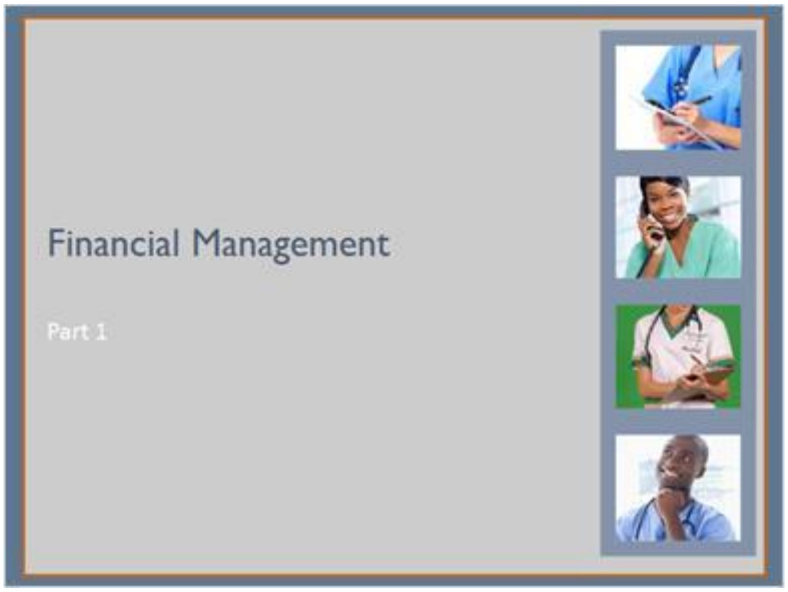
Financial Management - Part 1

1. Introduction

1.1 Title



Notes:

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1.2 Learning Objectives

Notes:

In this and the following presentations, we are going to be discussing the basics principles of financial management and how they apply to the current healthcare environment. The goal of this module is to help you understand the context, processes, and concepts related to fiscal planning and management. This will allow you to participate more fully in contributing to financial outcomes within your own organizations. This is quickly evolving as an expectation for professional nurses at all levels and most particularly for those in leadership or management positions.

This presentation will review the responsibilities of the finance function in organizations as well as basic rules of accounting. We will explore budgets, the budgeting process and budget controls.

Click the button to review this presentations learning objectives.

2. Background

2.1 Alignment of Goals

Notes:

You are already aware how an organization's mission, vision, and values influence the organizational culture. They also greatly influence financial decisions and financial performance. Guided by the mission, vision and values, a long range strategic plan is developed to carry out the mission and move the organization toward its vision. Strategic plans generally have a horizon of 5 - 10 years. From the strategic plan, annual goals, objectives and program priorities are developed. Business plans, also aligned with the overall strategic plan, are developed for any new programs or initiatives. Finally, based on annual goals and objectives, budgets are developed. If over a period of time, financial performance doesn't meet expectations, then strategic plans may need to be revised or can never be attained.

2.2 Finance Functions

Notes:

Let's start our discussion by defining and talking about some of the key tasks or functions associated with financial management.

Paying the bills or obligations of an organization and collecting payments or funds due to the organization is certainly a key responsibility of the finance function. But good financial management requires much more than that. It involves planning, directing, controlling and evaluating the financial activities and resources of an organization or enterprise. It requires having policies and procedures that safeguard money and other financial resources or assets.

Collecting and reporting information on the financial activities and status of the organization for those working inside the organization as well as external customers is essential for good financial management and control. External customers who are interested in an organization's financial status include the organization's parent company, investors, donors, lenders and the community.

Some other responsibilities of the Finance Function include establishing & maintaining relationships with external financial institutions in order to securing funds to borrow for capital expenditures, and choosing investments for both long & short term financial needs such as an employee retirement program.

In addition, many of the reports required by regulatory bodies to determine quality and resource utilization emanate from financial reports or are generated by the finance department

2.3 Extended Finance Roles

Notes:

Good financial management is a responsibility that extends far beyond the finance department and administration. Every decision and action taken by any employee has an impact on the financial health of the organization. Everyone has a role in assuring financial success. Most importantly, good financial management provides the resources that are required to achieve the organization's strategic goals and fulfill its mission. The old adage: “no money, no mission”, reminds us that we all must be good financial stewards.

