Instructor Resources Sample

This is a sample of the instructor materials for *Fundamentals of Healthcare Finance*, Fourth Edition, by Kristin L. Reiter, PhD, and Paula H. Song, PhD

The complete instructor materials include the following:

- Test bank
- PowerPoint slides
- Cases
- Instructor manual
- Transition guide to the new edition

This sample includes the materials for chapter 1.

If you adopt this text, you will be given access to the complete materials. To obtain access, e-mail your request to hapbooks@ache.org and include the following information in your message:

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Digital and Alternative Formats

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CHAPTER 1
Introduction to Healthcare Finance

- Definition of *healthcare finance*
- Course goal
- The role of healthcare finance
- Finance department structure
- The health services industry
- Regulatory and legal issues

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Definition of *Healthcare Finance*

- The definition depends on the *context*.
  - Policy maker, manager, or educator
  - Type of healthcare organization
- For purposes here, healthcare finance is the practice of finance within *health services organizations*.
- Healthcare finance includes both the a*ccounting* and *financial management* functions.

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Accounting Versus Financial Management

- Accounting concerns the measurement, in *financial terms*, of events that reflect the resources, operations, and finances of an organization.
- Financial management (corporate finance) provides the theory, concepts, and tools necessary to help managers make *better financial decisions*.

? Are the two disciplines independent?

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Goal of the Course

The primary goal of this course is to *introduce* you to the field of healthcare finance, including:

- Principles and concepts
- Applications across a variety of provider settings
- The impact of alternative reimbursement methods

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Role of Finance

The primary role of finance within health services organizations is to plan for, acquire, and utilize resources to maximize the *efficiency* (and *value*) of the organization.

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Finance Activities

Finance activities include:

- Costs & profitability, planning, and budgeting
- Managing financial operations
- Financing decisions
- Capital investment decisions
- Financial reporting
- Financial and operational analysis
- Contract management
- Financial risk management

Primarily financial staff functions

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The Four Cs

Finance activities can be summarized by the four Cs.

- Costs. Costs must be continuously monitored and minimized to ensure that they are not excessive for the number of services provided.
- Cash. Businesses must have sufficient cash on hand to meet payment obligations as they occur.
- Capital. Businesses must raise the capital (money) necessary to buy the facilities and equipment to provide services.
- Control. Businesses must control their resources to ensure that they are used wisely.

* Some healthcare finance professors include Collections as a fifth C. *

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Importance of Finance over Time

- When most health services organizations were reimbursed based on costs incurred, the role of finance was secondary.
- Today, however, the finance function has increased in importance.
- Note that there are no unimportant functions in health services organizations. Operations, marketing, human resources, facilities management, and so on are all essential to mission accomplishment.

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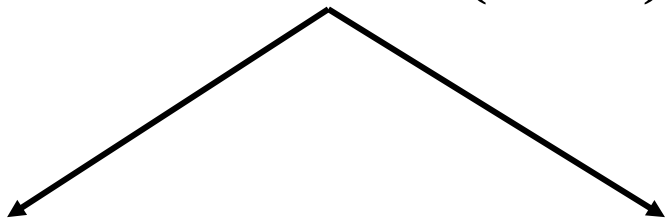
Finance Department Structure

Chief Financial Officer (CFO) / VP - Finance



Comptroller

*Pronounced "Controller"

- Budgeting
- Reporting
- Payables
- Financial operations

Treasurer

- Capital acquisition
- Capital employment
- Debt management
- Financial risk management

? What about small businesses, such as a three-physician medical practice?

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Health Services Settings

- Health services are provided by numerous types of organizations in many different settings.
- Applications presented in this course will include the following settings:
  - Hospital (inpatient) care
  - Ambulatory (outpatient) care
  - Long-term care
  - Integrated delivery systems

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Regulatory Issues

- Entry into the health services industry is heavily *regulated*.
  - Licensure
  - Certificate of need (CON)
  - Cost containment programs and rate review systems
- Although designed primarily to protect consumers, critics of regulation contend that it protects providers more than consumers.

