# Orthopaedic PRACTICE MANAGEMENT


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Special focus:
**Planning for a disaster**

*Few orthopaedic practices anticipate ever experiencing a disaster on the scale of Hurricane Katrina, but a major fire, flood, tornado -- even a terrorist act -- could disrupt your practice or community at any time. In this issue, OPM examines the elements of a disaster plan, the process of developing a plan, and lessons learned about recovering from a disaster in the words of orthopaedic surgeons and practice managers who have witnessed truly devastating events.*




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Special Focus: Disaster Planning

# Create a 'crisis' protocol to ensure your practice survives a disaster

If a disaster struck your community, would your practice be prepared? Earthquakes, floods, epidemics -- even terrorist attacks -- may seem far-fetched, but prudent business planning dictates that you have a plan in place to continue providing orthopaedic care and to ensure that reimbursement continues to flow. The report "Guidance for Establishing Crisis Standards of Care for Use in Disaster Situations," issued by the Institute of Medicine in September 2009 (www.iom.edu/Reports/2009/DisasterCareStandards.aspx), and the development of a national health security strategy by the U.S. Department of Health and Human Services (www.hhs.gov/disasters) have heightened the need for health care organizations to develop their own disaster plans.

Any number of unforeseen events -- whether confined to your building or spread across a region -- might constitute a disaster for your orthopaedic practice, says **Owen J.**


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# Start your year-end cash management today

Cash management in orthopaedic practices should be a 12-month process, using strategies to manage cash flow while legally minimizing tax burdens. By budgeting carefully and monitoring revenue and expenses throughout the year, your practice can maximize distributions to owners and other stakeholders and ensure sufficient cash flow for operations while fulfilling your minimum tax obligations, sources tell *OPM*.

"You don't have to live to your budget, but you should have some perspective on your major line items," says **Mandi M. Clossey**, CPA, manager on the Health Care Team at Somerset CPAs, PC, in Indianapolis. Budgeting actually can give your practice greater financial freedom by reducing finance charges and improving cash flow. Here's how:


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• **Develop a budget based on prior year results.** Use last year's collections and expenses as a starting point for current year projections, factoring in changes that may have a noticeable effect on your revenues, says **Edward Gulko**, MBA, FACMPE, FACHE, LNHA, administrator of Englewood (NJ) Orthopedic Associates. If a senior physician plans to slow down or retire in the coming year, the impact on your group will be significantly different than if a younger physician is ramping up his or her productivity. Also consider changes on the expense side of the ledger -- the acquisition of a major piece of equipment, for instance. "You can't manage your cash flow properly if you don't start with a budget, yet many practices try to do just that," Gulko says.

• **Revisit the budget monthly.** Make sure your projections are on track and account for unexpected activities, says **Paul Weinblatt**, CPA, MHA, CVA, president of Weinblatt & Associates, PA, in Towson, MD. Compare the budget to actual results at least quarterly, examining line items year over year and budget to actual. Gulko runs a report examining budget versus actual revenues and expenses. If he sees a major variation in one or more categories, he drills down to the details. The practice may have received an unexpected payment, paid an extra bill, or added or dropped an anticipated project. "There are a variety of reasons that your actual budget can vary from your estimate, but you have to look for those," he says.

• **Watch your budget trends.** When you review income and expense against your budget, don't just look at one month or one year, Clossey says. Look at collections and expenses year-to-date and during a rolling 12-month period. "If you just look at this month and you don't look back at the previous month's activity, you can develop tunnel vision about your practice," she warns. Examining trends also can help you to spot whether you're submitting clean claims -- a huge cash management issue. "If you're submitting clean claims, you'll have fewer denials that have to be answered and resubmitted, which slows down your payments and creates huge administrative burdens," Clossey says.

• **Develop cash flow projections.** At a minimum, examine your practice's cash statement online at least once a day. However, this snapshot won't give you the complete picture of your cash flow. Generating a simple cash flow statement is an even better tool to help you track your cash. "Your cash position might look great at the beginning of the month, but a cash flow statement will remind you that you still haven't paid certain expenses," Clossey says. "By dumping your revenues and expenses into an Excel spreadsheet, you can look at bills that will hit at the end of the month and book those expenses early in the month so you don't short yourself."

• **Adjust for variations in payroll periods.** Orthopaedic practices that pay employees biweekly -- as most do -- have an extra pay period two months a year, Gulko points out. Every seventh year, these practices have 27 pay periods, instead of 26. "If you don't plan for that, it can catch you by surprise," he says.

• **Expect quarterly revenue variations.** During the first quarter, most patients haven't met their deductibles, so you'll have to file with secondary insurers, adding three to four weeks to your collections cycle. Even then, "you may still need to collect from the patients," Gulko says. Orthopaedic practices on a cash accounting system can mitigate these potential cash flow problems. "If you're on a cash accounting system, you need to clear out the cash by the end of the year, so you don't want to receive big checks on the 30th or 31st of December," Gulko explains. He delays his Medicare billings for December until the end of the month, providing starting capital in January and offsetting some of the issues with deductibles. Gulko limits this cash management strategy to Medicare, which usually pays clean claims in 14 to 20 days -- and they're easy to identify, he says. "Plus, Medicare has a one-year time limit for billing, while many commercial payers have 30-, 60-, or 90-day limits," Gulko points out.

• **Time the payment of certain bills.** Most malpractice insurers allow you to pay annually, quarterly, or monthly over nine months -- usually without an additional charge -- or to finance your payments over 12 months. Gulko times his malpractice payments over nine months, "and I have two or three months free."

• **Accrue cash over 12 months for large annual outlays.** Pension expenses, such as 401(k) payments, represent a major expense for

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orthopaedic practices that contribute for employees and allow physicians to maximize their retirement contributions. Many orthopaedic practices neglect to set aside cash for their retirement plan throughout the year, forcing them to borrow money to fund their contribution and pay interest on that amount over the next 12 months, Clossey points out. To avoid that trap, Gulko takes a different approach. At the end of each plan year, he projects the group's 401(k) contributions for the next 12 months, divides the amount by 12, and sets that money aside each month in a separate savings account -- generating some interest. At the same time, Gulko accrues the liability on his books as an expense. Although he rarely hits his 401(k) target to the penny, he's usually within $10,000 to $20,000 of the total. The strategy requires some discipline and a bit more bookkeeping, but Gulko successfully sets aside more than $200,000 each year -- an approach that also can be used for practices that file quarterly taxes, he says.

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## Coming in future issues...

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