

Advances in Cost Accounting to Improve Margins and Financial Performance

HFMA Arkansas Chapter Meeting – April 2023



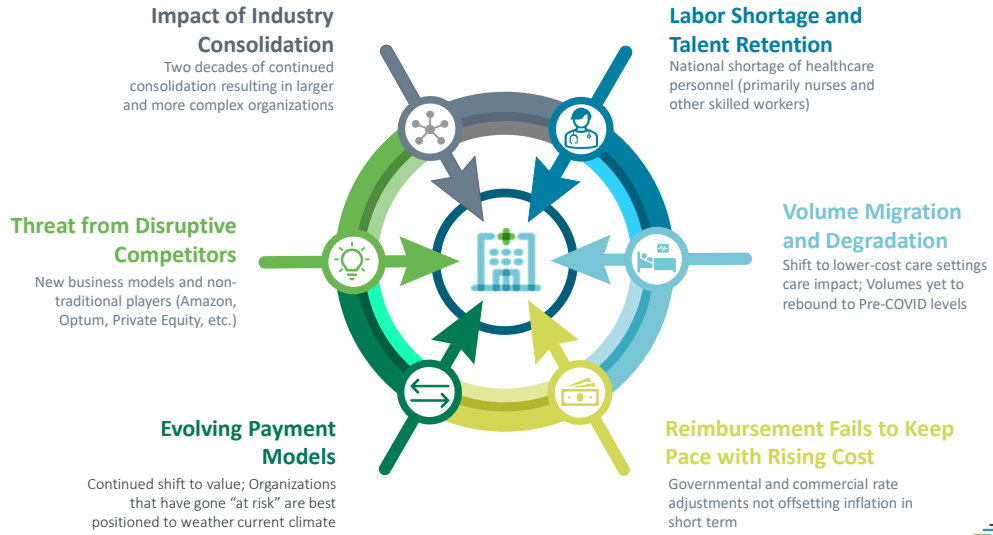
Strata: An Overview

Our Customers	Our Experience	Our Platform	Our Track Record	Our Structure
<ul style="list-style-type: none"> ✓ We serve 400+ health systems ✓ We serve 2,000+ hospitals ✓ Top 10 U.S. Hospitals (Newsweek) run on Strata 	<ul style="list-style-type: none"> ✓ 100% focus on healthcare ✓ 100% of our investments help our customers ✓ Over 25 years of experience with the deepest team in industry 	<ul style="list-style-type: none"> ✓ Cloud-based comprehensive platform ✓ Planning, Analytics and Performance applications ✓ Advisory Services for Advanced Planning, Data to Action, Collaborative Improvement 	<ul style="list-style-type: none"> ✓ Strata solutions ranked Best in KLAS since 2006 ✓ The industry's highest service levels ✓ Offer buyer's remorse clause to reduce your risk 	<ul style="list-style-type: none"> ✓ Independent and autonomous company ✓ Within Roper Technologies (NYSE:ROP) ✓ Roper has \$50b market cap and 15K employees





