Cost accounting is the process of determining the full and incremental costs of providing services and goods to patients and customers.

Costs may be determined based on historical methods of charging for services, such as patient days and procedures. Products or product lines may also be defined for cost analysis, such as DRG’s or a specific type of day surgery patient. Finally, we may wish to determine full and incremental costs within the structure of our organization (revenue center or department).

In determining the full cost of providing a service, we must insure that all costs have been included. For instance, a number of departments, which do not provide direct patient or customer services, are absolutely essential to the operation of the institution. The burden of these overhead departments must be accurately allocated to the using departments.

In reality, to make sound management decisions, costs must be known at the charge item, patient, and department levels.

Changes in healthcare delivery in the past 20 years have placed extraordinary burdens on board members, administrators, chief financial officers, and department directors. New methods of reimbursement have surfaced: Medicare prospective payment system, Medicaid methodologies, and HMO and PPO contracts. Advances in technology, joint ventures and mergers, and institution specialization have contributed to changes in healthcare delivery.

The need to know the cost of each charge item and major product line is essential to financial stability of every healthcare institution. Without accurate cost information, hospitals are at financial risk when making decisions considering current operations as well as long-term plans.

The cost of providing services is obviously only one of many considerations. Accurate costing, however, has been a major missing component of the decision-making process.

**Uses of Cost Information**

A few of the types of decisions that require cost accounting information are:

- **HMO and PPO negotiations.** The cost of services must be known before negotiating discounts.
- **Pricing determination.** The charges for services rendered frequently bear no resemblance to the cost of providing the service.
- **Marketing decisions for new services.** Accurate cost estimates will help when making decisions concerning entering new product lines or methods of delivery.
- **Expansion or elimination of existing services.** Full and incremental cost information about existing services must play an important role in marketing decisions.
- **Replace existing services.** Cost accounting will determine if it is less expensive to purchase certain services from an outside contractor.
- **Facility expansion.** Determining the cost effect of plant expansion will assist in determining the feasibility of such actions.
- **Equipment purchases.** The cost effect of equipment purchases includes not only the capital expenditures but also the operating cost in terms of labor, supplies, and other expenses.
- **Budgeting based on productivity.** An operating budget may be prepared based on variable workload units as determined by the cost model.

These are but a few of the types of decisions that require accurate cost information.
The Cost Accounting System

Since it was introduced in 1983, Ormed has been successfully implemented in a wide range of Healthcare environments. This proven system has been continually enhanced to meet the needs of the changing healthcare industry. Ormed is now recognized as one of the most powerful and flexible PC based cost accounting systems on the market today.

The Ormed Cost Accounting developers are the same professionals who provide implementation and education consulting. In addition, Ormed Information Systems (OIS) is committed to investing significant resources each year in refining the system to address the ever changing needs of our users.

Fully supported by OIS and fully integrated with a wide range of existing information systems, Ormed Cost Accounting provides the greatest return on investment of any cost system.

By integrating the cost data with your medical records and patient costing systems; a number of patient level cost/margin reports can be produced, including DRG analysis, physician summaries, etc. As a result, significant additional value is added to your existing system.

Providing Our Users With Two Major Applications:

- Cost Analysis/Budgeting/Flexible Budgeting/Productivity
- Patient Costing
Our Approach to Cost Accounting

The Ormed Cost Accounting and Budgeting system offers many unique features not found in other systems. The Ormed system is a 32 bit Windows system that interfaces with your Financial Systems resulting in an outstanding decision support tool.

Healthcare Specific
The system addresses the specific needs of the medical community; it is not just an adaptation of another industry cost system. Therefore, the system fits the dynamic healthcare environment.

Flexible
The system is very flexible. Not only do medical facilities vary widely from one to another, even departments within those facilities vary widely in their cost behavior patterns, availability of information, need for cost analysis, etc. We are adaptable and support a wide variety of costing approaches, including:
- Detailed engineered standards
- Multiple relative value units
- Ratio of cost to charges

External Integration
External integration involves being able to communicate effectively with other systems:
- General Ledger
- Patient Billings
- Medical records
- Spreadsheets
- Data Base Management Tools

External integration allows data to be exchanged between these various systems as appropriate. Because of external integration, we work hand-in-hand with your existing systems, both mainframe and PC based.

Internal Integration
In order to receive full benefits of a cost accounting implementation process, the system should support a wide range of management decisions utilizing a common database of cost accounting assumptions.

With the system, the user has the following applications available:
- Cost Analysis
- Modeling/Projections
- Flexible Budgeting/Productivity
- Patient Level Cost Analysis
- OIS Patient Costing via Medical Records interface

All of these applications use a common database of cost accounting assumptions.

Cost Methodology

Ormed develops accurate charge item level costs using detailed cost factors called service units or relative value units.

Service units represent department level outputs (days of care, acuity levels, tests, dollars of supplies, etc.) that combine in various ways to produce the continuum of patient procedures. Each department defined within the system can have up to nine service units.

These service units are defined specifically for a department based on the activity of the department. For example, Radiology can use procedures, labor hours, film, contrast, and equipment while laboratory uses tests; labor hours, reagents, blood supplies, outside fees, and equipment. Standards for each service unit can be engineered, ratio of cost to charges, historical or budgeted, and can be detailed to whatever level is appropriate.

