

# *“The Perfect Storm”*

***Do you have what it takes  
to insure a positive margin in an Alternative Payment Model era?***

***HFMA Region 8  
Mid America Summer Institute  
2019***



## Ralph Burns



**Ralph Burns**

Senior Business Data Analyst & Cost Accountant  
Cooper University Hospital



Ralph is a seasoned professional with over 35 years of experience spanning several industries; healthcare, financial services, manufacturing and software engineering. As the Founder and President of Information Resource Executives, Inc., Ralph provided technical and business support services for clients ranging from small start-ups to well established Fortune 100 companies. His healthcare experience began with the introduction of DRGs. As a pioneer in the area of hospital cost accounting he was involved with developing methods and software applications. Currently, Ralph works with Cooper University Hospital, responsible for Cost Accounting and support services associated with Profitability Reporting and Advanced Data Analytics.

*HFMA Region 8  
Mid America Summer Institute - 2019*



*Do you have what it takes?*



- Academic Tertiary Care Hospital
- Level I Trauma Center
- Cooper Medical School of Rowan University
- MD Anderson / Cooper Cancer Center
- Children's Regional Hospital
- Surgery Center and Urgent Care Centers
- US Department of Defense Doctor Training

- Employees: 7,362
- Medical Staff: 840
- Licensed Beds: 635
- Hospital Admissions: 30,036
- Emergency Department Visits: 78,912
- Urgent Care Visits: 40,518
- Outpatient Visits: 1,684,887
- Outpatient Locations: 105+
- Surgical Cases: 21,797
- Trauma cases: 3,923
- Cancer Visits:
  - Inpatient: 3,056
  - Outpatient: 118,608

***To Serve - To Heal – To Educate***

*Do you have what it takes?*





# Alternative Payment Models and Profitability

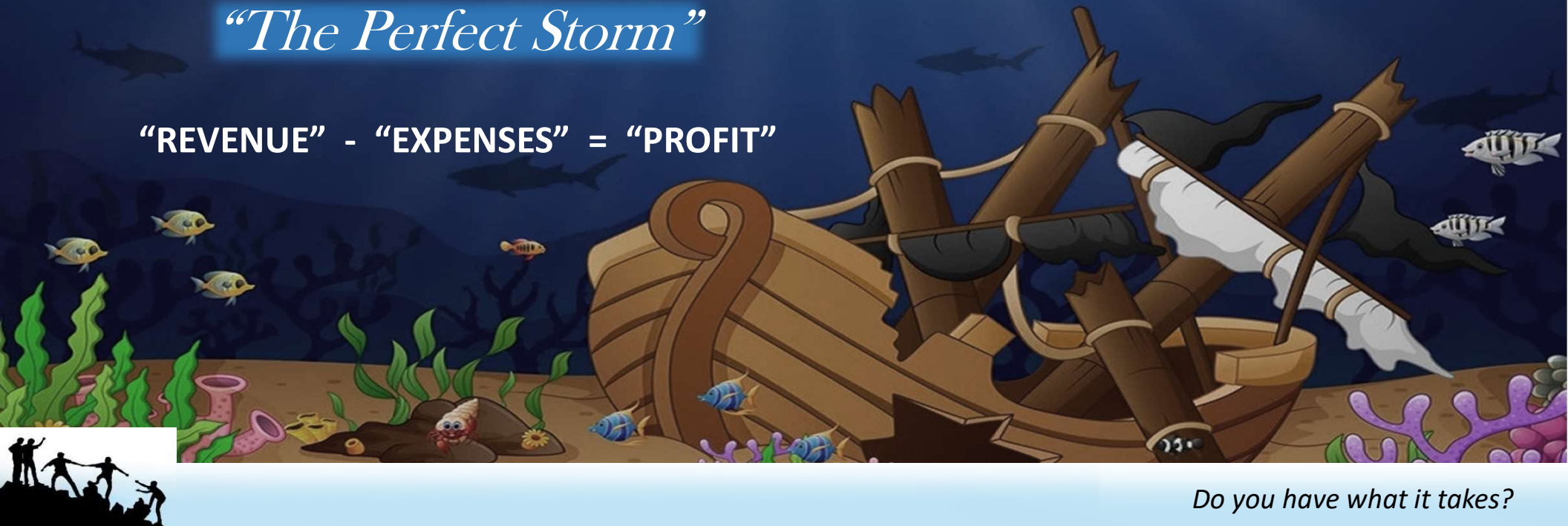
< 1980's

Prospective Payment System	-	Cost Containment	=	Profitability
Alternative Payment Model	-	Cost Accounting	=	Profitability

