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Accelerating Advanced Cost Accounting in Healthcare

Smoothing your path on the HFMA–Strata L7 Cost Accounting Model



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Introduction

Cost reduction is a critical consideration for healthcare organizations, yet many lack robust processes to enact comprehensive and lasting change. To address the need for more accurate cost accounting, Strata Decision Technology developed the L7 Cost Accounting Model in partnership with the Healthcare Financial Management Association (HFMA). It is a progressive model that provides the industry's first cost accounting roadmap aimed at helping hospitals and other healthcare organizations cut through the complexities to assess the true costs of providing care.

As organizations advance through each of the model's seven levels, they implement progressively more sophisticated costing tools and methods to gain progressively more precise views of costs. But to move from traditional to more sophisticated costing methods, you'll need a clear set of goals and a roadmap. This e-book highlights a four-phased approach to implementing advanced costing methods and accelerating your path on the L7 Cost Accounting Model.

A clear understanding of where you are today will help you determine how to get where you want to be tomorrow, so the process starts with a current-state assessment. From there, follow the roadmap through detailed planning, establishing a solid foundation, developing a cross-functional approach, and setting analytics goals so that the steps to advanced costing become a natural extension of your costing journey. Once these steps are complete, continuous review and improvement processes ensure that costing and reporting continue to meet the needs of the organization in times of growth or challenge.



55% of healthcare finance leaders cited reducing costs as a top priority for 2024.

*Source: Strata Decision Technology: *2024 CFO Outlook for Healthcare*. March 2024.

Four-Phased Approach to Advanced Costing

Current State Assessment

1

Data Integration and Data Migrations

Define the data strategy. Determine what you can migrate from existing cost or decision support (DS) systems.

2

Establish the Foundation With an End-to-End Process

Focus on core structures and basic cost methods with the goal of enabling and streamlining a repeatable end-to-end costing process.

3

Introduce Advanced Costing Methods

Focus on methods that are easily implemented by finance, notably those that are table-driven but improve accuracy beyond RCC costing.

4

Extend Advanced Costing to High-Value Areas

Accelerate the implementation of more advanced methods with a targeted and sequenced approach on high-value areas.

Continuous Improvement

Current State Assessment

Overview

Some of the current state will be worth keeping and some may need adjustment. A full assessment will require that you review the current data and costing strategy to place your organization on the L7 Costing Model, understand the organizational strategy, assess how costing can facilitate achievement of strategic goals, and clearly communicate to the organization what success looks like at all levels. Keep in mind that assessing current state and achieving future state is a cross-functional team effort. Remind stakeholders of the tremendous benefits from this journey — improved analytics, better informed decision-making, and ultimately, an organization working collaboratively to achieve goals.

Objective

Before your work begins, establish alignment on project goals and objectives by determining where you are in your journey with advanced costing and organizational use of decision support reporting.

Approach

Consider the following:

- What's your current extract strategy?
- How evolved is your costing approach?
- What are the key areas of strategic focus?



Current State Assessment

Take a Close Look at Your Data

One of the first areas to examine in your current state assessment is your **data.** If the feeds are very basic, extending them will allow you to incorporate detailed data — such as surgical data — for costing and reporting.

As an example, a surgical data set is rich with reporting possibilities, such as procedure times, staffing mix, and outcomes. You can also leverage this data for **advanced costing** around surgical labor.

Bringing in this data or refining the validity of the data will give you tighter control and **analytics** for surgical cases. Activity-based costing can be applied to many areas in an organization that demand more precision.

	CURRENT STATE	FUTURE STATE
DATA	• Basic EMR/EHR detail	• Extended data (i.e., physician, surgical)
	• Monthly updates	• Daily data load and cost updates
	• Flat file extracts	• Modern direct table integration
COSTING PROCESS	• Traditional methods	• Advanced methods
	• Hospital-centric costing	• Across the continuum
	• Black box calculations	• Transparent and traceable
REPORTING	• Finance focused	• Extend to clinical, contracting
	• Limited distribution	• Enable self-service
	• Have BI strategy	• Provide data accessibility

1 Data Integration and Data Migration

EFFORT ●●●○○
ACCURACY ●●●○○
SPEED ●○○○○

Overview

Data preparation requires a tremendous amount of attention in the planning phase, then it can become a routine point of maintenance and a valuable resource for your organization. Data interfaces should be well-planned, continually audited, automated, and easily extended. A state-of-the-art DS tool will include all these features.

Creating robust data processes and checks and balances in the beginning will ensure your decision support solution grows with your organization.

Objective

Make data integration easy. Implement a data strategy that fully automates data integration from multiple sources, including migrating legacy decision support patient data and structures, such as allocation rules and RVUs.