Macro Economic Factors and Industry Dynamics



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Presentation Topics

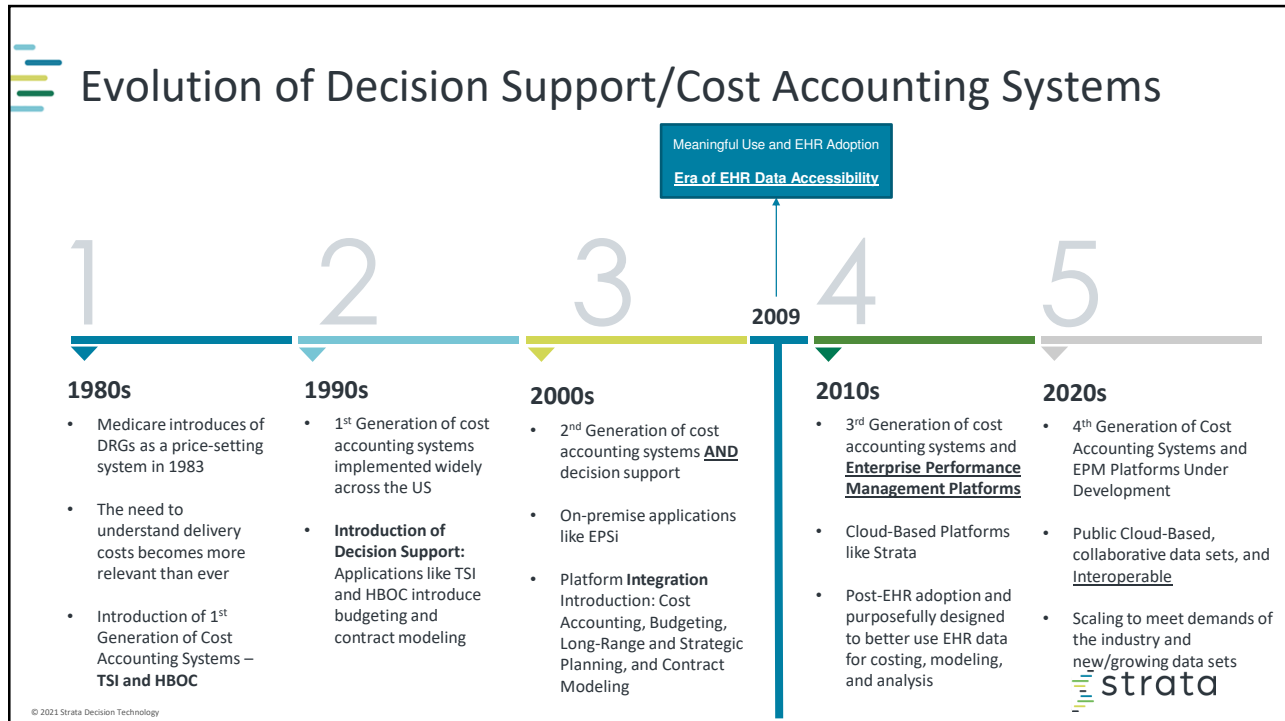




Topics

- Decision Support and Cost Accounting Through the Years
- Enterprise Performance Management – What Is It and Where Does Cost Accounting Fit In?
- Guiding Principles to Cost Accounting
- Utilizing Cost Accounting Data at Your Organization

Decision Support and Cost Accounting Through the Years



Poll Question: Have you worked in financial decision support or with any legacy DS systems?

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Enterprise Performance Management – What Is It and Where Does Cost Accounting Fit In?



Leveraging Your Foundation to Drive Transformation

Step Two: DRIVE TRANSFORMATION
Create a High-Performance Organization

HEALTHCARE IQ

Health systems are now leveraging their significant investment in their IT foundation by deploying cloud-based EPMs to help their team analyze their opportunities, drive performance and transform their organization.

EPM
Enterprise Performance Management

Drives your planning, analytics and performance management for the organization. Reduces variation, increases productivity, eliminates waste and helps create a high-performance healthcare organization.

Step One: BUILD A FOUNDATION
Support Clinical and Operations Workflow

HEALTHCARE IT


All provider organizations have invested in EHRs and have deployed or are in the process of deploying cloud-based ERPs. This has provided a foundation for their team for their clinical, supply chain and human resource processes.