2019 >

*“The Perfect Storm”*

“REVENUE” - “EXPENSES” = “PROFIT”



*Do you have what it takes?*



## Accounting Basics

### 1) Profitability Formula

*Revenue – Expenses = Profit*

### 2) Matching Principle

*Revenue to Expenses*

### 3) Cost Definitions

*Direct, Indirect, Fixed, and Variable*



*Do you have what it takes?*

# How is Profitability Approached?

*Manufacturing, Merchandising and Service*



## **Pricing is Calculated from Cost**

Most industries calculate costs associated with operating their business and then determine pricing structures based on market conditions and desired profit margins.

## **Pricing is Negotiated or Dictated**

Most healthcare service providers start with prices that are negotiated or dictated and then calculate the costs associated with providing services.



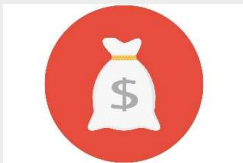
*Do you have what it takes?*



# **APM - Alternative Payment Model**

## **Category 1**

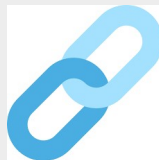
Fee For Service  
No Link to Quality



Payments are based on volume of services and not limited to quality or efficiency measures

## **Category 2**

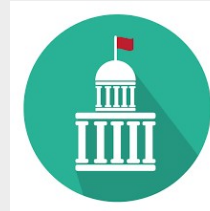
Fee For Service  
Linked to Quality



At the very least, a portion of payments vary based on the quality and or efficiency of health care delivery

## **Category 3**

Alternative Payment Model - Fee For Service



Some payment is linked to the effective management of a population or episode of care. Payments are still triggered by the delivery of services, but there are opportunities for shared savings or shared risk

## **Category 4**

Population Based Payment



Payment is not directly triggered by service delivery so volume is not linked to payment. Providers are paid and responsible for the care of a beneficiary for a period of time, usually for one year terms.

CMS - Payment Taxonomy Framework

*Do you have what it takes?*





APM is considered by some as a way to reduce healthcare costs, however.....