Approach

Automate and streamline data integration using:

- Flexible integration tools
- An extensible data model
- Many pre-built data connectors

Data Integration and Migration Best Practices

- Validate data loads to ensure data are tied to source systems, reliable, and accurate.
- Create easy-to-maintain processes. This can be done through database-to-database connectivity, automated data loading jobs, well-documented validation checks, and clearly communicating to all end users regarding data availability and reliability.

2 Establish the Foundation for End-to-End Costing

EFFORT ●○○○○
ACCURACY ●●○○○
SPEED ●●●●○

Overview

For data to be valuable, easily understood, and actionable, you must establish a foundation for costing and reporting. This foundation will look different for every organization but shares several common elements.

All organizations will benefit from a repeatable process with many points of automation. Costing typically occurs monthly or quarterly, so create a process that is easy to navigate, guided, and automated wherever possible to ensure a low learning curve each cycle.

Objective

Empower efficiency and proficiency among your team when running the end-to-end costing process. Build skills and confidence in a repeatable process.

Approach

Accelerate implementation using basic methods and automation tools:

- Build on familiarity of migrated structures
- Use default RCC or migrated RVUs
- Enable full reconciliation of process

Elements of a Strong Foundation

- ✓ Define and update cost structures
- ✓ Map and summarize GL data and volumes
- ✓ Define and process allocation and reclass rules
- ✓ Assign default RCCs, migrate RVUs
- ✓ Perform unit cost calculation
- ✓ Assign and summarize encounter costs
- ✓ Validate and perform reconciliation reporting

3 Introduce Advanced Costing Methods

EFFORT ●●○○○
ACCURACY ●●●○○
SPEED ●●●○○

Overview

Once a strong foundation is established, it's time to improve accuracy and ensure buy-in from stakeholders, then refine calculations to improve sophistication and reliability. This can be done in two phases:

1. Table-driven refinement that finance can own
2. Data acquisition and input from other teams

More advanced methods offer increased accuracy over RCCs and allow for precision in strategic areas.

Objective

Accelerate the move to advanced costing, as outlined in the L7 Cost Accounting Model. Focus on low-hanging fruit and methods that are easily owned and implemented by the finance team.

Approach

Begin with methods that are finance-owned and improve cost accuracy:

- Readily available data
- Industry data standards
- Early-win refinements that finance can own

Advanced Costing Methods



Provider RVUs
Load and validate industry RVUs
Example: *wRVU, malpractice expense*



Direct-to-Encounter
Attribute dollars directly to encounter populations
Example: *Da Vinci robot depreciation, bariatric marketing costs, cancer registry expenses*



Standard Microcosting
Upload of monthly vendor cost
Example: *Supply items, implants, and pharmacy*

4 Extend Advanced Costing to High-Value Areas

EFFORT ●●●○○
ACCURACY ●●●●●
SPEED ●●○○○

Overview

This phase takes you to the most sophisticated costing methods and most accurate results, as defined in the more advanced stages of the L7 model. Not every organization will want or need this level of specificity or have the resources to employ all of these methods, so it's important to determine which areas will benefit your organization most.

Objective

Target high-value areas with an initiatives-based or phased-in approach.

Approach

Establish collaborative cross-functional teams to support implementation activities:

- System experts (IT)
- Operations experts (Clinical)
- Costing experts (Finance)

Advanced Costing Methods



Transaction Microcosting
Encounter-specific cost drivers
Example: *Automate "true cost," i.e., implants*



Activity-Based (Event-Based) Costing
Costing by encounter-specific events
Example: *Detailed resources and rates for cost assignment (i.e., Surgery)*



Researched RVUs
Researched RVUs by department
Example: *Detailed research on RVUs valuing time/resource utilization*



Time-Driven Costing
Timestamp data generated by EHRs

Leveraging Time-Driven Costing

Time-driven costing uses timestamp data generated by electronic health records to help determine care costs. With this automated data, organizations can pinpoint cost details, such as when a procedure was performed or how long a specialist or other clinician spent with a specific patient.

By using this gold standard for cost accounting, organizations can better understand how costs vary based on the staff involved and the resources used. By taking into account time-driven costing with factors such as compensation modeling and the purchase cost of supplies, drugs, and robotic procedure tools, the true cost of services emerges.



Continuous Improvement

Overview

The continuous improvement cycle has two layers:

1. **Routine Analysis:** Ongoing reviews of cost data and reporting to determine the impact and areas for improvement. This process should include monthly cross-functional meetings to discuss current state and planned changes to the organization, such as CDM changes, departmental consolidations and expansions, upcoming reporting requirements for strategic decision-making, contract negotiation, etc.
2. **Ongoing Evolution:** Consider the big picture and remember that costing, like your organization, is not stagnant. It's not a "one-and-done" activity. As your organization grows and changes, you need a costing system that can grow and change with you.

