



# Green Mountain Care Board

## Administrative Costs

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# Purpose of the Presentation

Describe Admin costs in the budget review process

Definitions

Scope - dollars

Describe how we can evaluate

Overhead as a % of Total Expenses

General services (overhead) per discharge

Future plans and opportunities

Present administrative costs in the annual Expenditure Analysis

Research that distinguishes provider administration from insurer (payer) administration

# “General Services” aka Administration

Vermont Community Hospital Accounts (definitions begin on slide 7)

Administration
Central Services & Supplies
Dietary
Fiscal Services
Housekeeping
Interns & Residents
Laundry & Linen
Maintenance of Personnel
Medical Care Evaluation
Medical Library
Medical Records
Medical Staff Education
Nursing Administration
Nursing Education
Operation of Plant & Maintenance
Pharmacy
Research
Social Service
Total General Services

# General Services Expenses vs. Total Expenses

	Budget 2015 General Services	Budget 2015 Total Expenses
Brattleboro Memorial Hospital	\$ 16,020,104	\$ 73,825,365
Central Vermont Medical Center	\$ 35,305,839	\$ 172,223,604
Copley Hospital	\$ 14,584,148	\$ 59,527,135
Fletcher Allen Health Care	\$ 297,624,592	\$ 1,123,111,669
Gifford Medical Center	\$ 16,913,563	\$ 56,948,022
Grace Cottage Hospital	\$ 6,560,000	\$ 18,904,899
Mt. Ascutney Hospital & Health Ctr	\$ 12,825,249	\$ 51,096,609
North Country Hospital	\$ 17,775,758	\$ 77,623,396
Northeastern VT Regional Hospital	\$ 14,115,264	\$ 64,748,917
Northwestern Medical Center	\$ 24,666,636	\$ 90,686,161
Porter Medical Center	\$ 21,405,127	\$ 74,323,358
Rutland Regional Medical Center	\$ 66,549,351	\$ 225,591,022
Southwestern VT Medical Center	\$ 39,263,384	\$ 136,806,217
Springfield Hospital	\$ 12,091,775	\$ 54,713,914
<b>Total All Vermont Community Hospitals</b>	<b>\$ 595,700,790</b>	<b>\$ 2,280,130,288</b>

This slide includes allocation of fringe.

# How do we evaluate administrative costs?

## Overhead w/Fringe as % of Total Expenses

	2012A	2013A	2014B	2015B
Brattleboro Memorial Hospital	23.5%	22.5%	22.2%	21.7%
Central Vermont Medical Center	20.9%	21.0%	20.7%	20.5%
Copley Hospital	24.9%	24.3%	24.2%	24.5%
Fletcher Allen Health Care	25.7%	26.5%	25.0%	26.5%
Gifford Medical Center	22.5%	23.2%	23.0%	29.7%
Grace Cottage Hospital	34.7%	32.8%	34.9%	34.7%
Mt. Ascutney Hospital & Health Ctr	26.5%	26.5%	26.0%	25.1%
North Country Hospital	21.5%	21.4%	21.6%	22.9%
Northeastern VT Regional Hospital	24.3%	23.1%	23.4%	21.8%
Northwestern Medical Center	25.8%	26.5%	27.1%	27.2%
Porter Medical Center	26.9%	27.8%	26.0%	28.8%
Rutland Regional Medical Center	30.9%	28.8%	29.9%	29.5%
Southwestern VT Medical Center	28.3%	26.6%	26.0%	28.7%
Springfield Hospital	24.5%	23.3%	22.2%	22.1%
Total All Vermont Community Hospitals	24.1%	24.7%	24.7%	26.1%

# How can we evaluate administrative costs?

## Medicare cost report analysis

### General services (admin) per discharge

Vermont is lower than the median in the N.E region (6%)

higher than Maine

lower than New Hampshire

lower than Maryland

Vermont is higher than the U.S. median (5%)

# General Services Cost Centers

## **Administration**

The Hospital administration provides overall management and administration of the institution. This expense center account contains the direct expenses associated with the overall management and administration of the institution. Also, expenses that cannot be assigned to a particular expense center should be included here.

Expenses chargeable to the Hospital administration do not include legal fees incurred in connection with the purchase of property, which should be capitalized or fund-raising costs, which should be included in the fund-raising cost center. Other legal expenses and auditing fees should be classified as Administrative.

Various administrative costs to be included here are the expenses of the Governing Board, Auxiliary Groups, Chaplaincy Services, Public Relations, Management Engineering, Purchasing, Communications, Printing and Duplicating, Receiving and Stores, Personnel/Human Resources, and Employee Medical Services.