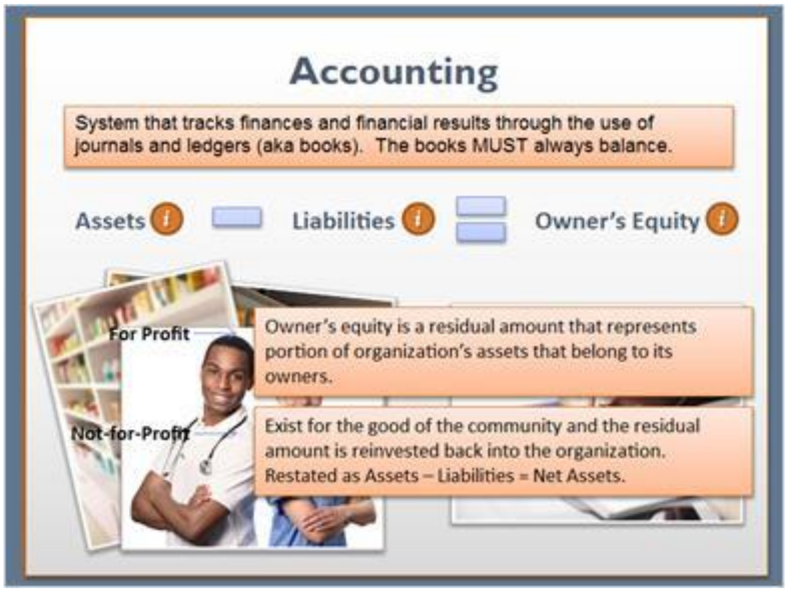
3. Areas of Financial Management

3.1 Areas of Financial Management

Notes:

Let's spend a little time on the foundations of accounting and budgeting and how they fit into the financial management puzzle. Nurse leaders and managers need to understand basic principles of accounting in order to participate in any of the various aspects of financial management, particularly budget development and managing within the budget. All nurses should learn the common financial terminology in order to build relationships, converse easily, and receive the best support from their colleagues in Finance.

3.2 Accounting



Notes:

Accounting is a system that tracks the finances and the financial results of activities of an organization through the use of such tools as journals and ledgers.

The basic accounting axiom or equation mandates that the financial "books" (i.e., the recording of credits and debits) must always balance. The basic account equation is: the firm's assets (valuable resources owned by the firm) minus the firm's liabilities (what the firm owes to outsiders) equals owner's equity. Owners' equity is a residual amount and represents that portion of the organization's assets that belong to its owners. In for-profit organizations, the owners may be a sole proprietor, partners, or shareholders. Not- for - profit organizations exist for the good of the community and there are no owners per se. Because the residual of the basic accounting equation is reinvested back into the organization, the basic accounting equation is restated for a not- for profit as: Assets- Liabilities = Net assets.

3.3 Accounting Types

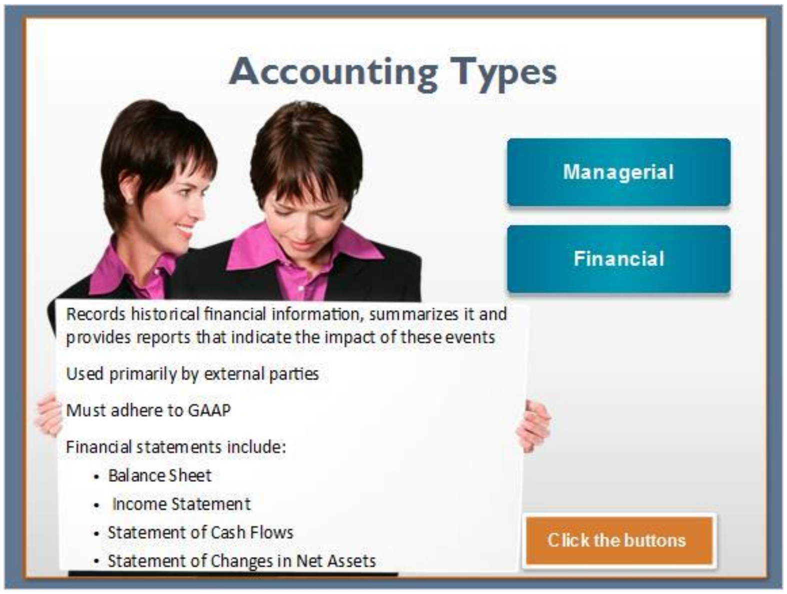
Notes:

There are two principal types of accounting: managerial and financial.