Direct expenses are analyzed for fixed and variable components and allocated to the service units on an account-by-account basis.

This service unit cost methodology means different approaches to cost accounting can be used by different departments, including:
- Bill of Materials/Engineered Standards
- Multiple Relative Value Units
- Single Relative Value Unit
- Ratio of Cost to Charges

This flexibility allows the facility to use detailed standards where available, and other approaches as appropriate.

The decision on the appropriate standards setting option can be made at the department or charge item level.
Cost Allocation

Ormed provides a number of accurate and flexible cost allocation options to ensure that accurate full costs are developed.

Overhead departments can be defined as variable, fixed or a combination of fixed and variable. Using this method, variable overhead expenses can be assigned directly to the charge items in relationships such as meals per patient day and laundry pounds per OR case. Multiple simultaneous linear equations are used to cross allocate fixed overhead departments using multiple statistical tables and user-defined statistical weighting.

As a result, the system accurately reports the overhead portion of full-cost at the department, charge item, and patient level. The chart below provides an overview of the costing and modeling approach.

Of the four major boxes shown, three of the elements are already established in the facility. Only the service units require new definitions. OIS consultants work with you to develop appropriate definitions and assumptions.

Once the service units are defined, we work with the facility to input appropriate account, department and charge item level assumptions. The patient billing system establishes the link between charge items and discharges.

After the definitions and assumptions are in place, the cost accounting system can be used for cost analysis at the service unit, charge item, discharge or product level.

The system can also be used for modeling by entering volumes at the patient or charge item level; the system will then determine the projected service units and related account balances, and staffing requirements.
What the Ormed Cost Accounting and Budgeting System Includes

When you purchase the system, you receive a complete package of software and services to help ensure a successful implementation. Our services are quoted on a fixed fee basis that includes all training and consulting costs so there are no surprises. You will be provided with everything required for a highly successful and cost-effective cost accounting system implementation. Licensing includes:

**Software**
Ormed software installed on personal computers at your facility.

**Training**
Training is accomplished via webinar. This comprehensive course takes you step by step through each element of the system and the implementation process.

The course includes basic cost accounting concepts, practical examples, hands-on software experience, and analysis of the resulting reports.

**Consulting**
On-site consulting by experienced OIS healthcare professionals is a vital part of the package. The OIS team helps guide the implementation, coordinates the systems integration, provides expert advise on how the system should be implemented, and assists with interpreting the system reports.

**Facility Staff**
Cost accounting (*like budgeting*) requires the active involvement of department directors. The director's intimate knowledge of their departments provides valuable information during the implementation process. Training is provided in cost accounting concepts and the use of the reports produced by the system. Implementation techniques developed by OIS consultants minimize the time required by department directors.

**Support**
OIS consultants believe that continued support of the system is essential to the user realizing its full benefit. We fully support our clients in all aspects of using the system including: training, consulting, implementation, results analysis and technical product support. We are available after the completion of the implementation to assist users as they gain experience with cost accounting and wish to refine their assumptions, add departments, or use additional features.

Many of our clients don’t have the time or the expertise to maintain the system as often as they would like. We offer a cost effective approach to this by returning to the facility on a semiannual or annual basis and updating the data and doing special projects for them.

We turn to our clients and the healthcare industry for guidance on future enhancements.

The Ormed Cost Accounting and Budgeting system is truly a system that is responsive to your needs.
System Interfaces

A major part of what makes Ormed software so powerful and flexible is the ability to interface with all major financial systems. The major interfaces between the various systems are:

**General Ledger**
The chart of accounts can be downloaded from your general ledger system. In addition, actual expenses for various periods can be downloaded for cost accounting, flexible budgeting and productivity analysis.

**Patient Billing**
**Charge Item Master File Download**
Since the system performs a charge item level cost and margin analysis, the charge item master file is downloaded from your system.

**Charge Item Volumes**
For cost accounting, flexible budgeting, and productivity analysis, the volume of each charge item is downloaded from your system to the Ormed system.

**Patient Detailed Charges**
Patient Accounts with detailed charges are passed to the Ormed system for costing and storage.

**Other Interfaces**
Import capabilities are available for all Ormed data that might require extensive data entry. “Copy and Paste” options exist throughout applications as well. We feel users should spend their time analyzing the cost information rather than entering data.
Budgeting

The Ormed system is an outstanding tool for budget preparation. A complete cost analysis may be performed at the account, position and employee levels on all departments and charge items before final approval.

Modeling Features

The modeling features greatly simplify the task of preparing a budget. You define the data sets, such as actual 2010 and build on that data set to budget 2011, budget 2011 revision 1, etc.

Data may be imported from one database to another. Assumptions may be modified globally (all departments) or by selected department(s).

Percentage changes may be made to each set of assumptions. For example, you can change the rate of pay for a group of employees such as department directors or nurses.

In this example, a 3.2% wage rate increase has been specified for RN's only in all departments.

Charge item volumes and/or prices can be changed with varying percentages by department, financial class or patient type. Of course, any item (e.g., account standards, charge item volumes or prices, allocations, revenue realizations) may be changed individually.