## **Fiscal Services**

Fiscal Services Office, General Accounting, Budget and Costs, Payroll Accounting, Accounts Payable, Plant and Equipment and Inventory Accounting

These departments are responsible for general accounting, that is, non-patient billing and accounting activities of the Hospital, including preparation of ledgers, budgets, and financial reports; payroll accounting; accounts payable accounting; plant and equipment accounting; inventory accounting; and accounting for tuition, sales to other institutions, and so forth. The account can be subdivided as indicated above.

This expense center should be charged with all the direct expenses incurred in fulfilling the general accounting requirements of the Hospital. These costs include Patient Accounting, Data Processing, Admitting, Cashiering, and Credit and Collections.

# General Services Cost Centers

## **Dietary Service**

This expense center account contains the direct expenses incurred in preparing, delivering and collecting food trays for meals and nourishments and for direct expenses incurred in preparing and delivering food (including formula for infants) to patients and to the cafeteria. This would include such sub-cost centers as kitchen, patient food service, and cafeteria.

The work of the dietary service includes the procurement, storage, processing and delivery of activities can include, but are not limited to: teaching patients and their families about nutrition and modified diet requirements; determining patient food preference in terms of type of food and method of preparation; preparing selective menus for various specific diet requirements; preparing or recommending a diet manual approved by the medical staff; for use by physicians and nurses; and delivering and collecting food trays for meals and nourishments.

## **Housekeeping**

This expense center should be charged with all the direct expenses incurred by the unit responsible for maintaining general cleanliness and sanitation throughout the Hospital and other areas (such as student and employee quarters). This department is responsible for the care and cleaning of the interior physical plant, including the care (washing, waxing and stripping) of floors, walls, ceilings, partitions, and windows (inside and outside). Also, included are furniture stripping, disinfecting and making beds, care of fixtures (excluding equipment) and furnishings, and emptying room trash containers. This expense center also should be charged with the costs of similar services purchased from outside organizations.

## **Laundry and Linen**

This expense center should be charged with all the direct expenses incurred in providing laundry and linen services for Hospital use, including student and employee quarters. Cost of disposable linen should be recorded in this expense center account. The laundry and linen services store, issue, mend, wash, and process in-service linens. The services include work on uniforms, special linens, and disposable linen substitutes.



# General Services Cost Centers

## **Maintenance of Personnel**

### **Student & Employee Housing**

This expense center account should be charged with all the direct expenses incurred in providing residences for students involved in educational programs carried on by the Hospital and employees. The student housing service maintains residences for students participating in educational programs carried on by the Hospital.

### **Plant Operation and Maintenance**

This expense center should be charged with all the direct expenses involved in the maintenance, operation, and securing of the Hospital plant and equipment. Plant maintenance includes the maintenance and repair of buildings, boiler and power plant, parking facilities, and all equipment; painting; elevator maintenance; vehicle maintenance; and performance of minor renovation of buildings and equipment. Additional activities can include, but are not limited to: technical assistance on equipment purchases and installation, coordinating construction, establishing priorities for repairs and utility projects, and maintaining the safety and well-being of patients.

### **Nursing Administration**

This responsibility center should be charged with the direct expenses associated with nursing administration and nursing in-service education. These direct expenses include: salaries and wages, professional fees, supplies, purchased services, outside training sessions, other direct expenses, and transfers. Salaries of supervisors assigned to specific expense centers should be included in those expense center accounts on a direct assignment basis; however, the salaries of supervisors of two or more specific nurses' stations should be included in this account.

# General Services Cost Centers

## **Nursing Education**

This expense center account should contain the direct expenses incurred in maintaining a nursing education administrative office, a Registered Nurse Program, and a Licensed Vocational (Practical) Nurse Program. This expense center account should contain the direct expenses incurred in operating these programs.

## **Central Services and Supplies**

This cost center contains the direct expenses incurred in preparing and issuing medical and surgical supplies and equipment to other cost centers and to patients. Also included is the expense related to reusable patient-chargeable items. Included as direct expenses are: salaries and wages, employee benefits, professional fees, supplies, purchased services, other direct expenses and transfers.

Additional activities include, but are not limited to, the following: requisitioning and issuing of appropriate supply items required for patient care; preparing sterile irrigating solutions; collecting, assembling, sterilizing, and redistributing reusable items; cleaning, assembling, maintaining, and issuing portable apparatuses.

The invoice cost of non-chargeable supplies and equipment issued to other cost centers shall be transferred to the using cost centers, preferably on a monthly basis. The invoice cost of chargeable medical supplies shall be transferred to the Medical Supplies Sold cost center preferably on a monthly basis.

# General Services Cost Centers

## **Pharmacy**

This cost center contains the direct expenses incurred in maintaining a pharmacy under the jurisdiction of a licensed pharmacist. Included as direct expenses are: salaries and wages, professional fees, supplies, purchased services, other direct expense, and transfers. The cost of non-chargeable supplies and equipment issued to other cost centers shall be transferred to the using cost centers, preferably on a monthly basis.