Managerial Accounting:

Managerial accounting focuses on the generation of information that can be used internally to help run the business on a day to day basis and assist decision making. It looks at concurrent information and is future focused. It includes such tools as the budget, variance reports, payroll reports, and productivity reports. Each organization develops its own set of internal reports based on its philosophy of management, its size and needs and its financial systems (now most often computer software programs).

Financial Accounting:



Financial accounting focuses on generating financial information about the results of operations and the financial condition of the organization. It looks at events that have already occurred. This information is used by the Board of Trustees or external stakeholders to judge the performance of the organization. Government and auditing entities use this information to evaluate compliance with rules and regulations.

While some of the same information may appear in both managerial and financial reports, financial accounting is not detailed or granular enough to assist in the day to management of the organization. Moreover, financial accounting is standardized, and must comply with generally accepted accounting practices known as GAAP. The outputs of financial accounting are the Financial Statements: the balance sheet, the income statement, statement of cash flows and statement of changes in net assets. These four reports are used in virtually every business firm, large or small, across every industry to paint a picture of a firm's financial health.

3.4 Knowledge Check

Notes:

Select the accounting type (managerial or financial) that generates each report.

Report	Accounting Type
Balance Sheet	Managerial / Financial
Income Statement	Managerial / Financial
Statement of Cash Flows	Managerial / Financial
Statement of Changes in Net Assets	Managerial / Financial
Budget	Managerial / Financial
Variance Report	Managerial / Financial
Payroll Report	Managerial / Financial
Productivity Report	Managerial / Financial

4. Budgeting

4.1 Budgeting

Notes:

Now let's turn our attention to budgets. A budget is the document that describes management's plans and intentions in monetary terms. In its simplest state, it describes the projected revenues and expenses of a fiscal cycle for an organization. Most organizations project operational expenses and revenues on an annual basis. This is known as a fiscal year, although when that year starts and ends is determined by the organization. While many organizations use a traditional calendar year, those aligned with academic endeavors may follow the academic calendar year, July to June. Governmental organizations or those heavily dependent on government reimbursements may have a fiscal year of October to September to align with the Federal fiscal year.

4.2 Purpose and Goals

Notes:

The budget, and more specifically the budget process, is much more than an annual exercise of compiling of spreadsheets and "strum and drang" (German for storm and stress). Budgeting is an important component of the organization's overall management strategy; it supports planning, resource allocation, and goal achievement. The budget provides managers and staff with specific goals that are aligned with organizational goals. It helps guide how staff, supplies, patients and facilities are managed on a day to day basis which impacts not only spending, but also quality of care, patient and staff satisfaction and, in turn, (today more than ever) revenue and reimbursement.

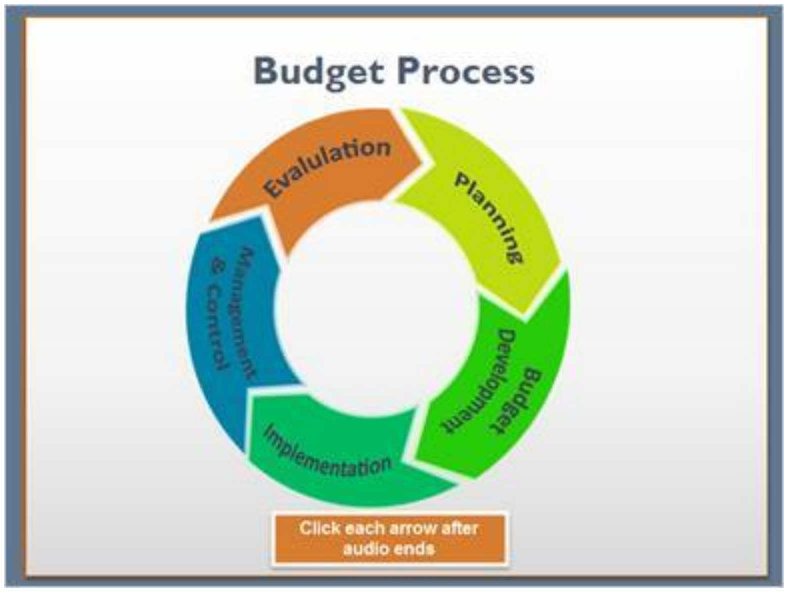
It is important to understand that operational performance drives financial performance. Monitoring compliance to the budget can actually stimulate process improvements, better outcomes overall and financial viability of the organization. Organizations that are proactively managed perform better than those that are not. A manager who routinely is in variance to budget is also very likely to have other operational issues that impact quality and staff.

