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**Oregon HFMA Professional Practicum:
Preparing for the CHFP Exam with Peers in an
Interactive Learning Environment
May – June 2011**

- Practicum #2: Variances (May 19 live session at Oregon HFMA meeting)**
Practicum #1: Ratios (June 3 webinar with N. California HFMA)
Practicum #3: Revenue Cycle (June 17 webinar with N. California HFMA)





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Welcome!

Meet your facilitators:

Team 1

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Team 2

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Team 3

Christoph Stauder, FHFMA, CPA

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Meet your peers:

Bennett	Kong	CIGNA Healthcare	Director, Provider Network Mgmt Contracting & Provider Services	1
Cecily	Geschke	Adventist Medical Center	Controller	
Elizabeth	Mitsky	Triage Consulting Group	Manager	
Glee	Johnson	Salem Hospital	Reimbursement Specialist	
Hongbao	Ren	Legacy Health System	Finance Program Manager, Financial Planning	
Janet	Vos	Bay Area Hospital	Business Office Supervisor	
Jeff	Dubyn	Triage Consulting Group	Manager	
Mark	Sayler	Curry Healthcare District	Chief Financial Officer	
Max	Bennett	Legacy Health System	Financial Analyst	

Andy	Rybolt			2
Bill	Hoffman	Samaritan Health Services	Finance Director	
Jeffrey	Johnson	Professional Credit Service	Chief Marketing Officer	
Jenna	Morgenthaler	Oregon Health & Science University	Revenue Cycle Analyst	
Karen	Shah	Legacy Health	Director of Finance	
Katherine	Fisher	Eide Bailly	Senior Associate	
Nate	Weber	West Corporation	Vice President, Healthcare	
Tiffany	Bolliger	Moss Adams Llp	Manager	

Angela	Brown	Southern Oregon Credit Service	Client Account Representative	3
Elizabeth	Sublette	Providence Milwaukie Hospital	Finance Director	
Greg	Olson	Intermedix	Vice President of Business	
Janet	Gambatese	Samaritan Health Services	Director Of Contract Management	
Lisa	Hynes	Health Net Hp Of Oregon	Manager Provider Contracting	
Mark	Sakaguchi	Legacy Health System	Finance Planning Manager	
Mark	Metcalf	Providence Health & Services	Manager - Regional Accounting	
Stephanie	Winchester	Oregon Health & Science University	Manager, Healthcare Operations Support	

Micro Case Studies

- Medicare IPPS rate setting
 - How much is Good Samaritan Hospital in Corvallis paid for DRG 510 (shoulder/forearm/elbow procedure)?
- Labor variances
 - Analyze the monthly operating statement of HFMA Community Hospital (what is going on?)
- Capital budget analysis, CVP (breakeven), inventory, cash budgeting
 - Evaluate multiple-choice questions and a word problem for possible inclusion in HFMA certification online study guide



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Agenda

- 1:05 – 1:15 PowerPoint overview of today's topics
- 1:15 – 1:25 Case study #3 (Medicare IPPS rate setting) – 3 teams
- 1:25 – 1:30 Teams report their solutions to case study #3
- 1:30 – 1:35 Review of how rate, efficiency and volume variances are calculated
- 1:35 – 1:55 Case study #4 (labor variance calculation for a PFS department)
- 1:55 – 2:00 Teams report their solutions to case study #4
- 2:00 – 2:20 Case study #5 (cost-volume-profit and capital budgeting analysis)
- 2:20 – 2:30 Teams report their solutions to case study #5
- 2:30 – 2:35 Next steps (study agreement; preview of June 3 & 17 webinars)
- 2:35 – 2:45 Q&A for anyone wanting to know more about the new CHFP exam



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On your mark...

Get set...

Go!