EHR
Electronic Health Record

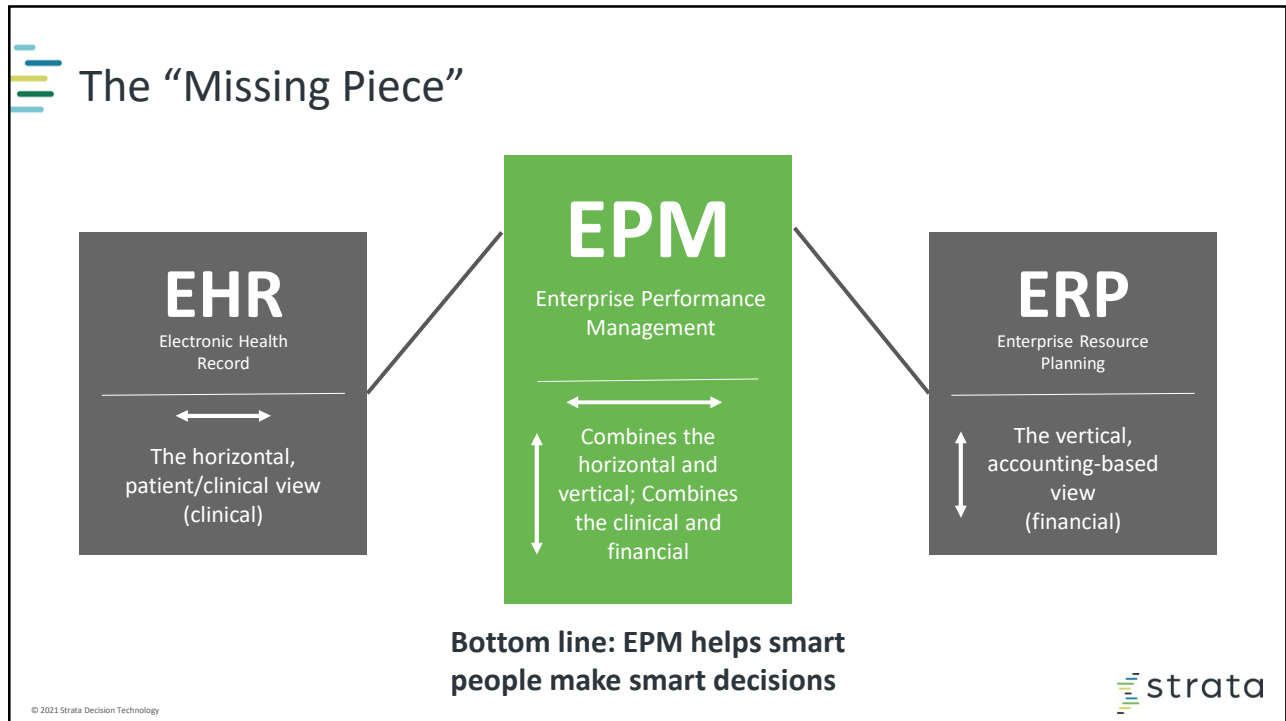
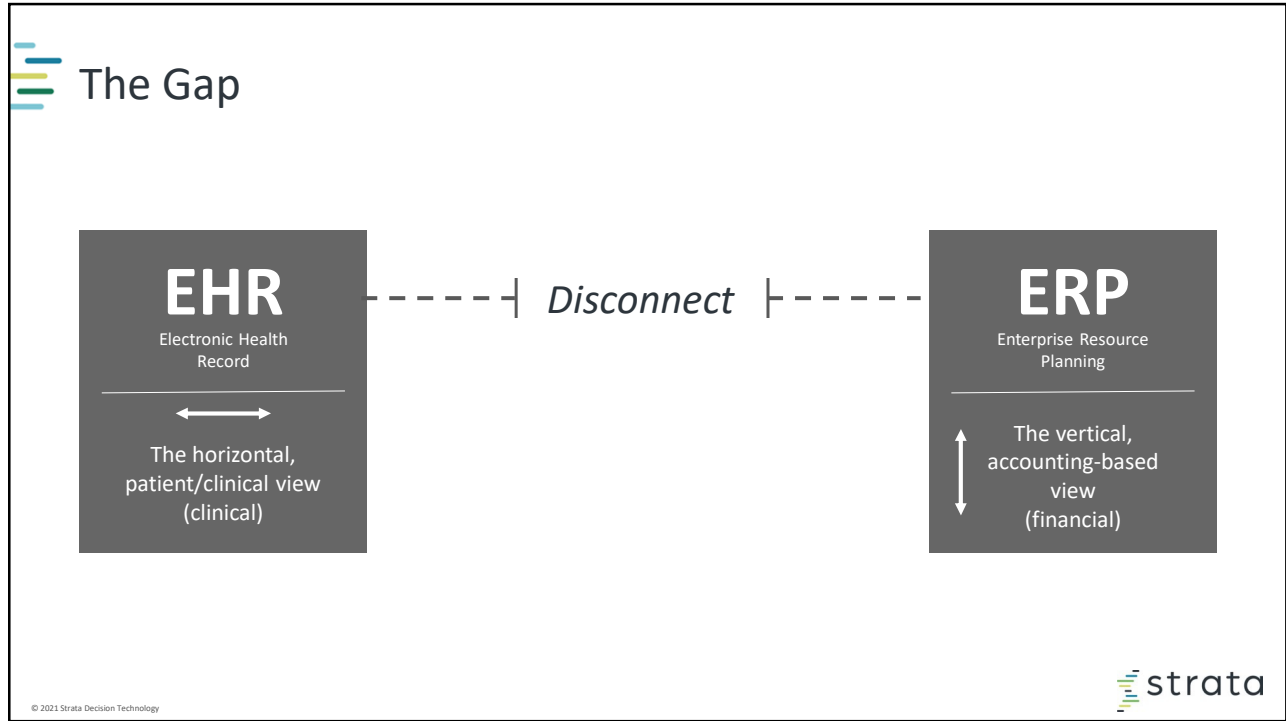
Automates documentation, orders, clinical communication, billing, etc.

