

Healthcare Budgets and Financial Reports

by Sophia Tutorial



WHAT'S COVERED

In this lesson, you will learn about specific financial reports and budget types common in health care. Specifically, this lesson will cover:

1. Common Financial Reports
2. Common Reports Specific to Healthcare
 - a. Fee Schedule
 - b. Aging Report
 - c. Patient Reports
 - d. Electronic Health Record
3. Reflect

1. Common Financial Reports

It's important for healthcare managers to understand the basics of financial reporting. Each industry including healthcare has financial reports that are unique to the products and services they provide. However, there are some basic accounting and financial reporting tools that are common across all sectors. It's important for a manager to first understand the basic financial reports commonly used in accounting and financial management.

There are four common financial reports typically used by most organizations. These reports include:

- **Income Statement:** This is typically considered the most important financial statement. This statement shows the revenues, expenses as well as the profit and losses of the organization over a set period. The income statement presents the operational results of the organization as a financial report.
- **Balance Sheet:** This shows the assets, liabilities, and equity of the organization. Assets are anything the organization holds of value, such as property, cash, cash equivalents, and accounts receivable. Liabilities refer to financial obligations the organization must meet. This would include loan payments and balances, payroll expenses, invoices that have not been paid yet or monies the organization owes to another entity. Equity is the difference between assets and liabilities. After liabilities are subtracted from the assets, the amount left is considered the equity. A balance sheet can be generated at any point in time. It is often

said that a balance sheet is a financial picture of the organization at a specific time. Balance sheets are often generated monthly or quarterly by the organization so that the leaders can have a clear and frequent picture of the organization's financial health.

- **Statement of Cash Flows:** This is a report that shows the amount of cash and cash equivalents flowing in and out of an organization. This is an important report that is used for showing how well an organization manages its operations and cash flow. The statement of cash flows is an important document that is often used by third parties such as creditors and vendors to determine an organization's liquidity (how much cash it has on hand).
- **Statement of Retained Earnings:** This is the least commonly used of the four basic financial reports. This report is typically used during the auditing period. Or it's used for year-end financial presentations such as a financial presentation to a board of directors or investors. The statement of retained earnings shows the changes in equity over time. Sometimes it is referred to as a statement of owner equity or a statement of shareholder equity. If there are multiple owners or shareholders, this statement would show the amount of money distributed to shareholders known as a dividend. It will also show the money set aside for future endeavors. A nonprofit organization, for example, would not have dividends paid to shareholders because there are no shareholders in the nonprofit; however, a nonprofit may show where access monies are being allocated after all liabilities are settled.

Video Transcription

Randall is a nursing manager at a day treatment unit of a private health care facility. Recently, he's considered increasing the number of nursing staff members to better meet the needs of the unit. However, before making such a crucial decision, it's important to use the information obtained from the financial statements and then understand how this decision will affect them.

First, there is the income statement, which shows the revenues, expenses, as well as the profit and losses over a set period of time. Hiring more nursing staff will naturally increase the expenses considering the recruitment and selection costs, the training costs, as well as the additional salaries, payroll taxes, and required benefits.

At the same time, though, extra staff will also generate extra revenue. That's because it will not only allow the unit to serve an increased number of patients, but it will also prevent the existing staff from overworking themselves, allowing them to be more efficient and improve the quality of the services they provide. Taking all of this into account, Randall should try to estimate how the bottom line of the income statement, which is the unit's net profit or losses, will be affected.

Next, there's the balance sheet, which shows the assets of the organization including property and cash, liabilities or responsibilities that the organization must meet such as loan payments and payroll expenses. In the case of increasing the number of nursing staff members, payroll expenses and thus the unit's liabilities will increase.

Nevertheless, new employees will also add financial value to the organization by bringing in more cash and contributing to its growth. All this should be expected to affect the equity, which is the amount left after liabilities are subtracted from assets in the balance sheet.

Then in the statement of cash flows after hiring more staff, the amount of cash and cash equivalents

flowing both in and out of the organization will change. Finally, the statement of retained earnings will depict the changes in equity over time.

So in deciding whether the number of nursing staff members should increase or not, it is important for Randall to read the unit's financial statements carefully and try to understand and evaluate the current financial picture. This will allow him to forecast how the income statement, balance sheet, cash flow, and retained earnings statements will be affected by the decision and thus mitigate the financial risk.

2. Common Reports Specific to Healthcare

Along with the common financial reports used in most organizations, the healthcare field has some reports that are commonly used in the industry. The type of reports used by the healthcare organization depends a lot on how the organization is structured.

➞ **EXAMPLE** A publicly held organization would include shareholder information such as dividends paid out and monies invested into the organization on their reports. A nonprofit organization would most likely show charitable donations, where resources are being allocated and how excess money is being spent or losses being made up.