4.3 Budget Creation

Notes:

Now that we know the importance of budgeting, let's take a look at how they are created. Budget creation is usually lead by the CFO and staffed by members of the finance department. If it is to be useful, a budget must be realistic and budget goals must be achievable. The development of a "good" budget requires participation of individuals at all levels of the organization: administrators, department heads, managers and front line staff. Front line staff often have the best ideas for improving efficiency or identifying needs. They also are often the best "intelligence" officers. They know not only what is going on within the heart of the organization but also with competitors. For example, staff may know before you do that Dr. x is planning to move his practice to your competitor across town. Engaging physicians in the process is critical and is often the responsibility of front line managers.

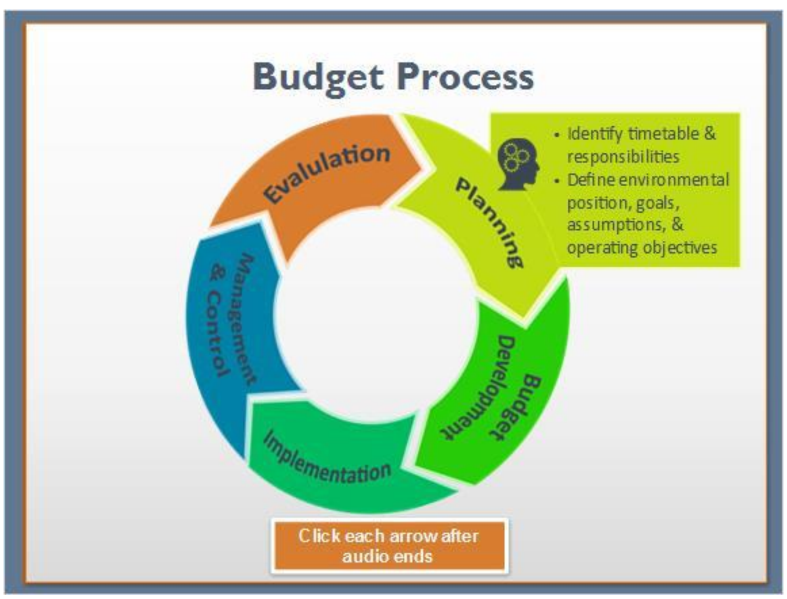
4.4 Budget Process



Notes:

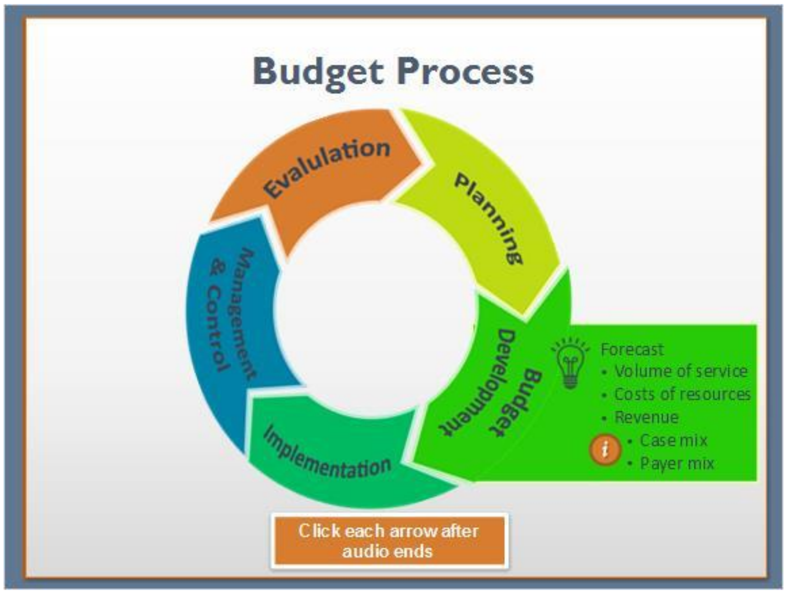
The Budget Process is cyclical and multi-phased; it always begins with planning and ends with evaluation.