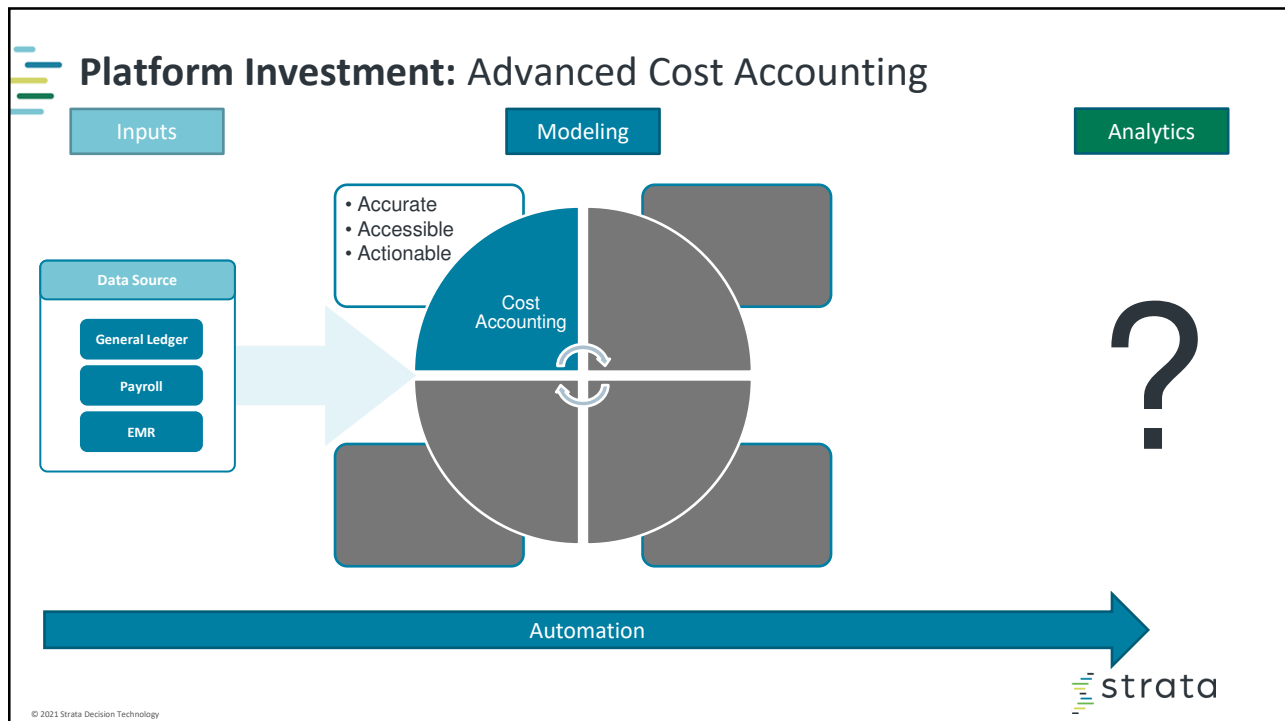
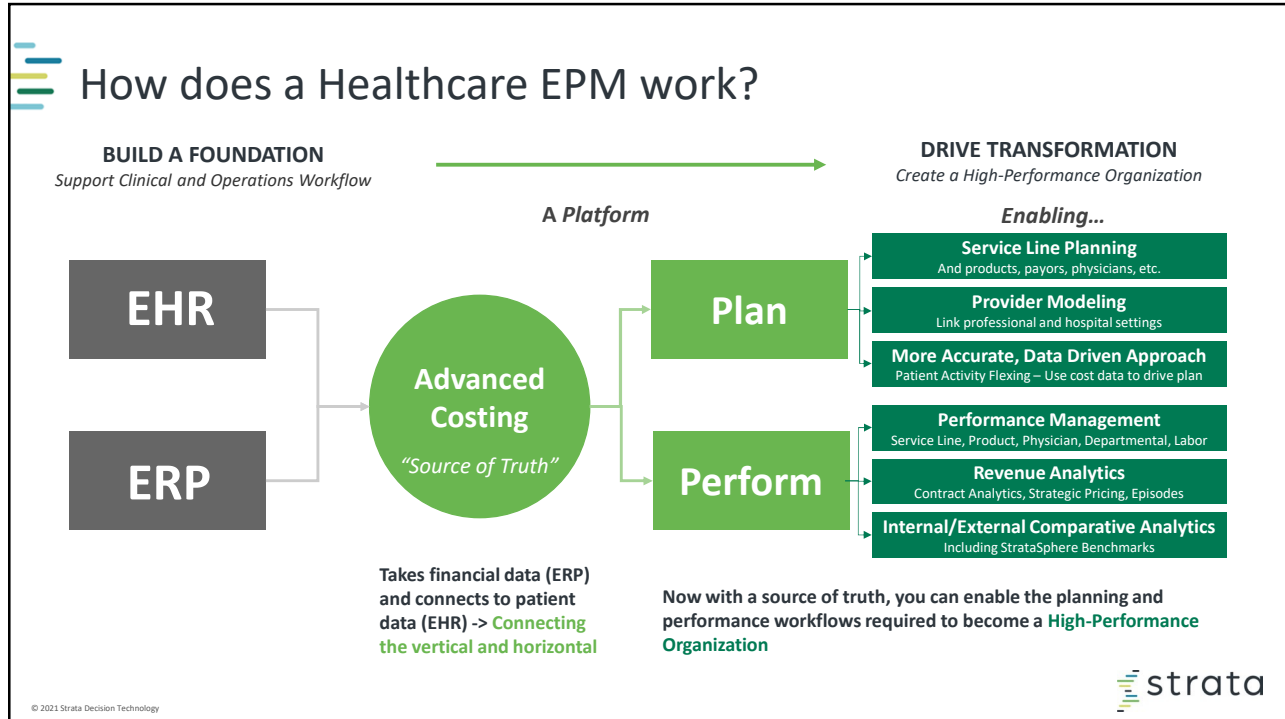
ERP
Enterprise Resource Planning