This single feature will save hours of tedious calculations.

The system was designed to allow administrators and department directors to concentrate on the development of valid budget assumptions.

When the budget is finished, the budgeting system provides a complete cost analysis using the new budget assumptions.
Flexible Budgeting

Account standards are set during the cost accounting phase of the implementation. Flexible budgeting allows administrators and department directors to monitor actual performance.

Actual charge item volumes are downloaded each month and imported. Actual service units (patient days, acuity values, lab procedures, CAPs, etc.) are calculated and compared to the budgeted volumes for each service unit. For example, actual volumes of laboratory tests will be shown along with the actual number of laboratory hours.

The system will adjust the budget amount for each account based on actual charge item volumes and the variability of each account. The resulting flexed budget will be compared to actual expenses producing the following variances:

**Total Variance (all accounts)** Did the facility achieve its budget objectives for the actual level of activity?

Ormed further analyzes the total variance for labor accounts by providing the following information:

**Efficiency Variance** Did the department utilize more or less staff than was expected for this level of activity?

**Rate Variance** Was the actual rate of pay for each labor account higher or lower than anticipated?
Cost Accounting Reports

Cost accounting reports provide a variety of important management information at various levels of detail and organization to help with management decisions.

Although there are many included cost accounting reports, we have included (in this information package) only a few of our key management reports as sample outputs from the system:

- Revenue Department Summary
- Department Level Income Statement
- Financial Class Margin Summary
- Charge Item Profitability
- Charge Item Cost by APC
- Product Line Profitability - Charge Item Method
- Service Unit Cost Detail
- Direct Expense Summary
- Expense Class Summary
- Flexible Budgeting - Expense Detail

All reports may be directed to a printer, spreadsheet files (Excel and Lotus formats), text files, or the screen.

Revenue Department Summary

This report provides an executive summary of the cost accounting analysis. For each direct department, there are three lines showing the following critical information:

- Gross revenue
- Net revenue (based on department specific patient mix)
- Variable cost
- Direct cost
- Full costs

Cost Analysis Summary

- Gross revenue
- Net revenue (based on department specific patient mix)
- Variable cost
- Direct cost
- Full costs

Direct Labor Summary

- Variable, fixed and total FTE’s
- Variable, fixed and total hours per unit
- Percentage variable and fixed, average rate per hour

Volume/Breakeven Analysis

- Planned volume
- Breakeven volume based on gross and net revenue
- Percentage change from the break-even volumes

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The department income statement provides a one-page analysis of each department, including net revenue less direct expenses and profit or loss.

This report is accompanied by four detailed subsidiary schedules:

- **Revenue** - furnishes detail on gross revenue, deductions from revenue, and net revenue.
- **Direct Expense** - furnishes detail on fixed, variable, and excess expense reporting at the account level.
- **Indirect Expense (Overhead)** - furnishes department level allocation detail of FTE's, labor, other, and total costs received and the percentage of the providing department received.
- **Labor** - provides fixed and variable detail of FTE's, hours, and dollars by labor account.

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- **Labor** - provides fixed and variable detail of FTE's, hours, and dollars by labor account.
Financial Class Margin Summary

The financial class margin summary report shows volume and profitability by:

- Financial class (e.g., Medicare, HMO's, etc.)
- Service class (e.g., inpatient, outpatient, etc.)
- Department

This report is based on the historical or projected volumes of charge items by financial class and service class. Variable and fixed costs resulting from the software analysis are applied to the charge item mix for each financial class and patient type.

The financial class margin summary report is very valuable in HMO/PPO negotiations, rate setting, etc.