Despite these differences, healthcare organizations that provide patient services will typically utilize similar healthcare finance reports that help with day-to-day operations.

Below are commonly used healthcare financial reports.

2a. Fee Schedule

A fee schedule is a list of fees for each service that the organization wants to receive once the services are provided. Fee schedules can be complicated because different insurance companies may pay different rates. Healthcare organizations that take multiple insurance companies and plans typically will have a comprehensive fee schedule of what each insurance company will pay for the service.

The fee schedule is important to the organization and financial leaders to ensure their services are profitable. Understanding the reimbursement rate for each service will help organizations strategize and determine the cost associated with providing care.

2b. The Aging Report

The aging report is a report that is typically provided by the electronic health record system or organization's health information management system. This report typically can be run at any time and provides a detailing of patient accounts. An aging report typically shows when the last insurance reimbursement payment was received on a patient and what balances are owed by the patient or insurance company.

An aging report is important for healthcare organizations to track accounts receivable. Recall the accounts receivable are monies that are owed to the organization but have not yet been paid. The aging report is most often used for financial analysis of third-party payers, copayment, and deductible payments. The aging report can give an account of which insurance companies pay faster than others. This helps with strategic planning and marketing.

2c. Patient Reports

Patient account reports are reports that consist of important patient information. Often, a patient account report will be part of an aging report; however, smaller organizations that do not have sophisticated electronic health record software may keep a patient account report instead. This is similar to a customer or client report that details what services have been paid for and what services are still owed.

2d. The Electronic Health Record

The electronic health record is a very important part of healthcare finance. While the electronic health record holds important information about the patient's diagnosis, treatment, and progress, it also holds important billing information such as the patient's insurance company, copayments for various services, and patient deductibles. Electronic health record systems frequently connect to insurance billing systems. The electronic health record system often has interoperability with other systems as well throughout the organization. This allows the provider to quickly scan and link services or supplies provided to the patient's account.

3. Reflect

Jordan Wilson is a registered nurse who, for the past 15 years, has worked at a large metropolitan community hospital. Recently Jordan has been promoted to nurse manager of one of the busiest units at the hospital, the med/surg unit. In a short time, Jordan has had a lot of success in the unit improving clinical operations. Jordan has overseen efforts to improve patient safety, reduce readmissions and medication errors, and improve overall efficiency. However, the unit is still lagging in administrative workflow. Currently, the unit is experiencing backlogs in billing, a high incidence of denied claims by insurance companies and an unusually high incidence of billing errors. Frequent billing errors include duplicate billing for the same service, wrong diagnostic codes or treatment codes being entered in patient charts and missing billing information from the patient record. The unit also is experiencing budget problems and has been over-budget all of the past five quarters. Budget issues are frequently attributed to staffing problems, over-time, overuse of supplies and failure to bill patients for supplies provided during treatment.

Jordan is determined to improve these issues. When he heard that the organization is working on a project to overhaul and upgrade the electronic health record system, Jordan saw an opportunity. He requested to meet with the leadership team for this project. He spoke to them about the importance of investing in electronic health records systems that can improve both clinical and administrative workflow. When Jordan shared the problems that he is having on his unit, the leadership team was not surprised. They have heard from other unit managers who have similar problems. The leadership team was highly interested in Jordan's input on improving administrative functions and ensuring their new system is capable. Jordan spoke to them about ensuring that the system can recognize common errors such as duplicate billing, uncovered services, incorrect treatment or diagnostic codes among others. Jordan also spoke about ensuring that the electronic health record system has the capability to produce aging reports, alert clinical staff when pertinent insurance information is missing from the patient chart and have the capability to track.



- **Why is it important for the clinical staff to have this functionality in the electronic health record system?**

This is exactly what some on the team thought as the hospital has a billing and finance team that handles a lot of this. However, Jordan explained that healthcare finance starts at the clinical level. Due to the complex cities of third-party payers, it's important that clinical staff enter the correct information into the patient chart and each procedure, treatment and/or diagnosis is recorded correctly. In fact, Jordan went on to discuss how important data entry from the clinical staff into the patient record is in order to reduce billing and other financial errors.

- If you were in Jordan's position, what other functions would you want the system to have?

Consider the budget issues that the unit is having.

- Do you believe that a more efficient system could also help reduce budgetary problems?

The electronic health system could also alert managers when accounts are not paid, admission or caseload is lower than normal or when staffing does not match caseload.

- Will this help them strategize their staffing better?

It's important to note that these technologies exist, while they are not standard in all electronic health record systems, they are becoming more and more common especially in complex healthcare organizations.

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Support

If you are struggling with a concept or terminology in the course, you may contact NurseLeaderSupport@capella.edu for assistance.

If you are having technical issues, please contact learningcoach@sophia.org.