5 ways to make cost accounting a strategic function in hospitals.
Spence, Jay
Healthcare financial management : journal of the Healthcare Financial Management Association; March 2013; 67, 3;
ProQuest
pg. 40

5 WAYS TO...

Jay Spence

5 ways to make cost accounting a strategic function in hospitals

Cost and profitability measurement across clinical service lines is becoming increasingly important for both long-range and tactical planning. Following are five proven methodologies to make cost accounting efforts efficient and accurate.

Structure a costing model that balances efficiency with accuracy. Hospitals are moving from simplistic patient-level (ratio of cost to charge) approaches to more activity-based approaches. Using the chargemaster as a proxy for activity drivers is a common approach well understood by department managers and tracked consistently on patient records. Determining how to structure the costing model requires a mapping exercise wherein general ledger-level expenses are summarized into categories, or "cost pools." Today, hospitals that use activity-based costing are moving away from highly summarized groupings toward more refined categories that allow allocation of costs to the charge item level, resulting in greater precision.

Refine activity-based costs with department manager input. Engage department managers in the refinement of cost-per-test calculations for their areas. Manager participation not only promotes their buy-in to the process, but also improves the quality of cost calculations at a patient level due to their knowledge of care delivery and activities. Collaboration with department managers provides an opportunity to refine cost-allocation methods using a blend of relative-value-unit-based direct costing or time-driven approaches where the structure of charge items needs additional detail to drive accurate patient costing (e.g., adding pseudo charges for identifying room and board costs by acuity levels).

Streamline data validation and reconciliation tasks. Gaining sign-off from finance on the validity of costing results is an important step and should happen before releasing reports to key stakeholders. This presentation should be an intuitive walk-through of financial results starting with a consolidated income statement and footnoting any variances that might exist in consolidated patient-level costs. Such dialogue often uncovers areas and suggests methodologies for "passing through" revenues or overhead-related costs directly to specific patient populations.

Provide timely and consistent views of service line performance. The time and energy spent by the decision support team is traditionally allocated heavily toward preparing one-off ad-hoc analysis instead of ongoing analysis. Make a concerted effort to be less reactive to requests and more proactive, with comprehensive views of volume, cost, and profitability trends across service lines. Analysis should isolate the variables and drivers of changes in margin, including payer mix shifts, changes in net revenue per case, or increased supply costs.

Assign accountability to clinical service lines. Even with a well-implemented costing methodology and effective reporting, organizations fail to realize value from their investment if no one owns the results. To ensure action is taken on opportunities identified, many organizations are aligning their structures along clinical service lines. This approach helps foster a sense of ownership and accountability around service-line performance and provides the executive support needed to implement changes. ●

Jay Spence is director of Healthcare Solutions, Axiom EPM, Portland, Ore. (jspence@axiomepm.com).