### Financial Class Margin Report

<table>
<thead>
<tr>
<th>Department</th>
<th>Financial Class</th>
<th>Volume</th>
<th>Net Revenue</th>
<th>Full Costs</th>
<th>Margin</th>
<th>Condl. Unit</th>
<th>Marginal Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICU</td>
<td>630</td>
<td>925</td>
<td>794.918</td>
<td>824.793</td>
<td>116.842</td>
<td>123.1%</td>
<td>758.72</td>
</tr>
<tr>
<td>OP</td>
<td>925</td>
<td>412.511</td>
<td>317.946</td>
<td>78.868</td>
<td>126.8%</td>
<td>758.16</td>
<td>722.12</td>
</tr>
<tr>
<td>SURGERY</td>
<td>611</td>
<td>170.756</td>
<td>204.546</td>
<td>27.808</td>
<td>141.7%</td>
<td>550.16</td>
<td>762.71</td>
</tr>
<tr>
<td>OP</td>
<td>170.756</td>
<td>126.714</td>
<td>204.417</td>
<td>72.792</td>
<td>216.8%</td>
<td>332.94</td>
<td>702.31</td>
</tr>
<tr>
<td>RECOVERY</td>
<td>686</td>
<td>242</td>
<td>25.019</td>
<td>39.499</td>
<td>90.4%</td>
<td>126.6%</td>
<td>102.03</td>
</tr>
<tr>
<td>OP</td>
<td>242</td>
<td>25.019</td>
<td>39.499</td>
<td>90.4%</td>
<td>126.6%</td>
<td>102.03</td>
<td>129.49</td>
</tr>
<tr>
<td>CS</td>
<td>610</td>
<td>522.052</td>
<td>889.959</td>
<td>347.899</td>
<td>269.8%</td>
<td>71.4%</td>
<td>19.98</td>
</tr>
<tr>
<td>OP</td>
<td>522.052</td>
<td>296.397</td>
<td>347.899</td>
<td>15.582</td>
<td>123.3%</td>
<td>22.35</td>
<td>22.04</td>
</tr>
<tr>
<td>ER</td>
<td>522.052</td>
<td>296.397</td>
<td>347.899</td>
<td>15.582</td>
<td>123.3%</td>
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<td>347.899</td>
<td>15.582</td>
<td>123.3%</td>
<td>22.35</td>
<td>22.04</td>
</tr>
<tr>
<td>LAB</td>
<td>712</td>
<td>134.742</td>
<td>890.511</td>
<td>366.216</td>
<td>254.3%</td>
<td>83.3%</td>
<td>17.45</td>
</tr>
<tr>
<td>OP</td>
<td>134.742</td>
<td>767.409</td>
<td>502.522</td>
<td>113.517</td>
<td>80.2%</td>
<td>45.89</td>
<td>21.69</td>
</tr>
<tr>
<td>ER</td>
<td>134.742</td>
<td>767.409</td>
<td>502.522</td>
<td>113.517</td>
<td>80.2%</td>
<td>45.89</td>
<td>21.69</td>
</tr>
<tr>
<td>EKG</td>
<td>713</td>
<td>5.853</td>
<td>1.574</td>
<td>915.14</td>
<td>92.3%</td>
<td>36.9%</td>
<td>79.11</td>
</tr>
<tr>
<td>OP</td>
<td>5.853</td>
<td>1.574</td>
<td>915.14</td>
<td>92.3%</td>
<td>36.9%</td>
<td>79.11</td>
<td>28.99</td>
</tr>
<tr>
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<td>1.574</td>
<td>915.14</td>
<td>92.3%</td>
<td>36.9%</td>
<td>79.11</td>
<td>28.99</td>
</tr>
<tr>
<td>WRAY</td>
<td>724</td>
<td>3.042</td>
<td>215.452</td>
<td>277.71</td>
<td>95.4%</td>
<td>104.4%</td>
<td>54.21</td>
</tr>
<tr>
<td>OP</td>
<td>3.042</td>
<td>215.452</td>
<td>277.71</td>
<td>95.4%</td>
<td>104.4%</td>
<td>54.21</td>
<td>28.99</td>
</tr>
<tr>
<td>ER</td>
<td>3.042</td>
<td>215.452</td>
<td>277.71</td>
<td>95.4%</td>
<td>104.4%</td>
<td>54.21</td>
<td>28.99</td>
</tr>
<tr>
<td>Total</td>
<td>4,945</td>
<td>4,945</td>
<td>345.614</td>
<td>545.577</td>
<td>95.4%</td>
<td>104.4%</td>
<td>54.21</td>
</tr>
</tbody>
</table>
## Charge Item Profitability

The first line shows the per charge item amounts.

The second line shows the gross amounts at the stated quantity.

- **Charge items to be printed may be selected by department, charge item code range and profitability (e.g., **only those with a gross profit greater than $500 or those with a gross profit less than $0**).**

- **Charge items may be sorted by charge code, unit profitability, or gross profitability.**

### Charge Item Profitability

<table>
<thead>
<tr>
<th>Charge Code</th>
<th>APC Code</th>
<th>Charge Item</th>
<th>Profitability</th>
<th>Cost</th>
<th>Revenue</th>
<th>Variable Cost</th>
<th>Direct Cost</th>
<th>Indirect Cost</th>
<th>Total Cost</th>
<th>Total Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2300115</td>
<td>TOOTH</td>
<td>DEF. TENDID</td>
<td>17.5%</td>
<td>16.8</td>
<td>18.5</td>
<td>1.5</td>
<td>2.1</td>
<td>1.5</td>
<td>7.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2300116</td>
<td>TOOTH</td>
<td>TENDON</td>
<td>15.2%</td>
<td>14.5</td>
<td>16.6</td>
<td>1.6</td>
<td>2.2</td>
<td>1.6</td>
<td>7.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2300117</td>
<td>TOOTH</td>
<td>TENDON</td>
<td>17.5%</td>
<td>16.8</td>
<td>18.5</td>
<td>1.5</td>
<td>2.1</td>
<td>1.5</td>
<td>7.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2300118</td>
<td>TOOTH</td>
<td>TENDON</td>
<td>15.2%</td>
<td>14.5</td>
<td>16.6</td>
<td>1.6</td>
<td>2.2</td>
<td>1.6</td>
<td>7.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2300119</td>
<td>TOOTH</td>
<td>TENDON</td>
<td>17.5%</td>
<td>16.8</td>
<td>18.5</td>
<td>1.5</td>
<td>2.1</td>
<td>1.5</td>
<td>7.2</td>
<td>1.3</td>
</tr>
<tr>
<td>2300120</td>
<td>TOOTH</td>
<td>TENDON</td>
<td>15.2%</td>
<td>14.5</td>
<td>16.6</td>
<td>1.6</td>
<td>2.2</td>
<td>1.6</td>
<td>7.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