## There Are Costs Associated Associated With Plans Like APMs For Providers

*For Example:*

## Quality Care

# Population Health

# Predictive Analytics

## Revenue Cycle

## Contract Management

**3.72 %**  
of Overhead Costs

*Labor, Facilities, Software,  
Applications, Data, etc.*

*Do you have what it takes?*

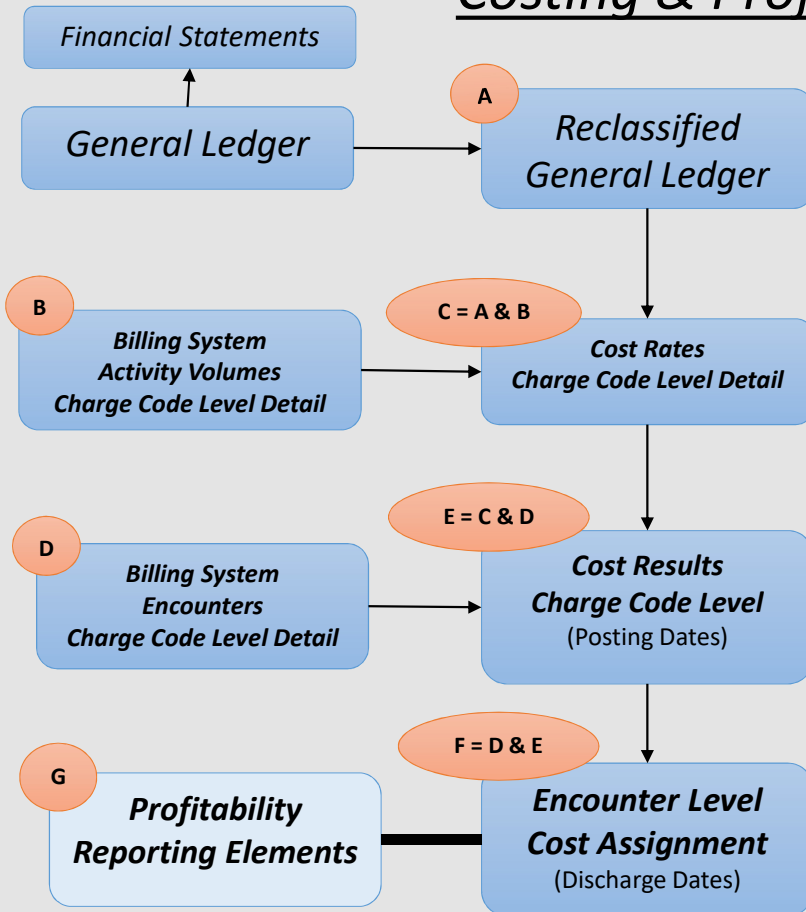


## Components of the Cost Accounting Adoption Model

Level	Component	Component Description
7	25	Comprehensive and Automated Use of Patient-Specific Time Stamp Detail in Highest Labor Expense Areas
6	24	Payor Discount Programs (e.g.: 340B) Reflected in Drug and Supply Cost
6	23	Comprehensive Use of Activity Codes Identifying Variation not Captured by the Charge Master for Clinical and Support Areas
6	22	Cost attributed to External Claims for Bundles/MSSP/ACO programs Based on Methodologies Described in Previous Levels
5	21	Professional Labor Cost Specific to Patient's Attributing Physician Compensation
5	20	Patient-Specific Acquisition costing for Non-Chargeable Supplies at item Level in All Major Surgical and Procedural Locations
5	19	Cost for Facility Owned Post-Acute Care Settings Based on Methodologies Described in Previous Levels
4	18	Patient-Specific Acquisition costing for Chargeable Supplies at Item Level in All Major Surgical and Procedural Locations
4	17	Patient-Specific Acquisition costing for Drugs at NDC level
4	16	Surgical Labor Cost Driven by Patient-Specific Time Stamp Detail
4	15	Limited Use of Activity Codes Identifying Variations Not Captured by the Charge Master for Clinical and Support Areas
4	14	Cost for Professional Services Based on Modifier Adjusted RVUs and Group Compensation Expenses
3	13	Monthly RVU Development for New Charge Codes
3	12	Operational Ownership of RVU Maintenance within Cost Accounting System
3	11	Patient-Specific Acquisition Costing for Chargeable Supplies at item Level for One Major Surgical or Procedural Location
3	10	Cost for Professional Services Based on RCC or Outdated RVUs
2	9	Annual RVU Update and Development Process
2	8	Limited use of Non-Patient-Specific Acquisition cost or Markups for Supplies and Drugs
2	7	Detailed Cost Components for Supply Labor
2	6	Variability Defined at the Account and Job Code Level
1	5	Outdated or Industry Defined RVUs for Labor
1	4	RVUs for Supplies
1	3	Simultaneous Overhead Allocation
1	2	Cost is Maintained on a Monthly Basis
0	1	Use a Basic RCC Methodology for Labor, Drug and Supply Expenses

*Do you have what it takes?*

## Costing & Profitability Reporting Process



A system architecture that supports the adoption model.  
Developed over a period of several years.  
Built on a foundation of financial and technical expertise.

### Process:

- A: Reclassifications of the General Ledger for costing purposes.
- B: Dynamically calculated charge master based on activity.
- C: Calculation of charge code level cost rates.
- D: Charge code level detail by encounter.
- E: Calculation of charge code level cost rates.
- F: The cost assignments are then used for Profitability reporting.
- G: Profitability Reporting (Net Revenue, Service Lines, CMI, etc.)

### Cost Definitions:

Direct, Indirect, Fixed, Variable,  
Period, Actual, Acquisition, Budgeted, etc.

### Cost Components:

Nursing, Technical, Management, Physician, Benefits,  
Interns & Residents, Implants, Drugs, Medical Surgical Supplies,  
Overhead Labor, Overhead Capital, etc.

*Do you have what it takes?*



## Reporting, Analysis, Integration, & Decision Support

- \* Profitability Reporting
- \* Resource Utilization
- \* Service Line Grouping
- \* Executive Dashboards
- \* Contract Integration
- \* Budgeting
- \* Physician Scorecards
- \* Population Health
- \* Quality of Care
- \* and more.....