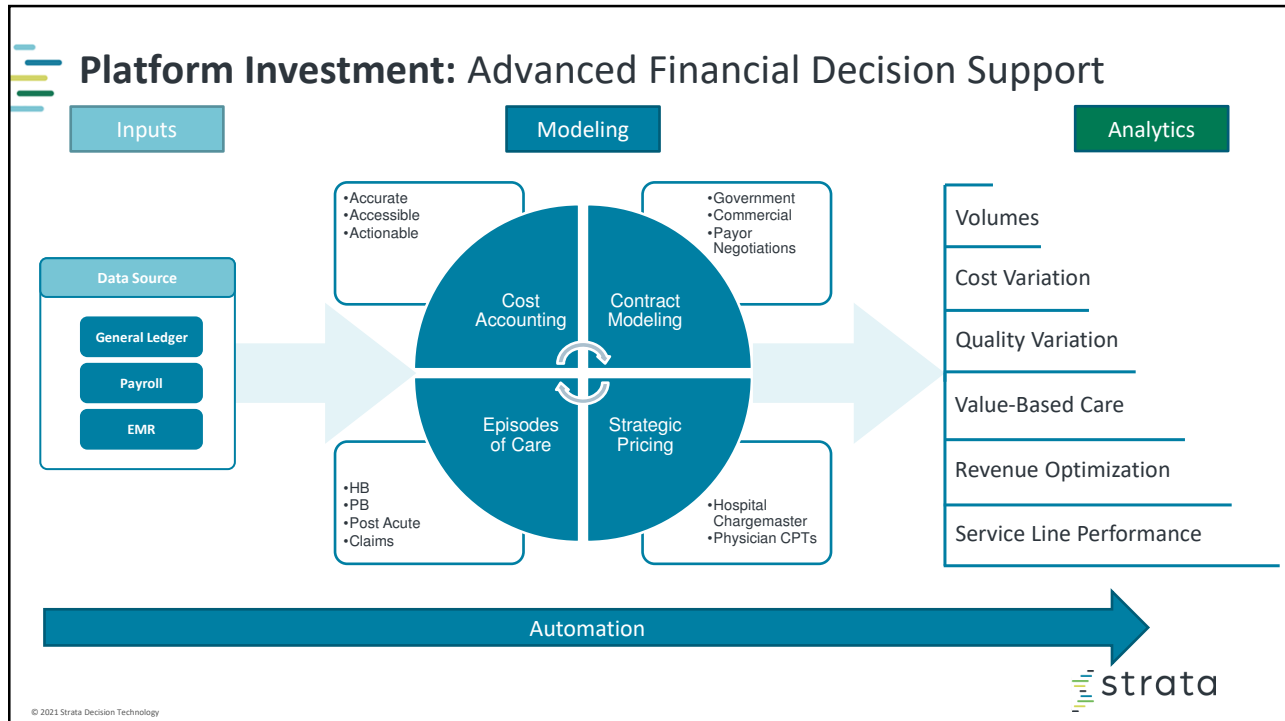
Manages business processes and transactions including accounting, supply chain, HR, etc.