### Charge Item Cost by APC

- **Charge item costs are grouped by CPT code within APC.**

- **Charge items may be selected by CPT code and/or APC.**

<table>
<thead>
<tr>
<th>Charge Code</th>
<th>Department</th>
<th>Price</th>
<th>Total Costs</th>
<th>Direct Costs</th>
<th>Indirect Costs</th>
<th>Total Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2300001</td>
<td>014</td>
<td>21.5</td>
<td>20.0</td>
<td>10.0</td>
<td>-1.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2300002</td>
<td>015</td>
<td>22.5</td>
<td>21.5</td>
<td>11.5</td>
<td>-1.5</td>
<td>8.5</td>
</tr>
<tr>
<td>2300003</td>
<td>016</td>
<td>23.5</td>
<td>22.5</td>
<td>12.5</td>
<td>-2.5</td>
<td>7.5</td>
</tr>
</tbody>
</table>

---

### Charge Items

- **CAB-12**
Direct Expense Summary

This analysis shows the direct expenses and full-time equivalents associated with each department, before overhead allocations.

For each department the following is shown:

- FTE's and average hourly rate
- Labor costs
- Other costs

Additionally, the variable and fixed portion of each category is provided.

One line per department group level shown, with sub-totals at various department group levels.

This report allows managers to see the summarized expenses by department and associated FTE requirements. The department direct expense summary is also used as a summary budgeting report.
Expense Class Summary

This report summarizes expenses by natural expense classification. All expenses are displayed in fixed and variable dollars. Additionally, totals are shown for direct and indirect departments.

Flexible Budgeting - Expense Detail

This report compares actual expenses to the flexed budget. Budgeted variable expenses are volume adjusted to provide a flexed budget. Actual expenses are then compared to the flexed budget. Labor accounts are further broken out by rate and efficiency variances.

---

### Expense Class Summary

```
<table>
<thead>
<tr>
<th>Expense Class</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary, Wages</td>
<td>596,076</td>
<td>600,076</td>
<td>1,196,152</td>
<td>9,836</td>
<td>6,836</td>
<td>16,672</td>
</tr>
<tr>
<td>Rent</td>
<td>3,661,130</td>
<td>1,451,312</td>
<td>5,112,442</td>
<td>311,980</td>
<td>311,980</td>
<td>624,960</td>
</tr>
<tr>
<td>Utilities</td>
<td>56,068</td>
<td>56,068</td>
<td>112,136</td>
<td>4,444</td>
<td>4,444</td>
<td>8,888</td>
</tr>
<tr>
<td>Property Tax</td>
<td>40,970</td>
<td>40,970</td>
<td>81,940</td>
<td>2,044</td>
<td>2,044</td>
<td>4,088</td>
</tr>
<tr>
<td>Other Pay</td>
<td>175,046</td>
<td>234,673</td>
<td>409,719</td>
<td>151,933</td>
<td>151,933</td>
<td>303,866</td>
</tr>
<tr>
<td>Total</td>
<td>5,875,793</td>
<td>1,525,931</td>
<td>7,401,724</td>
<td>67,029</td>
<td>67,029</td>
<td>134,058</td>
</tr>
</tbody>
</table>
```

### Flexible Budgeting - Expense Detail

```
<table>
<thead>
<tr>
<th>Expense Class</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>7,401,724</td>
<td>67,029</td>
<td>67,029</td>
<td>134,058</td>
</tr>
</tbody>
</table>
```

---

### Labor Detail

```
<table>
<thead>
<tr>
<th>Labor Account</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary, Wages</td>
<td>596,076</td>
<td>600,076</td>
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<td>7,401,724</td>
<td>67,029</td>
<td>67,029</td>
<td>134,058</td>
</tr>
</tbody>
</table>
```

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### Summary

```
<table>
<thead>
<tr>
<th>Summary</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
<th>Variable</th>
<th>Fixed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary, Wages</td>
<td>596,076</td>
<td>600,076</td>
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<td>67,029</td>
<td>67,029</td>
<td>134,058</td>
</tr>
</tbody>
</table>
```

---

### End of Report
Comparative Reporting

Comparative Reporting allows you to compare costs at the charge item and department levels for two or more data sets. The data sets may represent different time periods for the same facility (i.e. actual 2006, actual 2007, and budget 2008) or different facilities.
Patient Costing

Patient Costing process takes detailed patient transactions from patient billing when the final bill is produced and matches them with charge item costs determined in the cost accounting system to generate the cost of a specific patient. Reports are produced which can be summarized by DRG, doctor, financial class, etc.

The Process

The charges for all patients that have been final billed are downloaded from your patient billing system to the PC. Demographic information such as patient name, discharge date, DRG, physician, etc., and reimbursement data (if available) are also captured at this time. Costs and revenue are calculated for each charge item. These costs are summarized and reported by patient and procedure group (user defined).

Requirements

- Cost Accounting System
- Capability to download patient demographics and charge transaction detail to a personal computer.

The Patient Costing module of the system is provided as an optional item.