Planning:



The planning phase includes identifying a budget timetable (or calendar) and responsibilities of those involved in budget development. During this phase a statement of environmental position, organizational goals/priorities, budget assumptions, and operating objectives are developed and disseminated by senior leaders and Finance. Information required for budget planning such as organizational and/or industry changes likely to impact revenue and/or expenses in the coming year is collected and distributed.

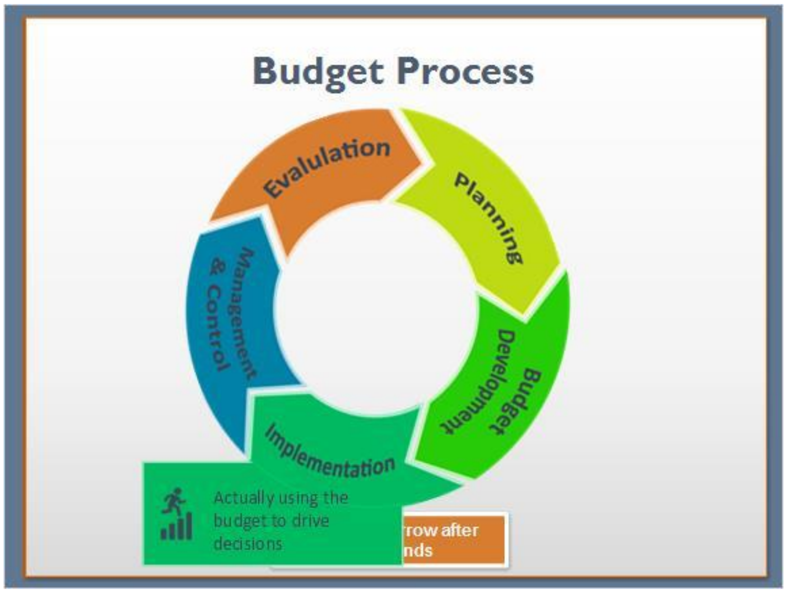
Budget Development:



Next comes the development of the budget itself, beginning with forecasting. Forecasting is an educated guess or estimate of what is going to happen in the next fiscal year. Managers are often involved in predicating demand or volume of services that will be provided in the next fiscal year, as well as the cost of the resources that will be required to provide that level of service. There will also be a forecast of expected revenues. Revenue forecasts are based on case mix, which is the different types diagnoses and severity of illness of patients served, and payer mix, meaning what percentage of patients are covered by Medicare/Medicaid, the percent covered by insurance, what percentage are self-pay, and percentage of charity. Each type of payer will reimburse for the same service at a very different rate, so knowing payer mix is critical to predicting revenues.

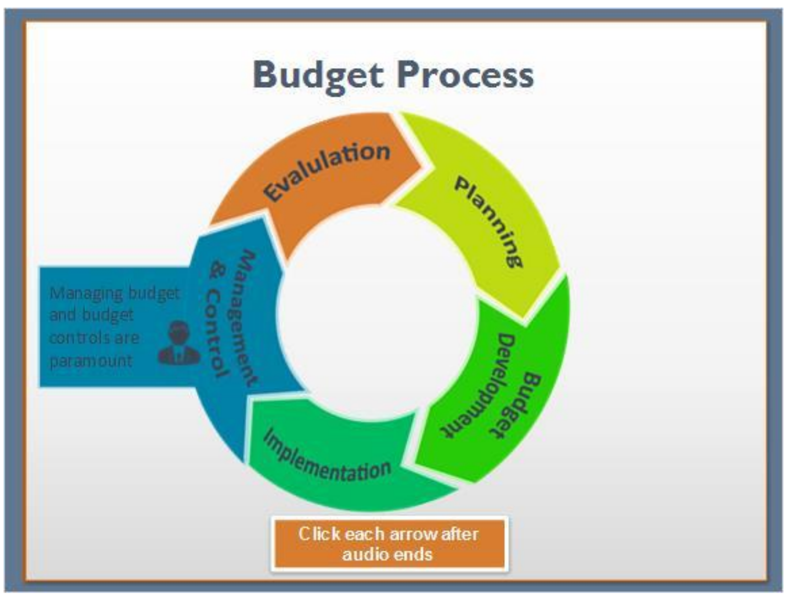
Typically there are several rounds of negotiations before a budget is ready to be submitted to senior management and the governing board for approval Few organizations will approve a budget that projects an operating loss.