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Variations

- **Unlock the meaning of operational data**
 - Responsibility accounting = what managers do every month
 - Learn a new way to analyze your monthly operating statements
- **Attribute budget-to-actual variations to root causes**
 - Cost (labor and non-labor inputs)
 - Efficiency (labor and non-labor inputs)
 - Volume (output)
- **Example**
 - Using Labor Metrics to Achieve Value-Driven Health Care (August 2010 *hfm* Magazine, p. 90-94)



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Break-even Analysis

- Four types of cost behavior
 - Variable, fixed, semi-variable, semi-fixed (stair step)
- Contribution margin
 - Revenue – variable cost
 - Contribution margin per unit = revenue per unit – variable cost per unit
 - Contribution margin ratio = contribution margin ÷ revenue
- Examples
 - Managing Your Margin After Reform: The Strategic Margin Plan (January 2011 *hfm* Magazine, p. 40-44)
 - Enhancing OR Capacity and Utilization (January 2011 *hfm* Magazine, p. 66-71)
 - Payment Reform: Complexities to Consider (April 2011 *hfm* Magazine, p. 42-26)



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Capital Budgeting Analysis

Method	Strengths	Weaknesses
Payback	Easy to understand and use	Ignores time value of money Ignores cash flows after payback Doesn't measure profitability
Net Present Value (NPV)	Recognizes time value of money Easy to apply	Assumes no change in required rate of return
Internal Rate of Return (IRR)	Recognizes time value of money Computes true return of projects	Can't be used if project doesn't include an up-front investment

■ Example

- Capital Planning and Clinical Integration (April 2011 *hfm* Magazine, p. 57-66)



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Inventory valuation

- Three methods
 - Specific identification (cost flow matches physical flow)
 - First in first out (FIFO) (cost flow doesn't match physical flow)
 - Last in first out (LIFO) “

Cash budgeting

- Beginning balance + Additions – Uses = Ending balance
- Hint: Be careful in how you use the information given
 - Gross revenue, net revenue
 - Expenses, depreciation, interest

Labor Variances

HFMA Community Hospital Monthly Responsibility Report				
	Actual	Budget	Variance	Var %
Wage Expense				
Department Manager	\$ 3,330	\$ 3,330	\$ -	0.0%
Technician II	\$ 12,240	\$ 9,180	\$ (3,060)	-33.3% U
Technician I	\$ 15,680	\$ 12,530	\$ (3,150)	-25.1% U
Aide	\$ 3,400	\$ 3,400	\$ -	0.0%
Total Wage Expense	\$ 34,650	\$ 28,440	\$ (6,210)	-21.8% U
Labor Hours				
Department Manager	170	170	-	0.0%
Technician II	680	510	(170)	-33.3% U
Technician I	1,120	780	(340)	-43.6% U
Aide	340	340	-	0.0%
Total Labor Hours	2,310	1,800	(510)	-28.3% U
Medical Supplies				
Supply Cost	\$ 3,762	\$ 3,000	\$ (762)	-25.4% U
Units of Supply	3,135	3,000	(135)	-4.5% U
Units of Service (UOS)				
Procedures	1,650	1,500	150	10.0% F
Labor cost per hour	\$ 15.00	\$ 15.80	\$ 0.80	5.1% F
Labor hours per UOS	1.40	1.20	(0.20)	-16.7% U
Supply cost per unit	\$ 1.20	\$ 1.00	\$ (0.20)	-20.0% U
Supplies per UOS	1.90	2.00	0	5.0% F

F=Favorable U=Unfavorable

Price or Rate Variance

Measures the effect of labor rate per hour on the department's performance

Favorable = labor rate per hour was less than budgeted

Unfavorable = labor rate per hour was more than budgeted

Actual labor cost per hour	\$ 15.00	
Budgeted labor cost per hour	\$ 15.80	
Rate variance	\$ (0.80)	F
Actual labor hours	2,310	
	\$ (1,848)	F

Formula:
(AQ-BP) x AQ
 AP: Actual price
 BP: Budgeted price
 AQ: Actual quantity
 \$ (1,848) F

Efficiency Variance

Measures the effect of labor hours on the department's performance

Favorable = labor hours per UOS were less than budgeted

Unfavorable = labor hours per UOS were more than budgeted

Actual labor hours to produce actual UOS	2,310	hrs
Budgeted labor hours to produce actual UOS	1,980	hrs
Labor usage variance	330	U
Budgeted labor rate	\$ 15.80	
	\$ 5,214	U