This cost center procures, preserves, stores, compounds, manufactures, packages, controls, assays, dispenses, and distributes medications (including I.V. additives) for inpatients and outpatients under the jurisdiction of a licensed pharmacist. Pharmacy services include the maintaining of separate stocks of commonly used items in designated areas. Additional activities may include, but are not limited to, the following:

Development and maintenance of formulary(s) established by the medical staff; consultation and advice to medical staff and nursing staff on drug therapy; adding drugs to I.V. solutions; determining incompatibility of drug combinations; stocking of floor drugs and dispensing machines.

## **Medical Staff Education**

This expense account is used to record all expenses associated with members of the medical staff who are not assigned to specific professional service departments. The account can be further subdivided to differentiate among the expenses of the voluntary staff, the paid staff, and the medical graduate education staff and student body.

# General Services Cost Centers

## **Interns and Residents**

These expense center accounts are used to record all expenses of a formally organized medical graduate education program that provides medical graduate clinical education to interns and residents. Additional activities include, but are not limited to: selecting qualified students; providing education in theory and practice conforming to approved standards; maintaining student personnel records; counseling students regarding professional, personal, and education problems; and assigning and supervising students.

## **Medical Records**

This expense center account contains the direct expenses incurred in providing the medical records function. Costs associated with microfilming of medical records should also be included in this account. Included under direct expenses are salaries and wages, professional fees, supplies, purchased services, other direct expenses, and transfers.

The medical records department provides maintenance of a records system for the use, transcription, retrieval, storage and disposal of all patient medical records, and the production of indexes, abstracts, and medical statistics for hospital management and medical staff use.

## **Medical Library**

This expense center account contains the direct expenses incurred in maintaining a medical library. Included as direct expenses are salaries and wages, professional fees, supplies, purchased services, other direct expenses, and transfers.

The medical library procures, stores, indexes, classifies, annotates, and abstracts books, catalogs, journals, and other related published materials, principally for medical staff use. It also reviews library records for completeness and compliance with established standards.

# General Services Cost Centers

## **Medical Care Evaluation**

This responsibility center account should contain the direct expenses associated with medical care evaluation. Included as direct expenses are salaries and wages, professional fees, supplies, purchased services, other direct expenses, and transfers. The medical care evaluation function includes providing peer review, quality assurance, utilization review, professional standards review, and other medical care evaluation activities.

## **Research**

These expense centers should be charged with the direct expenses incurred in performing research in the Hospital. Administrative expenses related to specific research projects or groups of projects should be recorded in the expense center related to that project or group of projects such as hospital research projects, joint research projects, and medical school research projects.

## **Social Services**

This responsibility center should be credited or charged with all the direct revenues and expenses incurred in providing social services to patients. The social service department obtains, analyzes, and interprets social and economical information about patients that aids in diagnosis, treatment, and rehabilitation. This service includes counseling staff and patients in case units and group units and participating in development of community social and health education programs. Additional activities can include, but are not limited to: interviewing patients and relatives to obtain social history relevant to medical problems and planning, interpreting problems of social situations as they relate to medical conditions and/or hospitalization, arranging for post-discharge care of the chronically ill, and collecting and revising information on community health and welfare resources.

# Future Opportunities

## Include administrative costs in the Expenditure Analysis

Provider administration could be separately identified

Need to build reporting process

Payers – already included as part of insurer financial filings

Distinguishing Provider administration from Payer administration  
Present research report

# Future Opportunities

## Defining and classifying administrative costs

Administrative costs of the health insurance system include (a) spending by public and private health insurers other than actual payments to providers and (b) costs incurred by other system participants, including providers, employers, and consumers, in dealing with insurers. Identifying and estimating the second class of costs has proved elusive, but even the first is less clear-cut than it appears.

In an influential 1992 article, Kenneth Thorpe suggested that administrative costs could be classified in terms of four functions or components and showed how they could be assigned to different sectors of the system (table 1).

# Future Opportunities

**Table 1. Administrative Costs by Function and Sector of the US Health Care System**

Function/ component	Health insurance	Hospitals	Nursing homes	Physicians	Firms	Consumers/ individuals
Transaction- related	Claims processing	Admitting, billing	Admitting, billing	Billing	Tracking employee hires/ terminations	Submitting claims
Benefits management	Statistical analyses, quality assistance [sic], plan design	Management information systems	Management information systems	Management information systems	Internal analyses	Tracking expenses eligible for reimbursement
Selling and marketing	Underwriting, risk/ premiums, advertising	Strategic planning, advertising	Strategic planning	Advertising	Flexible benefit programs	Search costs
Regulatory/ compliance	Premium taxes, reserve requirements	Waste management	Discharge planning	Licensing requirements	Filing summary plan descriptions, COBRA obligations	Mandated benefit laws

Source: Thorpe.