Patient Costing Reports

Audit Trail

Patient Detail of costs (fixed, variable, labor, direct, indirect, total etc.)
- for each charge item.
- summarized by NRC or user defined procedure group.

Summary Reports

Costs (total, fixed, variable, labor, direct, indirect, etc.), revenue, profitability, and reimbursement by:
- DRG
- APC
- Doctor
- Financial Class/Payor
- Insurance Plan
- Patient Type
- More than 30 Other Demographic Fields
- 10 User Defined Fields

As with cost accounting, summary reports may be directed to a printer, spreadsheet file (Excel and Lotus formats), text file formats, or the screen.
## Financial Class Summary

### Case Mix-Parms

**Filters Selected:**
- All Patients

### Revenue Code Summary by DRG

#### Revenue Code
- **089 SIMPLE PNEUMONIA & PLEURISY AGE >17 W CC**

#### Total Patients: 64

<table>
<thead>
<tr>
<th>Revenue Code</th>
<th>Description</th>
<th>Charge Quantity</th>
<th>Revenue</th>
<th>Total Costs</th>
<th>Direct Costs</th>
<th>Indirect Costs</th>
<th>Labor Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>089</td>
<td>SIMPLE PNEUMONIA &amp; PLEURISY AGE &gt;17 W CC</td>
<td>64</td>
<td>58,089</td>
<td>58,089</td>
<td>58,089</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Case Mix-Parms

**Filters Selected:**
- Point of Service: LAND/Meds. EHR

### Revenue Code
- **089 SIMPLE PNEUMONIA & PLEURISY AGE >17 W CC**

#### Total Cases: 64

<table>
<thead>
<tr>
<th>Revenue Code</th>
<th>Description</th>
<th>Patient Count</th>
<th>Change Quantity</th>
<th>Revenue</th>
<th>Total Costs</th>
<th>Direct Costs</th>
<th>Indirect Costs</th>
<th>Labor Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>089</td>
<td>SIMPLE PNEUMONIA &amp; PLEURISY AGE &gt;17 W CC</td>
<td>64</td>
<td>58,089</td>
<td>58,089</td>
<td>58,089</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

---

### Notes:
- The financial class summary and revenue code summary by DRG are provided for a specific case mix, including filters for all patients. The data is categorized by revenue codes, showing the distribution of patients across different codes. The summary includes counts, change quantities, revenues, total costs, direct costs, indirect costs, and labor costs for each code. The data is segmented by the specific revenue code 089, which represents "SIMPLE PNEUMONIA & PLEURISY AGE >17 W CC."
### Case Mix:

#### DRG Cost by Attending Doctor

<table>
<thead>
<tr>
<th>Attending Doctor</th>
<th>Total Length of Stay</th>
<th>Total Revenue</th>
<th>Total Costs</th>
<th>Revenue Variance</th>
<th>Profit</th>
<th>Average Cost by Attending Doctor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1</td>
<td>4.6</td>
<td>7,179</td>
<td>3,256</td>
<td>1,683</td>
<td>1,143</td>
</tr>
<tr>
<td>2017</td>
<td>4</td>
<td>4.9</td>
<td>28,198</td>
<td>11,728</td>
<td>10,646</td>
<td>1,233</td>
</tr>
<tr>
<td>2015</td>
<td>1</td>
<td>13.5</td>
<td>63,632</td>
<td>36,009</td>
<td>15,628</td>
<td>(17,123)</td>
</tr>
<tr>
<td>2013</td>
<td>2</td>
<td>2.0</td>
<td>24,632</td>
<td>12,700</td>
<td>11,932</td>
<td>(7,778)</td>
</tr>
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<td>10,326</td>
<td>6,146</td>
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<td>2</td>
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<td>23,932</td>
<td>11,372</td>
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<tr>
<td></td>
<td>5</td>
<td>9.0</td>
<td>9,000</td>
<td>39,923</td>
<td>20,226</td>
<td>(39,619)</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>7.4</td>
<td>65,689</td>
<td>40,613</td>
<td>20,265</td>
<td>(13,532)</td>
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### Attending Doctor Cost Comparison by DRG

<table>
<thead>
<tr>
<th>DRG</th>
<th>Total</th>
<th>SIC 1</th>
<th>SIC 2</th>
<th>SIC 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Average</td>
<td>Variance</td>
<td>Total</td>
</tr>
<tr>
<td>122</td>
<td>169.122</td>
<td>35.883</td>
<td>3.740</td>
<td>1.145</td>
</tr>
<tr>
<td>200</td>
<td>163.207</td>
<td>4.095</td>
<td>0.870</td>
<td>0.050</td>
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<tr>
<td>201</td>
<td>52.723</td>
<td>1.211</td>
<td>1.345</td>
<td>0.022</td>
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<tr>
<td>206</td>
<td>2.881</td>
<td>0.938</td>
<td>0.721</td>
<td>0.289</td>
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<tr>
<td>207</td>
<td>202.244</td>
<td>4.226</td>
<td>0.477</td>
<td>0.067</td>
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<td>208</td>
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<td>0.122</td>
<td>0.085</td>
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<tr>
<td>209</td>
<td>21.531</td>
<td>3.670</td>
<td>0.460</td>
<td>0.078</td>
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<tr>
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<td>1.620</td>
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<td>0.017</td>
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<tr>
<td>212</td>
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<td>0.883</td>
<td>0.160</td>
<td>0.031</td>
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<tr>
<td>213</td>
<td>0.506</td>
<td>0.276</td>
<td>0.241</td>
<td>0.017</td>
</tr>
<tr>
<td>214</td>
<td>0.692</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>215</td>
<td>0.702</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>216</td>
<td>0.702</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>217</td>
<td>0.702</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>218</td>
<td>0.702</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>219</td>
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<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
<tr>
<td>220</td>
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<td>0.122</td>
<td>0.032</td>
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<td>221</td>
<td>0.702</td>
<td>0.157</td>
<td>0.122</td>
<td>0.032</td>
</tr>
</tbody>
</table>