Formula:
(AQ-BQ) x BP
 AQ: Actual labor to produce actual output
 BQ: Budgeted labor to produce actual output
 BP: Budgeted price
 \$ 5,214 U

Volume Variance

Measures the effect of volume on the department's performance

Favorable = effect on labor hours was less than budgeted

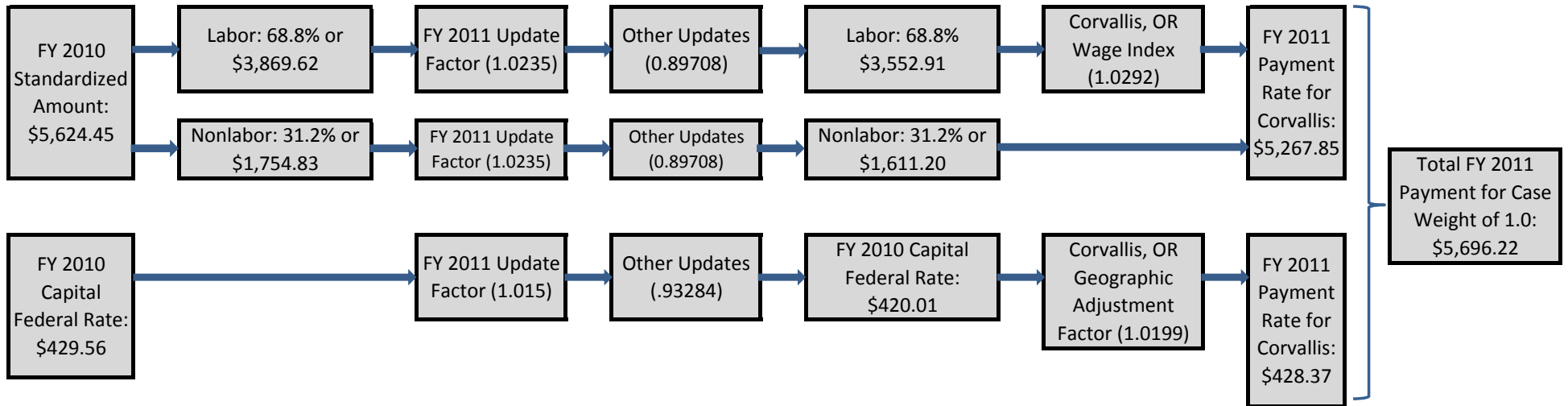
Unfavorable = effect on labor hours was more than budgeted

Budgeted labor hours to produce actual UOS	1,980	hrs
Budgeted labor hours to produce budgeted UC	1,800	hrs
Labor volume variance	180	U
Budgeted labor rate	\$ 15.80	
	\$ 2,844	U

Formula:
(AQ-BQ) x BP
 AQ: Budgeted labor to produce actual output
 BQ: Budgeted labor to produce budgeted out
 BP: Budgeted price
 \$ 2,844 U

The 3 variances, taken together, explain the entire wage expense variance: **\$ 6,210** U

Oregon HFMA Professional Practicum
 Calculating the Medicare IPPS Standard Amount for FY 2011



$\$5,696.22 * \text{Case Weight for DRG 510 of } 2.1704 = \$12,363.08$

Micro Case #4

1. Labor Rate Variance

A \$18.63

B \$17.62

\$1.00 U

30,882

\$30,882 U

2. Labor Efficiency Variance

A 30,882

B (61,488*.56)

(3,551) F

\$17.62

(\$62,568) F

3. Labor Volume Variance

B (61,488*.56)

B 30,986

3,447 U

\$17.62

\$60,736 U

Sum of all 3 variances = \$29,050 ~ \$29,132 Total Labor Variance per departmental operating statement.



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Northern California Chapter



Friday, May 13, 2011

Introducing the Oregon/Northern California HFMA Certification Practicum

A whole new approach to getting your HFMA certification

Friday, June 3	11:30-1:00	Webinar on Ratios
Friday, June 17	11:30-1:00	Webinar on Revenue Cycle

Register by Monday, May 23 by email to christophstauder@msn.com



