staff (RNs, Mid-levels and other providers)
- Potential Key Performance Indicators (KPIs) – expectations for number of visits, return on investment, etc.



## Financial ProForma Analysis

		Year 1	Year 2	Year 3
<b>Gross Charges</b>	1		\$ -	\$ -
<b>Total Gross Charges</b>		-	-	-
<b>Net Revenue</b>				
Fee For Service Revenue	2	-	-	-
Other Revenue		-	-	-
<b>Total Net Revenue</b>		-	-	-



## Financial ProForma Analysis

Net Profit/(Loss) before ABC Support	\$ -	\$ -	\$ -
ABC Support	-	-	-
Net Profit/(Loss) after ABC Support	\$ -	\$ -	\$ -
ABC Support Per Diem	\$ -	\$ -	\$ -
Working Capital 90-Day			
Total Expense Year 1	0		
90 Day WC			



## Financial ProForma Analysis

Expenses					% Increase
Physician Compensation	3	-	-	-	1.03
Physician Fringes		-	-	-	1.03
Support Staff Salaries	4	-	-	-	1.03
Support Staff Fringes		-	-	-	1.03
Communications	5	-	-	-	1.03
Medical Supplies	6	-	-	-	1.10
Rent	7	-	-	-	1.03
Supplies & Other	8	-	-	-	1.03
Professional Development	9	-	-	-	1.00
Indirect Expenses	10	-	-	-	
<b>Total Operating Expenses</b>		-	-	-	
<b>Startup Expenses</b>	11	-	-	-	
<b>Total Expenses</b>		-	-	-	



## Executive Summary

	Historical Financials		Forecasted Financials					
	Year Ended 12/31/2015	Annualized 9/30/2016	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Clinical Revenue – Cash Collections	\$ 755,935	\$ 737,298	\$ 663,813	\$ 829,461	\$ 854,344	\$ 879,975	\$ 906,374	\$ 4,133,722
Net Collection Growth	6.3 %	-2.5 %	-10.0 %	25.0 %	3.0 %	3.0 %	3.0 %	
Operating Expenses – adjusted								
Salaries and Benefits	430,117	470,674	694,813	715,657	737,127	759,241	782,018	3,688,857
Other Operating Expenses	304,917	250,715	140,160	151,057	155,096	159,229	163,460	769,001
Academic Enrichment 8.0 %			53,085	66,357	68,348	70,398	72,510	330,698
Ambulatory Services 2.9 %			19,243	24,054	24,776	25,519	26,285	119,878
LMNOP Overhead 9.95 %			66,025	82,531	85,007	87,557	90,194	411,305
Total Operating Expenses - adjusted	735,034	721,392	973,327	1,039,657	1,070,354	1,101,945	1,134,457	5,319,739



## Decision to Pursue

Depending on the organizational structure, an individual or team with executive leadership and financial decision making authority will determine whether or not to pursue acquisition.

- ☐ yes = execute the letter of intent with seller
- ☐ no = inform seller; don't leave hanging



## Letter of Intent

This letter will serve as the foundation for the acquisition as well as provide a road map for implementation and contracting. Be sure to include expectations and responsibilities for both parties, some examples include:

- Purchase assets (list equipment, furniture, etc.)
- Hire current staff
- Faculty appointment(s) and rank
- Range for start date with language that includes if not by this date the deal is null and void
- Require practitioner to purchase/maintain tail insurance



## Asset Purchase and Lease Agreements

- What will you purchase?
  - Practice
  - Medical Equipment (list)
  - Computers
  - Furniture
  - Art
- What will you lease?
  - Building
  - Copier service



## Acquisition – Fair Market Value (FMV)

**Fair Marker Value** (FMV) is defined by: *The International Glossary of Business Valuation Terms* issued by the American Institute of Certified Public Accountants (AICPA), the American Society of Appraisers, the Canadian Institute of Chartered Business Valuations, the National Association of Certified Valuations Analysts, and the Institute of Business Appraisers as:

*“The price expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of relevant facts.”*



## Acquisition of medical records



## **Acquisition Recommendation**

Ownership of medical records should be determined early in the process to provide patients the opportunity to obtain their medical records for personal use and/or transfer care to another provider. For those who do not respond or chose to remain with the practice after acquisition, records will need to be transferred into EMR system, inventory of existing records and develop a plan for appropriate retention/storage for future release of information requests.



## **Implementation Process**

- Appoint project coordinator / implementation manager responsible for moving project to completion.
- Schedule weekly meetings / calls to identify and assign responsibilities, status updates and checklist for completed activities.
- Hold each other accountable.



## Implementation

The team will need to work separately and together for a successful implementation. The project coordinator is responsible for keeping the process on-track by scheduling weekly meetings during which individual team members will provide status reports for their respective areas. If someone cannot attend, they should inform the project coordination in advance and provide status report on any assigned tasks. Otherwise, the project coordinator will contact him or her after the meeting for status report.



