

# AAOE-AOC National Residency Curriculum

*Preparing Orthopaedic Residents, Fellows, and  
New Faculty for What's Next*



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**NATIONAL RESIDENCY CURRICULUM**

# Preparing for the Future: the Role of Financial Management and Benchmarking

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# Learning Objectives

- Understand the Basics of Financial Management
- Recognize the purpose of Budgeting and Forecasting
- Review the Use of Benchmarking and Data Analytics
- Recognize the role of Finance in Healthcare

# Financial Management - Defined

Financial Management is a vital activity in a Medical Practice – and in any organization. Financial Management refers to strategic planning, organizing, directing and controlling financial matters. It involves the process of planning, organizing, controlling and monitoring financial resources with a view to achieve organizational goals and objectives.

# Financial Reporting Basics

It's more than just Debits and Credits ...

## ➤ Balance Sheet

Reports the Assets, Liabilities and Equity of the Practice (or Entity) at a specific period or date in time.

## ➤ Income Statement or Profit & Loss

Reflects the Revenue generated and Expenses or costs incurred to generate the revenue and operate the business. This report can be for any period of time – a month, a quarter, a year.

## ➤ Statements of Cash Flow

Reflects the flow of cash in and out of the Practice for a period of time. The Cash Flow statement reports the cash generated and used during the time interval, generally the same time period as the Income Statement.

THE WALL STREET JOURNAL.



"We're in good shape.  
Nobody understands our financial statement."

# Budgeting

- **What is it?**

- Budgeting reflects management's plan of operations based on estimates expressed in numbers – it's NOT purely an accounting function.

- **Budgeting –**

- Reflects short term operating plans
- Serves as a guideline or a Road Map
- Is Flexible and not Static
- Allows variance analysis for Budget vs Actual
- Monitors performance against expectations
- Is created with input from managers and departments based on expected productivity and changes
- Impactful when input and variance analysis is provided by departments

# Budget Components

- Receipts: Office v. Surgeries
- Expenditures: Variable v. Fixed expenses
- Assumptions of staff availability / tasks to perform
- Cash Availability
- Bank or Other Financing
- Protection – Insurance Products: Malpractice coverage, Business Insurance, Cyber liability, etc.
- Government Grants / Loans



# Forecasting

- **What is it?**

The process of using historic data to make informed estimates about future trends.

- **Forecasting -**

Utilized to systematically analyze data in order to predict the future performance, patterns or trends. Examples –

- Profitability of a new ancillary service line such as adding MRI services or providing DME
- Impact of Building an ASC or new Office Building
- Determine the additional support staff necessary to support a new or additional Provider

