

How to Analyze a Hospital's General Service and Direct Cost

Healthcare Almanac provides complete financial and analytical information for healthcare providers based on the CMS Medicare Cost Reports. The CMS Medicare Cost Reports are composed of worksheets (like a personal tax return) submitted by all Medicare healthcare providers receiving Medicare Program payments. The cost reports are prepared under a set of accounting guidelines required by CMS. This makes all the cost reports "comparable" from one facility to the next facility. This allows detailed comparisons of financial and analytical information. This allows for a high-level analysis of a Hospital's General Service Cost and Direct Cost. You can also review Cost to Charge Ratios for a high-level analysis of Charge Master rates.

The General and Direct Cost analysis is the best use of the CMS Cost Reports. You can see the percent of revenue for each cost and you can see the national ranking of cost compared to other hospitals. You can see the General and Direct Cost over a 10-year period. The goal of the cost analysis is to find opportunities for better control cost. You can find other hospitals that have better cost control in a specific area and seek their advice. In today's healthcare market, all the providers are receiving the same revenue based on DRGs. Therefore, the difference in profitability for hospitals is cost control. Healthcare Almanac has the high-level analytical tools to find the opportunities to control cost.

General Service Cost (Overhead) Analysis

1. The first step is to review the General Service cost in your facility. In the HA Desktop software, run from the menu, the Summary section, Hospital selection and Department tab and then select your facility and select the first 30 lines of Worksheet A. These are the General Service Cost Centers like Nursing Administration or Plant Operation. You can look at 10 years of General Service Cost for trends. You can export the cost information to Excel worksheets. You can examine the General Service Cost over 10 years of history for percent of increase versus the percent increase in revenue. You can use the national line item ranking to determine whether your facility cost is growing faster than other facilities. Use the national ranking of a line of cost to identify whether your cost is directly related to your revenue national ranking. Use the Total General Service Cost to determine Overhead Cost Percentages by year. In comparison to revenue, is your facility controlling Total General Service Cost Centers?
2. Use the same reports from the first step and select facilities your local service area. You can refine the reports by selecting specific line items of cost. General Service Cost Centers in your local market area will show how your overhead departments are performing. For each facility in your local service, repeat this analysis for each facility to compare your General Service Cost and Total General Service Cost.
3. Use the same reports from the first step and select facilities in your national peer group based on revenue. For example, if your facility is ranked 850 in revenue, select the facilities ranked 825 to 875 in revenue. You can refine the reports by selecting specific

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line items of cost. General Service Cost Centers in your national peer group will show how your overhead departments are performing. For each facility in your national peer group, repeat this analysis for each facility to compare your General Service Cost and Total General Service Cost.

Direct Cost with Allocated General Service Cost Analysis

1. The next step is to review the Direct Cost in your facility. Direct Cost is for your revenue producing departments. In the HA Desktop software, select from the menu, the Summary section, Department tab, Hospital selection and then select your facility and select the lines 31 to 200 for Worksheet B. These are the Direct Cost Centers with the allocated cost of the General Service Cost Centers. The allocation formula used by CMS was developed in 1965 at the start of the Medicare Program. The allocation formula is applied consistently to all facilities required to file CMS Cost Reports. You can also use the same selection for Worksheet A and eliminate the allocation of General Service Cost. You can export the Direct Cost line items to Excel worksheets. You can examine the Direct Cost over 10 years of history for percent of revenue. You can use the national line item ranking to determine whether your facility cost is growing faster than other facilities. Use the national ranking of a line item to identify whether your cost is directly related to your revenue national ranking. Use the Total Cost to determine Total Cost Percentages or Gross Margin by year. In comparison to revenue, is your facility controlling/improving Total Cost or Gross Margin?
2. Use the same reports from the first step and select facilities your local service area. You can refine the reports by selecting specific line items of Direct Cost. Direct Cost Department in your local market area will show how your revenue producing departments are performing. For each facility in your local service, repeat this analysis for each facility to compare your Direct Cost and Total Direct Cost or Gross Margin.
3. Use the same reports from the first step and select facilities in your national peer group based on revenue. For example, if your facility is ranked 850 in revenue, select the facilities ranked 825 to 875 in revenue. You can refine the reports by selecting specific line items of cost. Direct Cost in your national peer group will show how your revenue producing departments are performing. For each facility in your national peer group, repeat this analysis for each facility to compare your Direct Cost and Total Direct Cost or Gross Margin.

Conclusion

Healthcare Almanac provides all the tools necessary to complete a high level cost analysis of General Service Cost Center and Direct Cost for the revenue producing departments. These steps are a significant amount of work for a large facility. The benefit gained from this analysis

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is the assurance that your facility is operating at a high level of performance or you can identify the major areas of your facility that need to improve.

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