## Status Report – Information Technology

### Accomplishments this period

- 10 MB Circuit has been ordered – 60 to 90 days before install. This will replace existing DSL and wireless router
- Current network equipment site survey: 6 workstations, 6 laptops, 5 printers and 2 servers

### Next Steps

- Need approval for circuit installation
- Circuit will need to be moved inside near network rack
- Network equipment list will need to be developed based on budget allocation
- Plan needs to be developed on network infrastructure changes once space for equipment and terminations have been determined
- Develop timeline for cabling and equipment installation



## Status Report – Finance

### Accomplishments this period

- Scheduled to discuss status of creating a new charge structure for Blackfish with legal counsel
- Updating financial projections

### Next Steps

- Develop Business Associate Agreement that will enable on-site billing compliance review for possible future training
- Meeting with seller to discuss due diligence request completed last week



## Status Report – Contracting

### Accomplishments this period

- Seller returned due diligence request with previously missing questions answered
- Seller agreed to accept ABC's independent valuation for asset purchase

### Next Steps

- Develop Business Associate Agreement that will enable on-site billing compliance review for possible future training
- Meeting with seller to discuss due diligence request completed 1/15/2018
  - Requested payer contracts
  - Received list of contracted payers





## Miscellaneous Compliance Issues

- Clean air and water compliance
  - Incinerators have required permits
  - Labs have any necessary permits
  - Asbestos removed properly
  - Permit for wastewater discharges
  - Do not dispose of hazardous waste through floor drains
  - Spill prevention control measures in place
- Hazardous waste compliance
  - Proper labeling
  - Inspection of storage sites to ensure these areas do not exceed hazardous waste storage requirements
- Other laws: OSHA, state environmental regulations, TJC guidance



## Contracting

- Ask attorneys who are drafting the contract to inform project owner of any areas of compromise during negotiations.
- Compromise may require change to implementation process.



## **Contracting**

**Stay aware!**

Request a copy of the final executed agreement and make sure you understand contractual obligations.



# **Partnerships**



## Partnership(s) [pahrt-ner-ship]

Noun

1. The state or condition of being a partner; participation; association; joint interest.
2. *Law.*
  - a. The relation subsisting between partners.
  - b. The contract creating this relation.
  - c. An association of persons joined as partners in business.



## Partnership 101

Partnerships can be simple or complex, short or long-term.

Partnerships should be mutually beneficial, but are not necessary equal.



## Kentucky and surrounding states



## Expanding through Partnerships



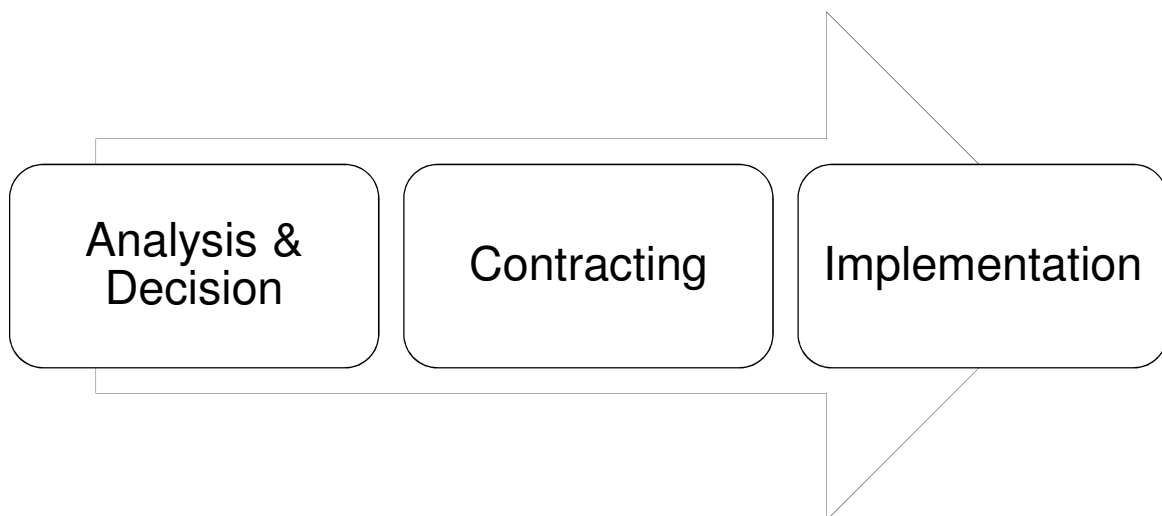
## Identified Need or Opportunity

Regardless of how the potential partnership is identified, there are basic questions to ask, such as:

- Can we do this?
- Do we want to do this?
- Why does the other facility want us to do this?
- Why should or shouldn't we do this?
- How will we be compensated?
- What is the time commitment?
- Other?