Implementation:



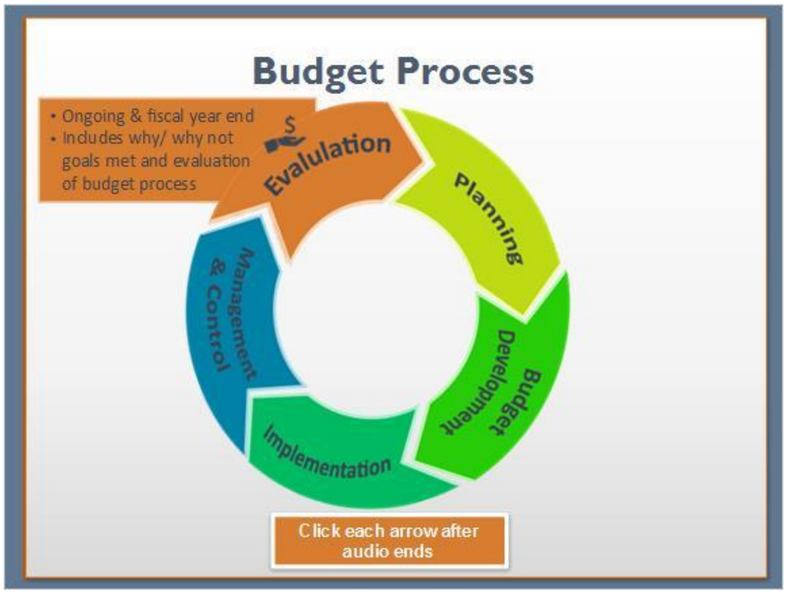
Once the budget has been approved, the hard work of implementation begins.

Management and Control:



Managing the budget and budget control becomes paramount.

Evaluation:



Evaluation is both ongoing (usually monthly or quarterly) and occurs at fiscal year end. Evaluation should include not only why or why not budget goals were met, but also how good was the budget process, to what extent were other operational goals met (such as patient satisfaction and quality goals), and if the organization is moving toward achieving its strategic goals and vision.

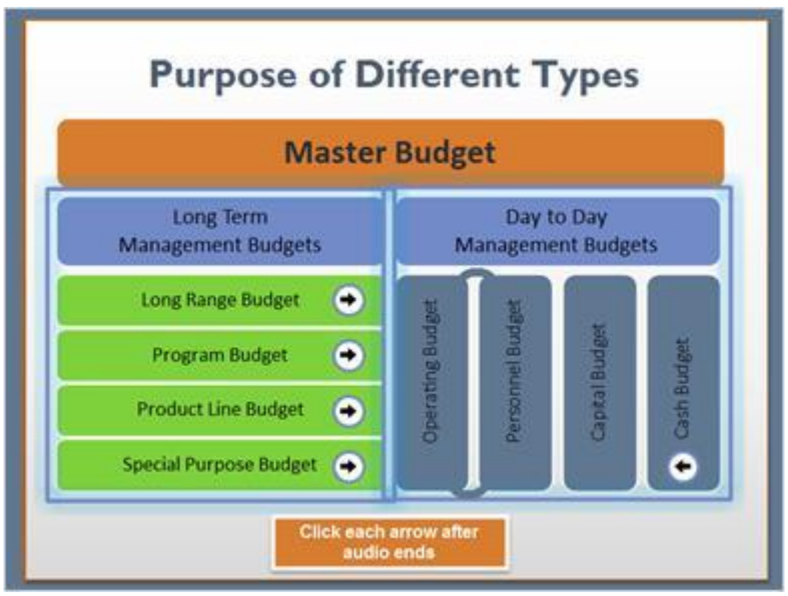
4.5 Types of Budgets

Notes:

There are various types of budgets and how budget are categorized may vary depending on the organization. For example, in some organizations, the personnel budget is considered as a separate budget and is developed and managed by the Human Resource Department. In other organizations, the personnel budget is treated as a sub-component of the operating budget for each individual unit or department and is the responsibility of that area's manager.