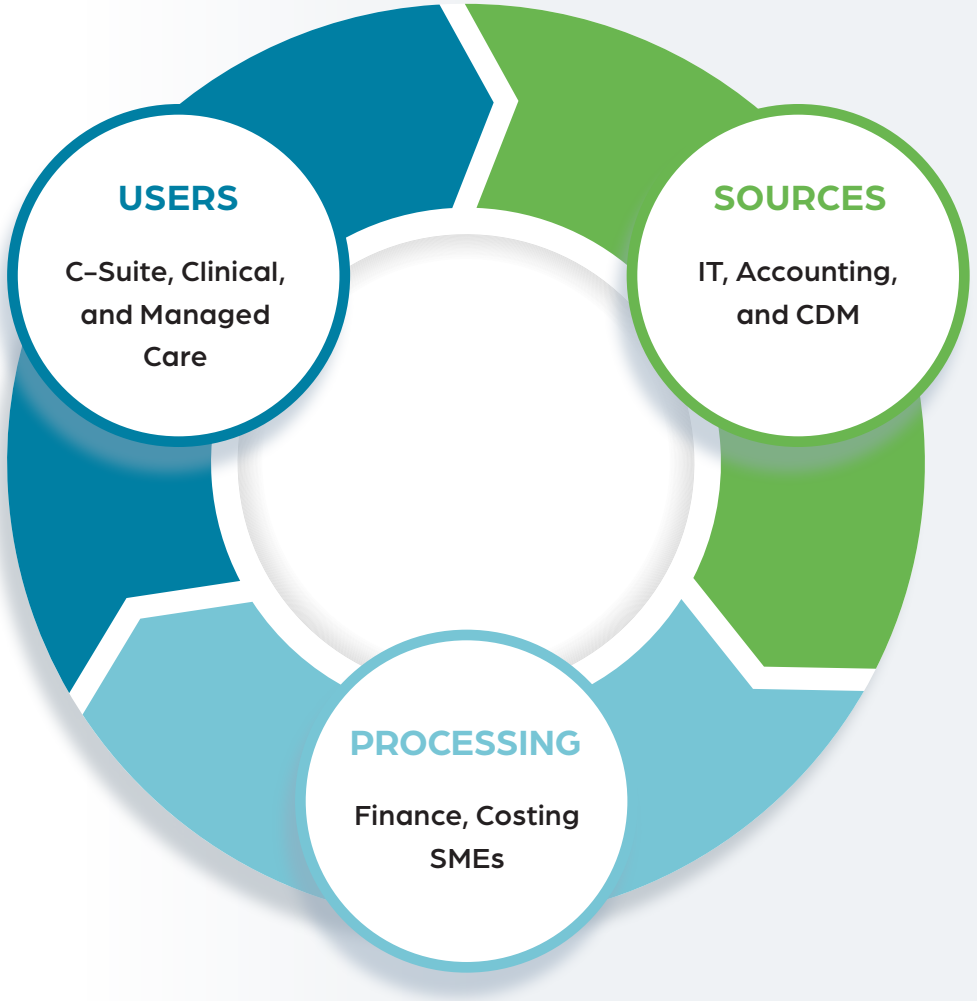
Objective

Foster a culture of continuous improvement with cross-functional buy-in and resources to support growth along your costing journey.

Approach

Structure opportunities for ongoing engagement with various stakeholders, as shown in the graphic to the right, including:

- Internal teams
- Solution experts
- Peers



Special Costing Considerations

The four-phased approach outlined in this e-book helps organizations propel their cost accounting efforts, but progress will be limited without the right tools. A robust cost accounting solution empowers leaders to navigate the curve balls and complexity of healthcare today.

Strata's Decision Support solutions position healthcare finance leaders to respond with agility when things don't go according to plan, even when that looks a little different for every organization. The Strata solutions support healthcare finance teams through each phase of their costing journey and as needs evolve.

How Strata helps healthcare organizations respond to anticipated and unanticipated challenges

High Casualty Events

- Proactive costing configuration to accommodate unique requirements
- Reporting flexibility to include or exclude costs and impacts
- Strata workgroups and idea sharing among costing community

340B

- Transaction-level cost assignment
- Flexible ETL for tagging 340B activity
- Storing 340B cost separately for detailed reporting

Specialty Services

- Direct-to-encounter costing to easily address specialty surgery programs (e.g. Robotics, Bariatrics) or strategic services (such as Oncology, Women's Services)
- Activity-based costing to ensure cost transparency and accuracy
- Easy processing and maintenance