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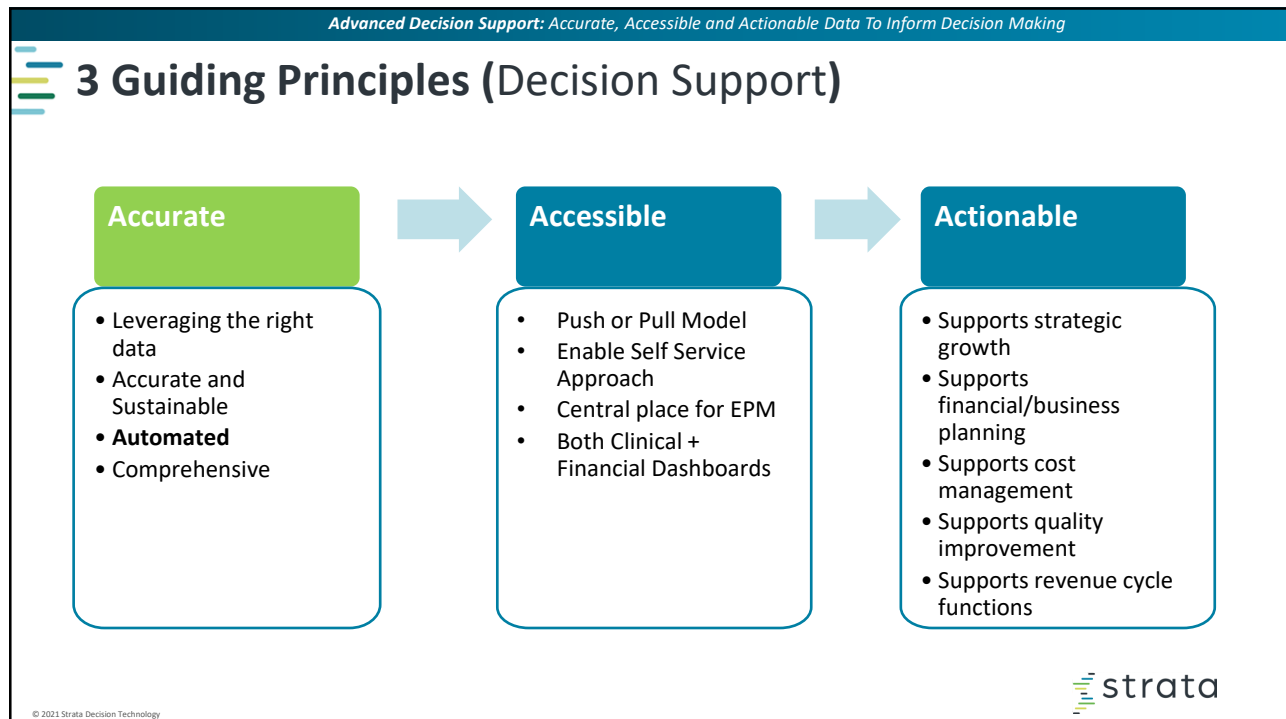




Poll Question: Raise your hand if your organization is costing today?

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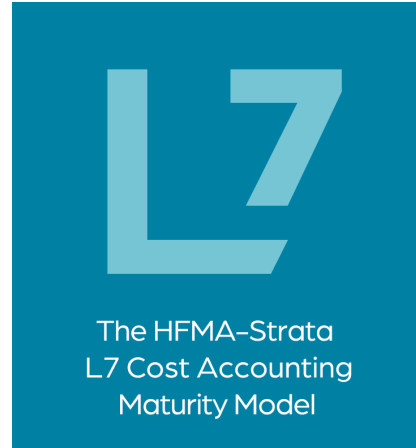
Guiding Principles to Cost Accounting






What is L7?

- Provides the industry’s first cost accounting roadmap to help hospitals and healthcare delivery systems access accurate cost data
- Helps organizations benchmark their current cost accounting capabilities against peers
- Provides a framework for overall performance improvement and understanding the total cost of care