The important thing to remember is that there are different types of budgets and the components or elements of a particular budget depend on its purpose. Generally, funds cannot be shifted across various budget types. That is, the capital budget funds cannot be used in order to subsidize the personnel budget, and the personnel budget cannot be used in order to build a new facility. It is also important to know that unused dollars generally do not carry over to the next fiscal year.

4.6 Purpose of Different Types



Notes:

In this table, the budgets on the right side of this table are used to manage the organization on a day to day basis. We will talk about the operating, personnel and capital budgets in the next presentation. The budgets in the left hand column are used to plan for long term needs or to evaluate the effectiveness of components of the strategic plan. They are not used in day to day management activities. A master budget is a “roll up” of all major budgets in an organization.

Now click on each arrow to learn about specific budget types.

The long range budget may forecast growth or major capital expenses, such as building expansions or acquisitions, against several years of operating revenues and profits. Information Technology (IT) departments also typically have a long range budget due to the cost of hardware and software, and the need to implement projects (like EMR) over several years.

Program budgets encompass programs that are critical to the organization but may not generate revenues. Programs budgets are often used to evaluate whether to implement or to continue to support specific programs.

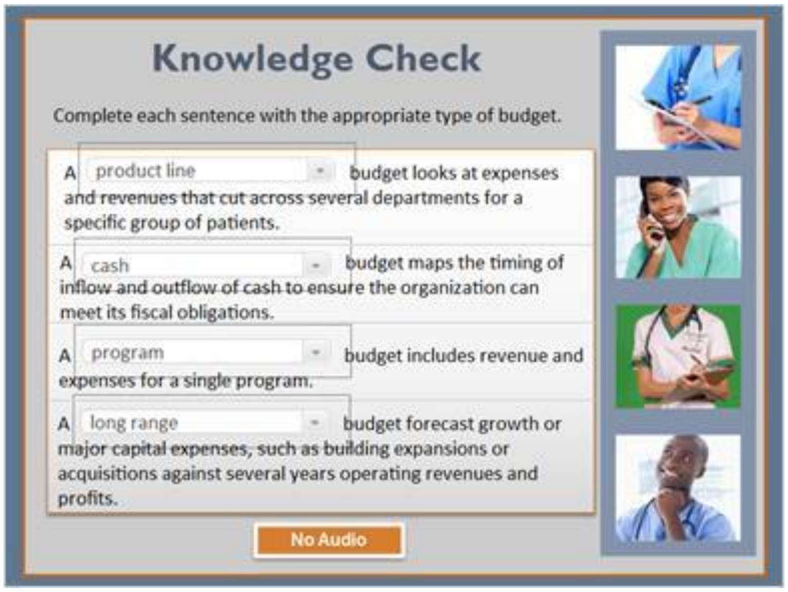
Product line budgets look at the expenses and revenues that cut across several departments for a specific group of patients. For example, Oncology may be a product line (aka Center of Excellence) and its budget would roll up all the expenses and revenues related to the treatment of oncology patients from the inpatient area, lab, radiology, OR and Outpatient area. There are usually a limited number of product lines in any organization and not all organizations use this type of budget analysis. This type budget is used to determine if this is a line of business that is beneficial to the organization

Special purpose budgets are used differently by each organization. For some, this is where monies that have been raised by donors or by auxiliary that are targeted for a special purpose (like critical care equipment) are allocated. In other organizations, this budget might be used only periodically for an unusual event such as a move to a new facility.

In some organizations, the personnel budget is considered as a separate budget and is developed and managed by the Human Resource Department. In other organizations, the personnel budget is treated as a sub-component of the operating budget for each individual unit or department and is the responsibility of that area’s manager.

The cash budget is developed by finance and is critical to successful operations. It maps the timing of inflow and outflow of cash for the organization. If there is not cash on hand, an organization cannot meet its immediate fiscal obligations such as payroll. Without cash, even profitable organizations can fail.

4.7 Knowledge Check



Notes:

Complete each sentence with the appropriate type of budget from the list below.