Total for DRGs: 122, 200, 201, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221.

Cost: 377,194, 5,080, 71,872, 7,965 (2,028), 49,892, 5,550, 348
Reimbursement: 307,412, 4,080, 30,232, 3,066 (1,922), 56,959, 5,510, 814
Net: (70,282), (1,023), (26,626), (4,064), (3,394), 426, 62, 11,163
Changes: 709,839, 11,396, 147,822, 16,366 (5,242), 32,061, 5,530, 1,774
LOS: 440.0, 8.4, 81.9, 6.0 (3.6), 57.0, 6.3, 0.8
Specifications

Methodology

Standard costs are expressed in terms of user defined service units for each department. There can be up to nine service units for each department. Service units generally are defined in major categories such as labor, supplies, outside fees, equipment, etc.

Direct department volumes can be entered into the system as follows:

- Charge Item Level
- Product Level

Volumes can be entered for a maximum of 8 service classes and 15 financial classes. Service units are assigned to each charge item and/or product.

Each expense is assigned to a specific department. In addition, it is assigned to an expense class and sub-class, which are user defined. There is no limit to the number of expense accounts that can have standards defined within a department.

Expenses are allocated from indirect (e.g., overhead) departments to direct (e.g., revenue) departments using simultaneous linear equations, as follows:

- Variable allocated costs can be defined using transfer units between direct and indirect departments.
- All costs retain their classifications though the allocation process as fixed/variable, labor/other, and indirect.

Indirect expenses are allocated to service units as follows:

- Variable indirect costs using transfer units.
- Fixed indirect costs based on allocation tables for each indirect group (up to six), labor and other.
- Cost of charge items and products is determined once the full cost analysis at the service unit level is performed, and the appropriate service units are combined to create charge item cost analyses.

Reporting

- Data file listings
- Summary reports
- Department level reports
- Charge Item/Product reports

Reports may be directed to:

- A printer
- Spreadsheet file (Excel and Lotus formats)
- Text, RTF, HTML or PDF file
- The screen (preview mode)

Modeling Functions

Global changes are supported to modify all data files (expenses, volumes, unit utilization). An unlimited number of major assumptions can be maintained for use the system.

System Requirements

IBM or compatible Personal Computer with 1 GHz or greater processor.

- 1 GB RAM
- 500 MB or more of disk storage
- Printer - laser printer preferred
- Windows 2000/XP/Vista/7
Sample Implementation Program

The main goal of the implementation program is for the facility to become self-sufficient in the operation of the Ormed Cost Accounting System. Great emphasis is placed on training personnel so that the system will be understood and utilized after implementation is complete.

Consequently, many of the tasks and steps involved in the implementation are performed jointly by OIS consultants and facility personnel. In all instances, any step performed by OIS personnel will be followed with a complete explanation to the appropriate facility representative.

All of the implementation steps that follow will involve at least a review by both OIS and facility personnel.

A typical implementation of the Ormed Cost Accounting and Budgeting System will take two to four months for the steps listed below. The actual time will be affected by such things as data availability and accuracy, availability of facility personnel time to devote to the project, department director involvement, turn-around time for requested materials, etc.

The implementation process is built into six major phases:

- Planning and Orientation
- Building of Master Files
- Building of Assumptions
- Analysis and Interpretation
- Flexible Budgeting Implementation
- Patient Costing Implementation

A detailed description of each step within each phase is outlined below.

Planning and Orientation

The objective of the planning and orientation process is to develop a specific plan and assure that each party understands his/her role in the process.

Cost Accounting Training

Facility personnel responsible for the implementation of the system will receive training in cost accounting with specific emphasis on implementation and use. This training will consist of a three-day seminar in Minneapolis, Minnesota and continuous training of personnel on-site. You will be able to send up to 3 staff members to the seminar in Minneapolis. All out-of-pocket expenses (such as lodging, air-fare, ground transportation and meals) are borne by the facility. The registration fee for the seminar is included in the license fee.

Facility Level Project Planning

Project planning is a joint effort between OIS and facility personnel. Specific goals of this step are to define facility specific objectives in implementing a Cost Accounting, flexible Budgeting and Patient Costing system; assign priorities to the objectives; develop detailed implementation schedules; and assign responsibilities.