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 The HFMA-Strata L7 Cost Accounting Maturity Model		ACCURATE: Components of Cost Model	COMPREHENSIVE: Scope and Use of Cost
7	Levels 1-6 + Use of Patient-Specific Timestamp Detail to allocate >35% of Variable Direct Labor Cost + Rebates are Applied at the Patient Level for every applicable Supply or Drug + Cost for Professional Services Using Patient-Specific Time Stamp Detail to allocate >25% of Direct Labor Cost + Integrating Outside Medical Expense Claim Detail + Cost at a Real Time/Near Real Time Basis	All Services Provided to Patients & Members Established Data Standardization & Mature Data Governance Real Time Cost Utilization & Predictive Analytics	
6	Levels 1-5 + Use of Patient-Specific Timestamp Detail to allocate >25% of Variable Direct Labor Cost + Payor Discount Programs (e.g.: 340B) Reflected in Drug and Supply Cost + Cost for Professional Services Using Timestamp Detail to allocate >5% of Direct Labor Cost	All Services Provided to Patients Established Data Standardization & Mature Data Governance Patient Utilization, Pop Health & VBC Analytics	
5	Levels 1-4 + Use of Patient-Specific Timestamp Detail to allocate >15% of Variable Direct Labor Cost + Patient-Specific Acquisition Cost for Non-Chargeable Supplies at Item Level + Patient-Specific Acquisition Cost to allocate >75% of Direct Drug Cost + Labor Cost for Professional Services Attributed Directly to Providers. + Comprehensive Use of Activity Codes Identifying Variation Not Captured by the CDM	Hospitals + Physician Groups + Post-Acute Care Established Data Standardization & Mature Data Governance Patient Utilization, Pop Health & VBC Analytics	
4	Levels 1-3 + Use of Patient-Specific Timestamp Detail to allocate >5% of Variable Direct Labor Cost + Patient-Specific Acquisition Cost to allocate >75% of Supply Direct Cost + Patient-Specific Acquisition Cost to allocate >50% of Direct Drug Cost + Cost for Professional Services Based on 80% CMS RBRVS and 20% Directly to Providers. + Limited Use of Activity Codes Identifying Variation Not Captured by the CDM	Hospitals + Physician Groups Established Data Standardization & Mature Data Governance Hospital & Professional Service Line Analytics	
3	Levels 1-2 + Use RVUs to allocate >75% of Variable Direct Labor Cost + Patient-Specific Acquisition Cost to allocate >50% of Direct Supply Cost + Standard Cost, RVU or Percentage Markup to allocate >25% of Direct Drug Cost + Cost for Professional Services using CMS RBRVS + Cost is Maintained on a Monthly Basis	Hospitals + Physician Groups Expanding Data Governance Hospital & Professional Service Line Analytics	
2	Level 1 + Use RVUs to allocate >50% of Variable Direct Labor Cost + Standard Cost, RVU or Markup to allocate >25% of Direct Supply Cost + Cost for Professional Services Utilizing RCC + Detailed Cost Components for Supply and Labor	Hospitals + Physician Groups Foundational Data Governance Hospital Service Line Analytics	
1	Use RVUs to allocate >25% of Variable Direct Labor Cost + Use RVUs to allocate >50% of Direct Supply/Drug Cost + Simultaneous Overhead Allocation + Cost is Maintained on a Semi-Annual Basis	Limited to Hospitals & No Data Governance Utilization Driven Analytics	
0	Use a Basic RCC Methodology for Labor, Supply/Drug, and Overhead Expenses	Limited to Hospitals & No Data Governance Used for Medicare Cost Reporting Only	

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What is your organization's L7 score?



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Advanced Decision Support: Increased accuracy via patient-specific costing methods



Advanced Decision Support: Automated Activity-Based Costing

Automated data feeds from EHR clinical applications allow for automated activity-based costing