# Budgeting and Forecasting are based on...

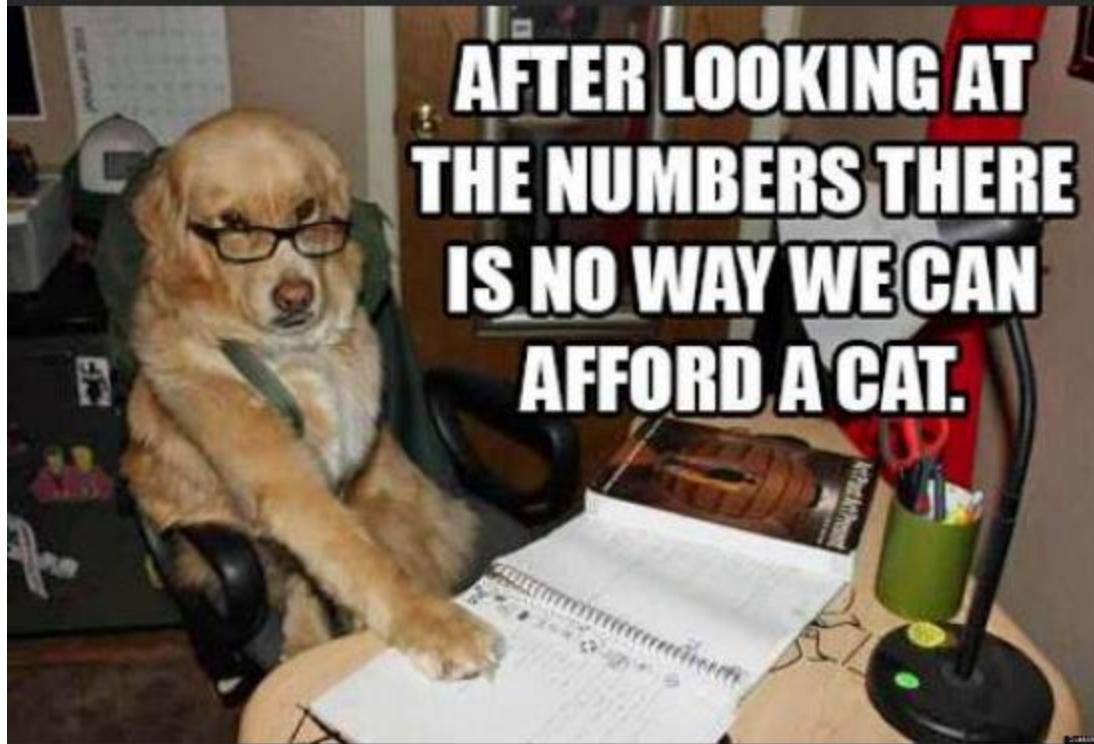
- **Revenue -**

- Expected productivity
- New or discontinued Ancillary Services
- Providers – New, retiring, Physician, APP
- Reimbursement and regulatory specific issues

- **Expenses –**

- Salary and Benefits - Staff, APP's, Physicians
- Non- Salary - Supplies, Services, Occupancy, IT, Administrative, Finance etc.
- Projected future Capital
- COLA changes, environmental adjustments

**Budgets and Forecasts can be Project specific and not just operational.  
Scenario and sensitivity analysis are key factors.**



# Benchmarking

**Benchmarking** is a comparison internally and / or with similar Practices to gain a better understanding of where your Practice is, where you want to go and how to get there. Benchmarking includes timely measurement, analysis comparison and improvement for activities such as:

- Patient Safety, Quality and Satisfaction
- Revenue Cycle: Charge Capture, Accounts Receivable, Reimbursement rates, Patient Collections, etc.
- Cost Management and Profitability
- Productivity, Capacity, Staffing

# Benchmarking and Data Analytics

- The starting point is knowing the data to measure. The true value lies in understanding and knowing how to change the metrics.
- Trend metrics over time and compare the metrics by Provider, Location, Department, Staff member, etc.
- For example, if net collections for a provider are down, did the provider's payor mix change? Did their procedure mix change (maybe they're doing fewer surgeries or procedures?) Are they working less? Was their APP on vacation?

# Fundamental Benchmarking Metrics

- Net collections by Provider
- wRVUs per Provider
- Receipts per wRVU
- New Patients by Provider
- New patients per Surgical Case
- Number of days between new patient and surgical case
- No show rates
- Charge lag
- Accounts Receivable Aging
- Encounters processed per day by coding staff
- Payor Mix

**What gets measured gets managed. What gets measured gets improved.**

~Peter Drucker

# What To Measure?

- Deciding what to measure and how often is the work of the management team.
- Deciding what *not* to measure is just as important as it is to decide what to measure, if not more so.
- It is not the same for every Organization.
- Measuring is Financial and Data Analysis. Numbers and data are meaningless unless they tell a story and, more importantly, lead you to action.



# Role of Finance in Healthcare

- Manage money and risk to achieve financial goals of the Organization
- Budget cash flow needs and anticipate the timing of major cash demands
- Variance reporting to spot and fix problems as timely as possible
- Accurate and dependable Internal reporting to respond to changes occurring in the industry
- Proper financial management allows the Organization to improve patient care, minimize risk, explore new avenues of revenue and make needed investments

# Analysis is for Executives and Managers, not Math Geeks

~ Unknown



Financial Management,  
Benchmarking and Data  
Analytics are integral functions  
for Executives and Managers to  
manage the Business of  
Orthopedics.

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