Budget Types	
Personnel budget	Long range budget
Product line budget	Special purpose budget
Program budget	Cash budget

1. A _____________________ budget looks at expenses and revenues that cut across several departments for a specific group of patients.
2. A _____________________ budget maps the timing of inflow and outflow of cash to ensure the organization can meet its fiscal obligations.
3. A _____________________ budget includes revenue and expenses for a single program.
4. A _____________________ budget forecast growth or major capital expenses, such as building expansions or acquisitions against several years operating revenues and profits.
5. A _____________________ budget is often used to plan and/ or examine the cost and impact of new initiatives or programs.

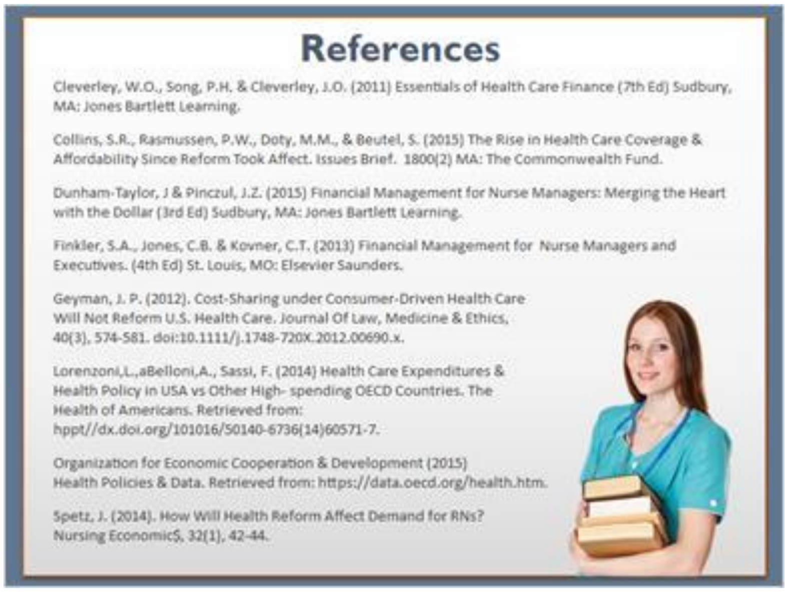
5. End of Presentation

5.1 Summary

Notes:

In this presentation, we have reviewed that strong financial management is critical to any organization's success. Profit is not a four letter word and without proactive clinical, operational and financial management an organization will not be successful. Nurses at every level contribute to the financial performance of the organization; every clinical decision has a financial impact. Nurse Managers and leaders in particular must increase their financial knowledge and skills and partner with the Finance department to assure that the resources required for quality care are available. We also have discussed how the budget is a critical tool used to assuring an organizations financial and operational success. In the next presentation we will examine how nurse managers and leaders can assure that those fiscal resources are used in the most effective way.

5.2 References



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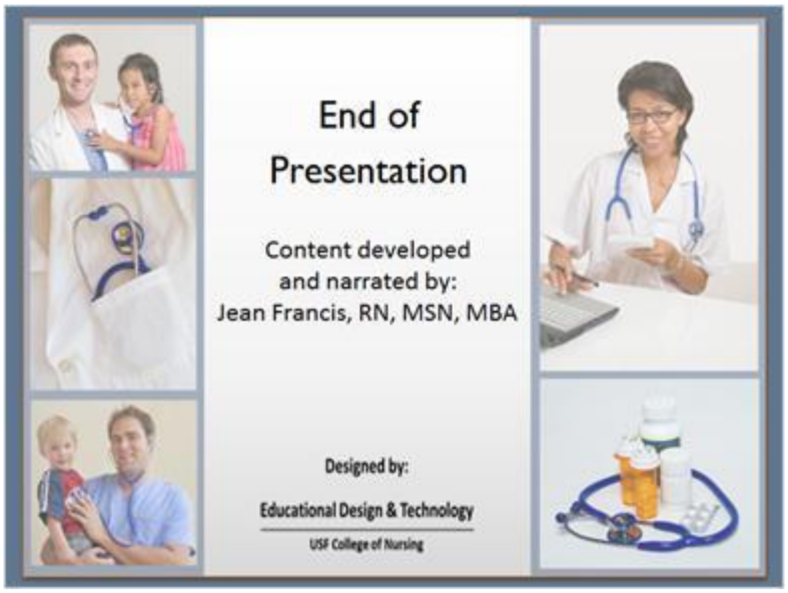
5.3 End of Presentation



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