Financial Class	Cases	Net Revenue	Cost	Net Revenue - Cost Diff.
Medicaid & Charity	35%	23%	31%	-8%
Medicare	32%	33%	40%	-7%
All Other	33%	44%	29%	15%

***Payer Mix and Revenue to Cost Relationships***

*Do you have what it takes?*



Favorable	Hospital A		Hospital B	
	Low Fixed		High Fixed	
Net Revenue	10,000	100%	10,000	100%
less Variable Cost	6,000	60%	3,000	30%
Contribution Margin	4,000	40%	7,000	70%
Less Fixed Cost	3,000		6,000	
Profit	1,000		1,000	
Scenarios				
(1) Net Revenue +10%	1,000	400	1,000	700
(2) Net Revenue -10%	(1,000)	(400)	(1,000)	(700)
<b><math>BEP = FC / CMR</math></b>				
Break Even Point	7,500		8,571	
Fixed Cost	3,000		6,000	
Contribution Margin	40%		70%	
<b><math>MOS = NR - BEP</math></b>				
Margin Of Safety	2,500		1,429	
Net Revenue	10,000		10,000	
Break Even Point	7,500		8,571	
<b><math>MOS \% = MOS / NR</math></b>				
Margin Of Safety %	25%		14%	
Margin Of Safety	2,500		1,429	
Net Revenue	10,000		10,000	

## Profitability Analysis

### Margin Of Safety

Measures how far away we are from Break Even

### Equations

$$MOS = NR - BEP$$

Margin of Safety = Net Revenue – Break Even Point

$$MOS\% = MOS / NR$$

Margin Of Safety % = Margin of Safety / Net Revenue

$$BEP = FC / CMR$$

Break Even Point = Fixed Cost / Contribution Margin

### Cost Structure Balance

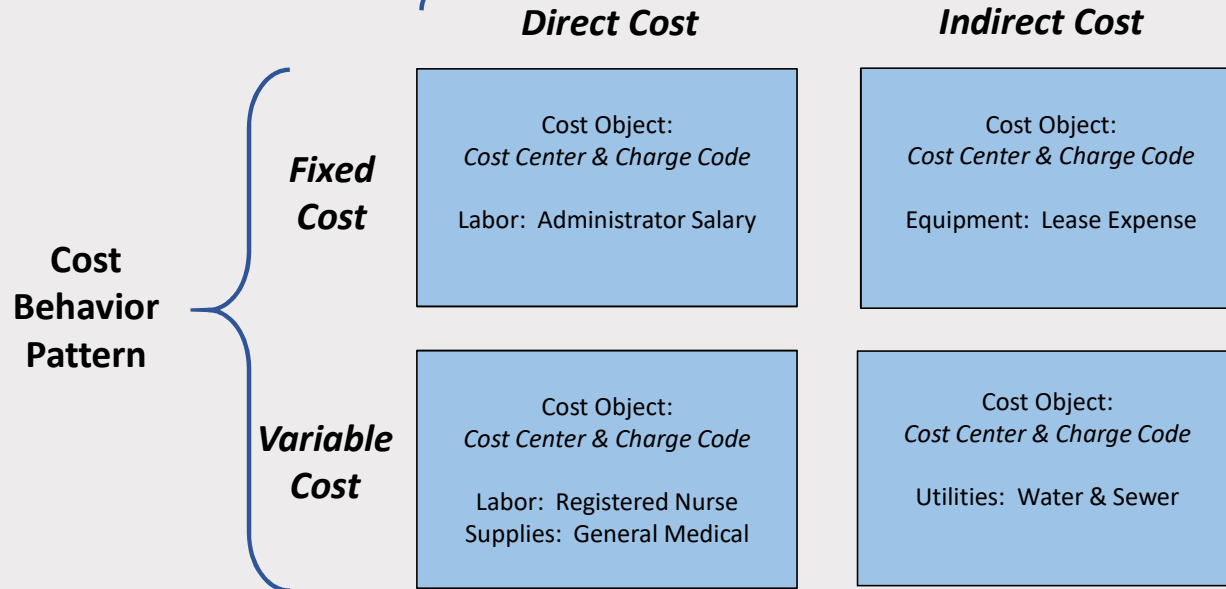
- 1) High Fixed & Low Variable
- 2) Low Fixed & High Variable

Investment strategies regarding spending on Fixed vs. Variable. Such as; Equipment for automation vs. Labor

*Do you have what it takes?*



## Cost Accounting



Encounter level "Cost Assignment" and "Revenue to Expenses Matching"

## Magnitude

Cost Definitions	
<b>Cost Elements</b> Cost Center & GL Expense Accounts	3,946
<b>Cost Components</b> Labor, Implants, Drugs, Supplies, Capital, etc.	15
<b>Cost Component Detail</b>	59,190
Cost Calculation Results	
<b>Cost Objects</b> Charge Codes	16,427
<b>Cost Component Detail</b>	245,405
Cost Assignment	
<b>Encounters</b>	387,457
<b>Cost Component Detail</b>	5,811,855

Many healthcare organizations have a formal process for determining healthcare costs, but **only 39% regularly review those costs** to ensure their information is current.