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Legal Issues

- The primary legal issue facing healthcare providers is *professional liability*.
- Other issues include:
  - General liability
  - Antitrust
  - Ethical issues
    - Right to die AND / OR right to prolong life

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Current Challenges

Surveys of healthcare managers reveal the following concerns:

- Financial challenges
  - Increasing costs for staff and supplies
  - Adequate reimbursement from Medicaid / Bad Debt
  - Increased investments in technology
  - Billing and collections process (revenue cycle)
- Balancing clinical and financial issues

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Conclusion

- This concludes our discussion of Chapter 1 (Introduction to Healthcare Finance).
- Although not all concepts were discussed in class, you are responsible for all the material in the text.

? Do you have any questions?

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CHAPTER 1 - ANSWERS TO END-OF-CHAPTER QUESTIONS

1.1 a. As used in this book, the term *healthcare finance* relates to the finance function practiced by health services organizations (healthcare providers) and by organizations that manage health services, such as managed care organizations. Healthcare finance encompasses the accounting and financial management functions of healthcare organizations

b. Healthcare finance consists of two broad areas of specialization. Accounting involves the measurement, in financial terms, of a business's operations and financial status. Financial management (corporate finance) involves the application of theory and concepts developed to help managers make better decisions. In practice, the two functions blend, with accounting generating the data needed to make sound decisions and financial management providing the framework for those decisions.

c. While all industries have some individual characteristics, the health services industry is truly unique, and hence students planning to work in that industry can better understand the application of finance by using a book that incorporates the unique features of the industry. The three primary sources of uniqueness are the *large number of not-for-profit organizations*, the *third-party payment system*, and the *extent of government involvement*.

1.2 a. The primary role of finance in healthcare organizations, as in all businesses, is to plan for, acquire, and use resources to maximize the efficiency and value of the enterprise. Finance activities generally include the following: (1) estimating costs and profitability, planning, and budgeting; (2) financial operations management; (3) financing decisions; (4) capital investment decisions; (5) financial reporting; (6) financial and operational analysis; (7) contract management; and (8) financial risk management.

b. When most healthcare providers were reimbursed based on costs incurred, the role of finance was minimal. At that time, the most critical finance function was cost accounting because it was more important to account for costs than it was to control them. In recent years, however, providers have redesigned their finance functions to recognize the changes that have occurred in the health services field. In essence, finance must help lead organizations into the future rather than merely record and report what has happened in the past

1.3 a. Here is a brief discussion of the most important health services settings:

Hospitals: *Hospitals* traditionally provide diagnostic and therapeutic services to individuals requiring more than several hours of care, although most hospitals are actively engaged in ambulatory services, including emergency services. Hospitals differ in function, length of patient stay, size, and ownership. *General acute care hospitals*, which provide general medical and surgical services and selected acute specialty services, are short stay (generally a week or less) facilities that account for the majority of hospitals. *Specialty hospitals*, such as psychiatric, children's, women's, rehabilitation, and cancer hospitals, limits the admission of patients to those of specific ages, sexes, illnesses, or conditions. Hospitals are organized as private not-for-profit, investor-owned, public (nonfederal), and governmental entities. *Government hospitals*, such as those administered by the military services or the Department of Veterans Affairs, serve special purposes. *Public hospitals* are primarily (or wholly) funded by a city, county, tax district, or state. *Private, not-for-profit hospitals* are nongovernment entities organized for the sole purpose of providing inpatient healthcare services. Finally, *investor-owned hospitals* are for-profit entities owned by their stockholders.

Ambulatory care: *Ambulatory care*, also known as *outpatient care*, encompasses services provided to patients who are not admitted to a hospital or nursing home. Traditional outpatient settings include clinics, medical (physician) practices, hospital outpatient departments, and emergency departments. In recent years, there has been substantial growth in nontraditional ambulatory care settings, such as ambulatory surgery centers (ASCs), urgent care centers, diagnostic imaging centers, rehabilitation/sports medicine centers, and clinical laboratories. In general, the new settings offer patients greater amenities and

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convenience (atmosphere, parking, scheduling, waiting times, and privacy) than hospital-based services offer and, in many situations, provide services at a lower cost than hospitals do.

Home health care: *Home health care* brings many of the same services provided in ambulatory care settings to the patient's home. In addition to meeting purely medical needs, such as infusion therapy, ventilator care, pregnancy monitoring, and pain management, home health care often involves assistance with activities of daily living, such as eating, bathing, and locomotion.