Department Director Presentation

A one-to-two hour training session for department directors is held early in the system implementation. The purpose of the training is to explain basic cost accounting terms and concepts, define department directors’ involvement in the project, and solicit their support.

Software Installation

This step is performed by OIS personnel. An explanation of steps performed is given to facility personnel.
Build Master Files

Master files are used to define facility specific parameters into the system. Once entered, they require only periodic maintenance as operations change.

Establish Patient Types and Financial Classes
Management reports are reviewed to determine the degree of detail maintained by the facility with respect to statistical data (charge item volumes, patient costing data, etc.). Appropriate master files are built describing patient types and financial classes for the system.

Review Organization and Classify Departments
Each department is classified with respect to the nature of its activities. These classifications include direct revenue producing (patient and non-patient) and indirect (fixed, variable, benefits and other).

Additionally, a review is made to determine if revenue and associated expenses are captured in the appropriate departments (matching principle).

Determine Department Groups
Departments are grouped along lines of responsibility (e.g., vice presidents) or by similar functions (e.g., dietary and cafeteria). Department group descriptions are entered into the system.

Determine Indirect Department Groups
Indirect departments are grouped by like functions and similar cost behavior patterns. Indirect department group descriptions are entered into the system.

Select Preliminary Service Units for each Department
A review of activities of each direct and variable indirect department is made to determine a preliminary list of service units. This step will be the basis for subsequent discussions with department directors.

Download Charge Item Descriptions & Frequencies
The charge item master description and master file will be downloaded from your patient billing system into an ASCII file format. This downloaded file will be used to import charge item data.

Create Worksheets for Assignment of Service Units
Worksheets will be developed and printed utilizing the downloaded charge item data. Department directors will use these worksheets in assigning service units to each charge item.

Establish Expense Classes & Subclasses
Natural expense classification and sub-classifications will be established. Normally, the classification will follow the facility’s chart of account numbering format with little change.

Download Account Descriptions and Balances
The chart of accounts and associated historical or budgeted account balances are downloaded from your general ledger system. This file is converted into a spreadsheet and will be used to import account data and standards back into the system.
Build Data Files

Data files store specific operational data for the facility such as charge item volumes and account standards. There is no limit to the number of data files that can be maintained for use the system. Assumptions can be changed individually or with the modeling features.

Assign Service Units or Standard Values to Charge Items

Department directors are interviewed to complete the definition of department service units. The charge item worksheets are distributed and assistance is provided to the department directors in the assignment of service units to individual charge items. This phase requires the greatest amount of the department director’s time.

Determine Budgeted, Actual or Standard Charge Item Volumes

Budgeted, actual or standard charge item volumes will be entered into the system. These volume assumptions can be generated by the department heads based on historical volumes, or built using general parameters as determined by administration.

Import Charge Item Files

Service Units and charge item volumes are entered into the charge item spreadsheets and imported into the program through the use of Ormed utilities. This is performed jointly by OIS and facility personnel.

Establish Transfer Unit Relationships

Analyses are performed to determine the relationships between the service units (transfer units) of the providing indirect departments (e.g., laundry, dietary, etc.) and each of the using departments. Transfer unit relationships are expressed in terms of fixed and variable units per using department service units (for example, 2.8 meals per patient day). The data is entered by facility personnel.

Establish Department Allocation Tables

Manual allocation tables are established for each indirect department not utilizing a system-calculated (“automatic”) allocation table. Medicare allocation tables (e.g., square feet, etc.) may be used as the basis for many of the manual tables, but Medicare tables must be reviewed for accuracy and modified and expanded as required.

Establish Service Unit Allocation Methods

The appropriate method of allocating fixed indirect costs for each direct and variable indirect department is determined by your staff and OIS consultants. This data is entered into the system by facility personnel.

Perform Costing Functions

The actual costing functions are performed by the software. Time is allocated for unforeseen difficulties such as incomplete data files. After the costing is complete, a full set of management reports is printed for review.

Review Results

A thorough review of management reports will be performed jointly by OIS and facility personnel for reasonableness, and corrections will be made to the assumptions as required. Any required re-runs of reports would be accomplished during this analysis process.

Meet with Administration

A meeting will be conducted with hospital administrative personnel to present the reports and explain their uses as well as any findings we have noted during the project.

Meet with Department Directors

A meeting will be conducted with hospital department directors to present the reports and explain their uses as well as any findings we have noted during the project. OIS personnel will meet individually with any department directors requiring additional information or clarification concerning the reports.
Implement Patient Costing

We will train you in the use of the Patient Costing module. We will insure that the interface between Ormed and your patient billing system is working smoothly and accurately. You will be trained in how to retrieve summarized information at patient, payor, DRG, and doctor levels. As a result, you will have patient detail information presenting costs (fixed, variable, labor) for each charge item and product line information presenting costs, reimbursement and profitability.

Contact Us

Questions and Support
If you have any questions about this document or any other Ormed product, please contact an Ormed Support Specialist at (952) 851-8868.

We will be happy to assist you.

What Are Your Thoughts?
If you have any suggestions for how we can improve this document, please send them to feedback@ormed.com

with the subject line:-

Feedback –
Cost Accounting Information Package.

Your feedback assists us in better serving you.