2016 HIMMS Survey

Do you have what it takes?





# CHALLENGE

- 1) Planning, Analytics, Production and Operations Appear to be Displacing Cost Modeling
- 2) Inappropriate Designs That Consider Financial Accounting Issues First
- 3) Advanced (Cost Accounting) Tools Are Largely Viewed as Irrelevant
- 4) Respondent CFOs, Finance VPs, Controllers, etc., Appear to Have Inadequate Management Accounting Skills
- 5) Management Accounting Curricula and Practitioners Emphasize and Follow Oversimplified Approaches
- 6) Higher Education Curriculum Rarely Changes While Certified Public Accountants (CPAs) Are Viewed As Qualified Management Accountants
- 7) Most Management Accounting Professionals Have a Poor Understanding of Current Advanced Cost Modeling Approaches or Lack Awareness of Them



**Cost Accountant  
2017 Survey**



*Do you have what it takes?*

# What is the difference between CPA and CMA?

## Measuring vs. Creating

### CPA

**Certified Public  
Accountant**



**Financial Accounting**

*Tax Accounting  
is a subset of  
Financial Accounting*

**Historical Record  
of Past Activity**

***Reporting***

**Emphasis On Measuring  
and Planning**

**Outsiders**

*Investors and Creditors*

***Decisions***

**Insiders**

*Planning, Directing, Motivating,  
Monitoring and Controlling*

***Data***

**Summary**

**Detailed and  
Segmented**

***Process***

**Precision**

**Relevance**

***Regulated***

**Mandatory  
GAAP & IFRS**

**Essential  
Independent of GAAP & IFRS**

### CMA

**Certified Management  
Accountant**



**Management Accounting**

*Cost Accounting  
is a subset of  
Management Accounting*

*Do you have what it takes?*



## Three Basic Elements of Success

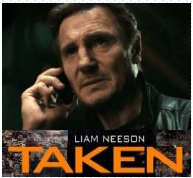


Give me a minute, I'm good.  
If I've got an hour, I'm great.  
**You give me six months, I'm unbeatable.**  
There is no plan "B".  
I love it when a plan comes together.

### Planning



- \* Project Management Institute (PMI)
- \* Clearly Defined Objective
- \* Embrace the Iterative Process
- \* Limit Dependency On Vendors & Technology



If you are looking for ransom, I can tell you I don't have money. But what I do have are a **very particular set of skills**, skills I have acquired over a very long career, skills that make me a nightmare for people like you.

### Skills



- \* Healthcare Financial Management Association (HFMA)
- \* Certified Revenue Cycle Representative (CRCR)
- \* Institute of Management Accountants (IMA)
- \* Certified Management Accountant (CMA)



What does it take to make a diamond?  
**Time and Pressure**  
Geology is the study of pressure and time.  
That's all it takes, really. Pressure...and time.

### Process



- \* Set Reasonable Expectations
- \* Responsibility Belongs to Management
- \* Delegate Authority Not Responsibility
- \* Perception, Persistence and Patience

*Do you have what it takes?*





## Project Management Statistics - 2019

Project Management Institute (PMI)

- \* **27%** of all projects go over budget
- \* **18%** of projects experience budget overrun of **> 200%**
- \* **55%** of failed projects caused by budget overruns
- \* **Only 31%** cite meeting budget as criterion for project success
- \* **5 to 15%** IT failure rates account for  
**\$50 to \$150 billion dollars** in the US
- \* **50%** failure rate for project budgets over **\$1 million**  
compared to budgets **under \$350,000**
- \* **17%** of IT projects fail so badly they can threaten the existence of a company