Long-term care: *Long-term care,* which entails healthcare services (and some personal care) that must be provided over an extended period, includes inpatient, outpatient, and home health care services, often with a focus on mental health, rehabilitation, and nursing home care. Although the use of long-term care services is greatest among the elderly, these services are used by individuals of all ages. Individuals become candidates for long-term care when they become too mentally or physically incapacitated to perform daily living tasks and when their family members are unable to provide the help needed. Long-term care is a hybrid of health services and social services, but perhaps the most prominent setting for such care is the *nursing home*. Three levels of nursing home care exist: (1) skilled nursing facilities, (2) nursing, and (3) residential care facilities. *Skilled nursing facilities (SNFs)* provide the level of care closest to hospital care. Services must be under the supervision of a physician and must include 24-hour daily nursing care. *Nursing facilities (NFs)* are intended for individuals who do not require hospital or SNF care but whose mental or physical conditions require daily continuity of one or more medical services. *Residential care facilities* are sheltered environments that do not provide professional healthcare services, and thus most health insurance programs, including Medicare and Medicaid, do not provide coverage for residential care.

Integrated delivery systems: Hospitals and physicians sometimes combine resources to create new organizations that, instead of providing a single healthcare service, provide a coordinated continuum of services. Although *integrated delivery systems* offer the opportunity to coordinate all aspects of patient care under a single umbrella, their complexity makes the overall management process much more difficult than in smaller organizations that focus on one type of service.

b. The hypothesized benefits of providing hospital care, ambulatory care, long-term care, and other healthcare services through an integrated delivery system include the following:

1. Patients are kept in the organizational network of services (*patient capture*).
2. Providers have access to managerial and functional specialists, such as reimbursement and marketing professionals.
3. Fully integrated information systems can be developed more easily.
4. Larger, more diversified organizations have better access to capital.
5. The ability to recruit and retain management and professional staff is enhanced.
6. Integrated delivery systems can offer insurers a complete package of services (one-stop shopping).
7. A full range of healthcare services, including chronic disease management and health-status improvement programs, can be better planned, and delivered to meet the needs of a defined population, develop patient-centered communication, integrate the continuum of care, and improve care management. Many of these population-based efforts typically are not offered by stand-alone providers.
8. Incentives can be created that encourage all providers to work for the common good.

Unfortunately, achieving these benefits in practice has proven to be difficult.

1.4 The health services industry is heavily regulated. Examples of healthcare regulation include licensure, certificate of need, cost-containment programs, and rate-review systems. In general, the role of regulation is to protect the health, safety, and welfare of the public. However, critics of regulation contend that much of it is designed more to protect providers than to protect consumers. In addition to the regulation of providers, there is significant regulation of health insurers at both the federal and state levels.

1.5 The *size and structure* of the finance department depends on the type of provider and its size. Still, the finance departments of larger provider organizations generally follow this model: The head of the finance department holds the title of *chief financial officer (CFO)*, or sometimes *vice president—finance*. This individual typically reports directly to the organization's *chief executive officer (CEO)* and is

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responsible for all finance activities in the organization. The CFO directs two senior managers who help manage finance activities: (1) the *comptroller ("controller")*, who is responsible for accounting and reporting activities such as routine budgeting, preparation of financial statements, and patient accounts management; and (2) the *treasurer*, who is responsible for the acquisition and management of capital (funds). Treasurer activities include the acquisition and employment of capital, cash and debt management, lease financing, financial risk management, and endowment fund management (in not-for-profit organizations).

In large organizations, the comptroller and treasurer have managers who have responsibility for specific functions, such as the patient accounts manager, who reports to the comptroller, and the cash manager, who reports to the treasurer.

In small businesses, many of the finance responsibilities are combined and assigned to one individual. In the smallest health services organizations, the entire finance function is managed by one person, often called the *business (practice) manager*.

1.6 The primary legal concern of health services providers is *professional liability*. Malpractice suits are the oldest forms of quality assurance in the US healthcare system. However, malpractice suits are now used to such an extent that many people believe a malpractice insurance crisis exists, which diverts resources to lawyers and courts and creates disincentives for physicians to practice high-risk specialties and for hospitals to offer high-risk services. In addition, such litigation encourages the practice of defensive medicine in which physicians overutilize diagnostic services to protect themselves against suits. Although professional liability is the most visible legal concern in health services, the industry is subject to many other legal issues, including those typical of other industries, such as general liability and antitrust issues. Finally, healthcare providers are confronted with unique ethical issues, such as the right to die or to prolong life, which are often resolved through the legal system.

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