## Partnerships



## Partnerships

- Generally, not as complicated
- Analysis (due diligence) is still necessary
- Don't assume anything, ask questions



## Types of Partnerships

- Clinical Services Agreements
- Lease of space
- Professional Services Agreements
- Telemedicine
- Physician Services Agreements



## Planning for Partnerships

- Assemble team
- Outline project
- Establish timeline
- Identify necessary pieces for implementation
- Conduct recurring meetings
- Assign responsibilities to appropriate team members
- Stay on task until completion



## Operations Model

- Once the activity has been identified
- Create work flow to map patient visit from start to finish
- Billing model
- Physician credentialing and/or hospital privileging
- Identify systems for:
  - Scheduling, registration, collection of co-pay, rooming, vitals, etc.
  - Physician documentation
  - Coding and billing
- Security of PHI during transportation



## Sample meeting agenda

### Implementation Planning Meeting Date 12/20/2017

#### • Project Overview:

Department / Division:	Surgery / General Surgery
Cost Center:	8008008600
Go-Live Date:	3/1/2018
Clinic Address:	101 East Main Street Suite # 200 Lexington, Kentucky 40505
Phone/Fax numbers: (for appointment scheduling and referral purposes)	859.555.1234 / 859.555.5678
Clinic Frequency	One full-day monthly on the third Thursday of each month (8:30 am – 4:30 pm)
Physician(s) and/or APP(s) providing service:	<ul style="list-style-type: none"> <li>• Adam Andrews, MD</li> <li>• Brittany Brown, ARNP</li> <li>• Jennifer Jones, MD</li> <li>• Mark Moore, MD</li> <li>• Sam Smith, PA</li> </ul>
Support Staff:	<ul style="list-style-type: none"> <li>• Cathy Conner</li> <li>• Eileen Edwards</li> <li>• Tracy Thompson</li> </ul> Rotating basis – one or two as needed



## Red Flags





## **Areas of Concern**

- OIG Corporate Integrity Agreement
- Unresolved law suits (personnel and/or malpractice)
- Exclusion
- CMS payback
- Excessive number of collections and/or time in A/R
- Bankruptcy
- Billing process
- Paper medical records versus EMR
- Negative Social Media presence

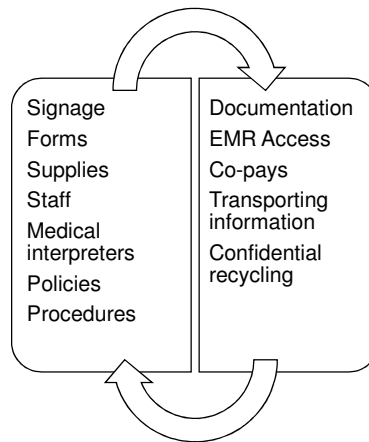


## **Things to Consider**

- Distance / travel time
- Resources available at site
  - Equipment
  - High speed internet – connectivity
  - Ancillary services
  - Staff



## Housekeeping Issues

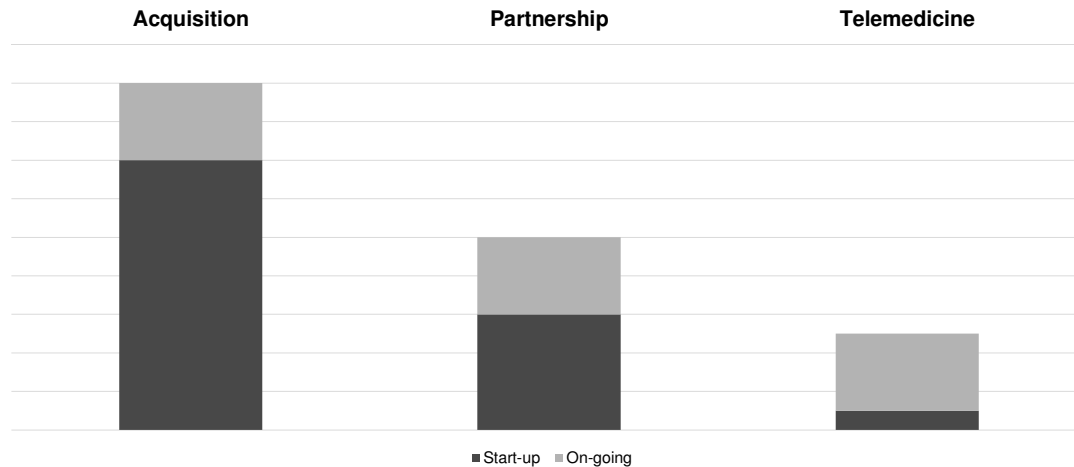


## Expenses

- Faculty
- Staff
- Operating expenses
- Start up expenses



### Acquisition versus Partnership versus Telemedicine Costs



### Things to Remember

- Partnership arrangements require on-going review (at least annually)
- Don't set up and then forget it
- Check with partner to see how they think it's going
- Ask faculty and staff how they think it's going
- Conduct routine monitoring and auditing when appropriate to ensure compliance
- Change, renew or exit partnership as needed



## Summarily

- Acquisitions and partnerships are not easy.
- One size doesn't fit all, get to know the practice.
- Devote the necessary amount of time, resources and people needed to complete a thorough analysis before moving forward.
- Whether acquiring or partnering is a one and done event or plan for an on-going business model, develop and follow the necessary due diligence process.
- Treat each opportunity as special, because it is.
- Don't put it on the shelf upon completion, stay involved as much as possible. Even if it's just a quick call or email to touch base.



## Questions



## Contact Information

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**Thank you!**