Health Plan/ ACO Costing

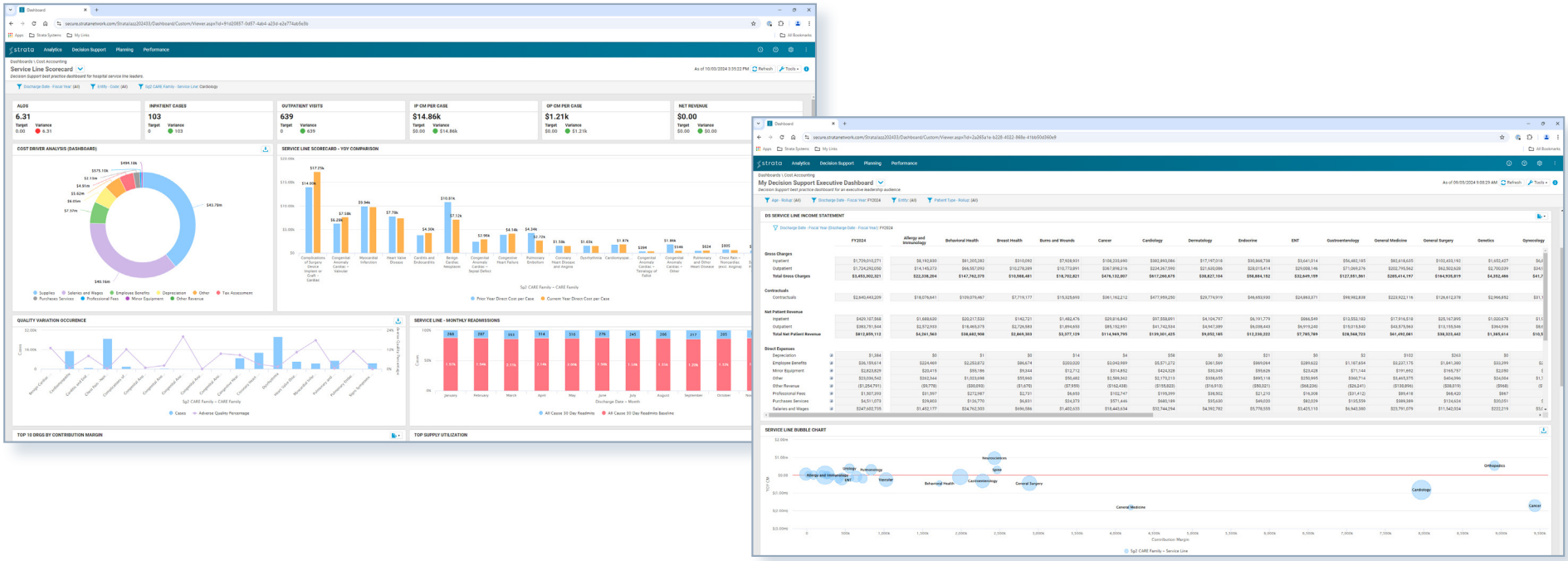
- Costing across the continuum – CDM, CPT, Members, Claims, etc.
- Eliminations to ensure no duplication when covered members are treated within the organization
- Robust reporting for the full patient experience

Accurate Costing Data Powers Robust Reporting

StrataJazz Decision Support provides the dashboards, visualizations, and advanced reporting capabilities finance teams need to leverage costing data in strategic decision-making.

The sophisticated costing solution empowers:

- Financial, operational, and clinical leaders to focus on what matters most, with timely access to pre-configured data visualizations
- Users to respond quickly to stakeholder requests with user-friendly, template-driven ad hoc reporting
- Finance leaders to easily build and publish reports using a flexible, full spreadsheet calculation engine



Conclusion

As a strategic advisor to the organization, finance must communicate the financial realities and impacts of every strategic decision and a rapidly changing market. Without accurate costing data and a deep understanding of costs, that simply isn't possible. Advancing on the L7 Cost Accounting Model powers more accurate, robust reporting that uncovers performance improvement opportunities to drive change.

To increase the accuracy and timeliness of data used in cost accounting, finance leaders need to integrate their cost accounting solutions with other financial tools so organizations can quickly respond to changing market conditions. Advanced cost accounting practices require sophisticated software tools, but adopting them shouldn't be a burden. A modern cost accounting system will fit your unique needs — even as those needs change.

Leveraging a phased approach and planning for changes to your costing system configuration and reporting will ensure successful, meaningful outcomes. While planning is critical, it should never prevent the process of moving forward. Today's healthcare landscape is continuously evolving, and healthcare organizations — and costing solutions — must continue to evolve alongside it.

Visit our website to learn more about the L7 Cost Accounting Model.







About Strata

Strata Decision Technology, LLC provides an innovative, cloud-based platform for software, and data and service solutions to help healthcare organizations acquire insights, accelerate decisions, and enhance performance in support of their missions. More than 2,300 organizations rely on Strata's StrataJazz and Axiom solutions for market-leading service and enterprise performance management software, data, and intelligence solutions. To learn more about Strata and why the company has been named the market leader for Business Decision Support for more than 15 consecutive years, please go to **www.stratadecision.com**.

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