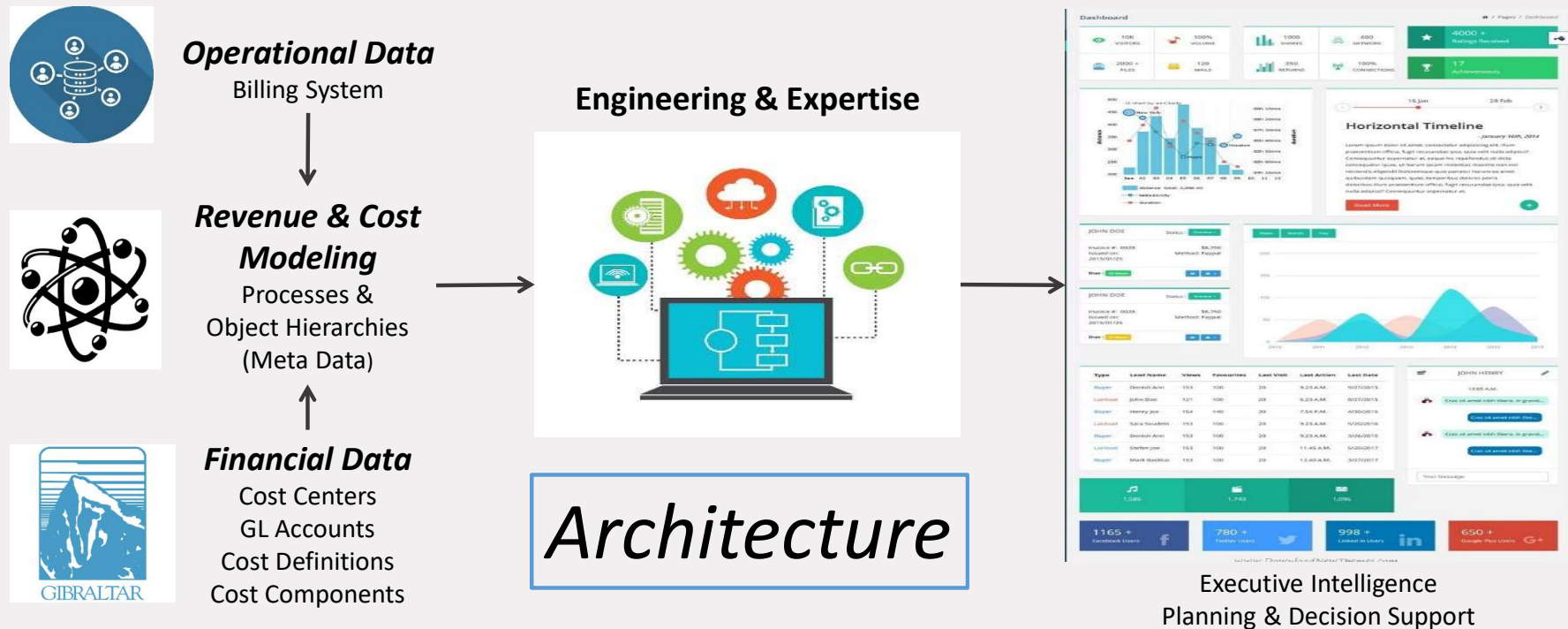


*Do you have what it takes?*



# Agile Cost Accounting<sup>®</sup>

An approach to cost accounting where fundamental costing definitions are applied structurally at a granular level and costing calculation processes are managed by dynamic models and referential data hierarchies.



Do you have what it takes?

# ***Do you have what it takes?***

## **Knowledge & Understanding**

- Revenue Cycle Process
- Contract Management
- Cost Accounting Fundamentals
- Industry Neutral Costing Principles and Practice
- Clarity in Financial vs. Management Accounting
- Process Architecture Concepts
- Technology Requirements

## **Corporate Culture**

- The ability to make objective decisions without bias for vendors, software or familiar processes
- Accountability in an environment that supports active mentoring and learning among team members
- Diversity of skills, education, experience, industry knowledge and perspectives
- Work ethics that include courtesy, integrity, perseverance, discipline and an indomitable spirit



*Do you have what it takes?*

## References

HFMA  
Healthcare Financial Management Association  
<https://www.hfma.org/>

CMS  
Center for Medicare and Medicaid Services  
<https://www.cms.gov/>

HIMSS  
Healthcare Information Management and  
Systems Society  
<https://www.himss.org/>

PMI  
Project Management Institute  
<https://www.pmi.org/>

IMA  
Institute of Management Accountants  
<https://www.imanet.org/>

"Strategic Finance"  
Monthly IMA Publication

"Challenges"  
IMA - 2012 Survey of Cost Accountants

"Principles of Health Managerial Costing"  
by B. Douglas Clinton, CMA, CPA and Barbara England  
September 1, 2016

ICCA  
Institute of Certified Cost and Management Accountants  
<http://www.iccaus.com/>

Project Management Statistics  
<https://learn.g2.com/project-management-statistics>

### Special Thanks

**Chris Daniels** - Assistance with the design and development of this presentation.

*Do you have what it takes?*



Give more than you take.  
Leave more than you found.

*Thank  
you*

*Do you have what it takes?*