Understand true cost of services based on actual utilization of resources



Provider compensation modeling



Time-Driven Costing



Acquisition cost of supplies and implants



Cost of drugs including 340B, GPO, WAC



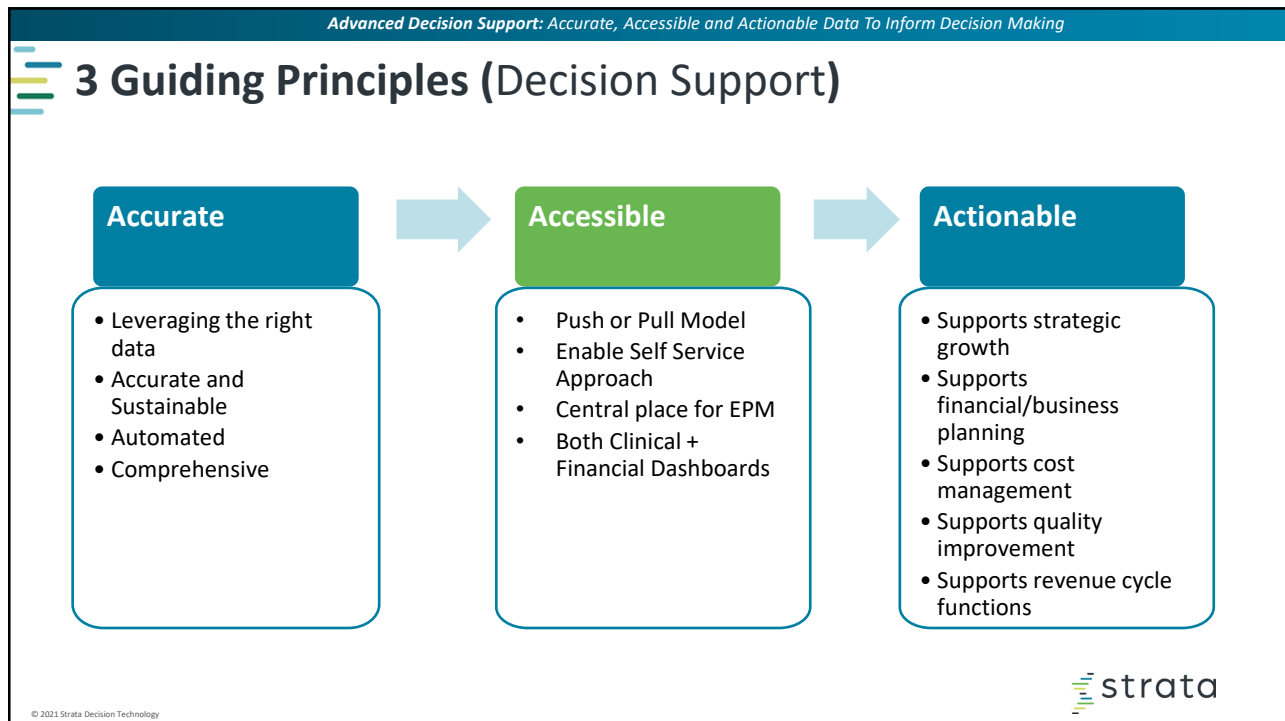
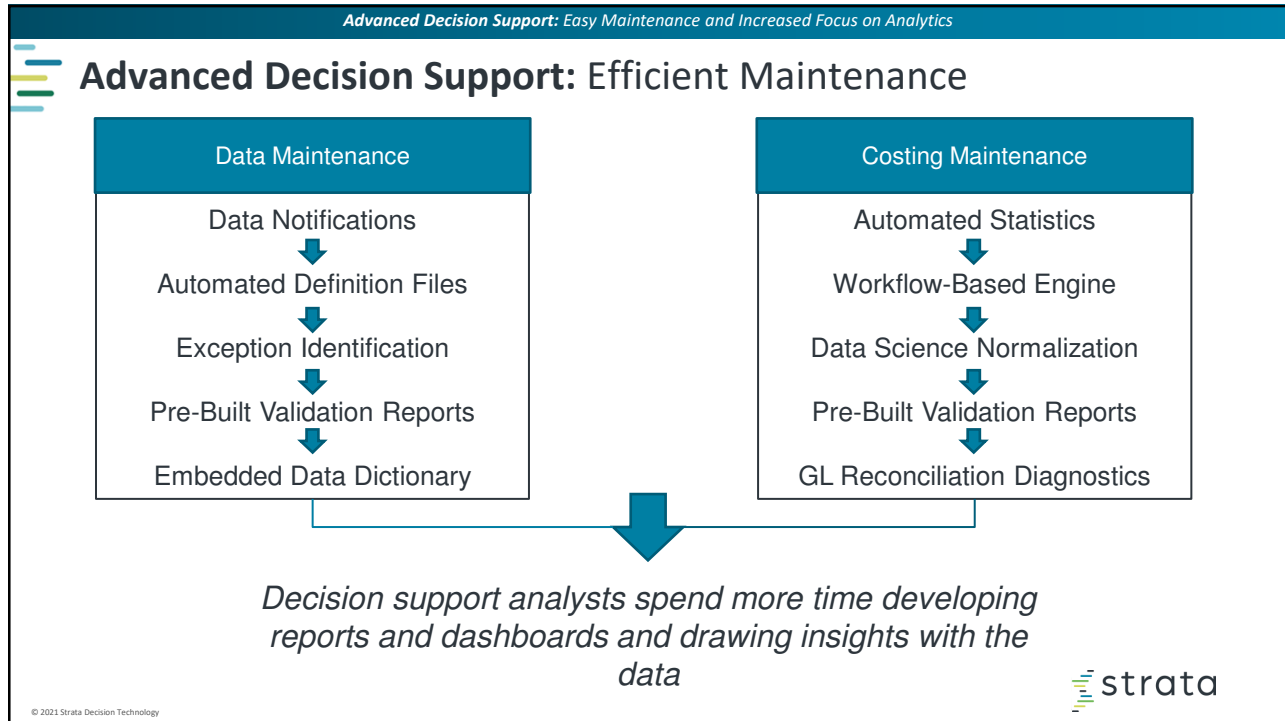
Special Populations: Covid-19, Transplants, etc.

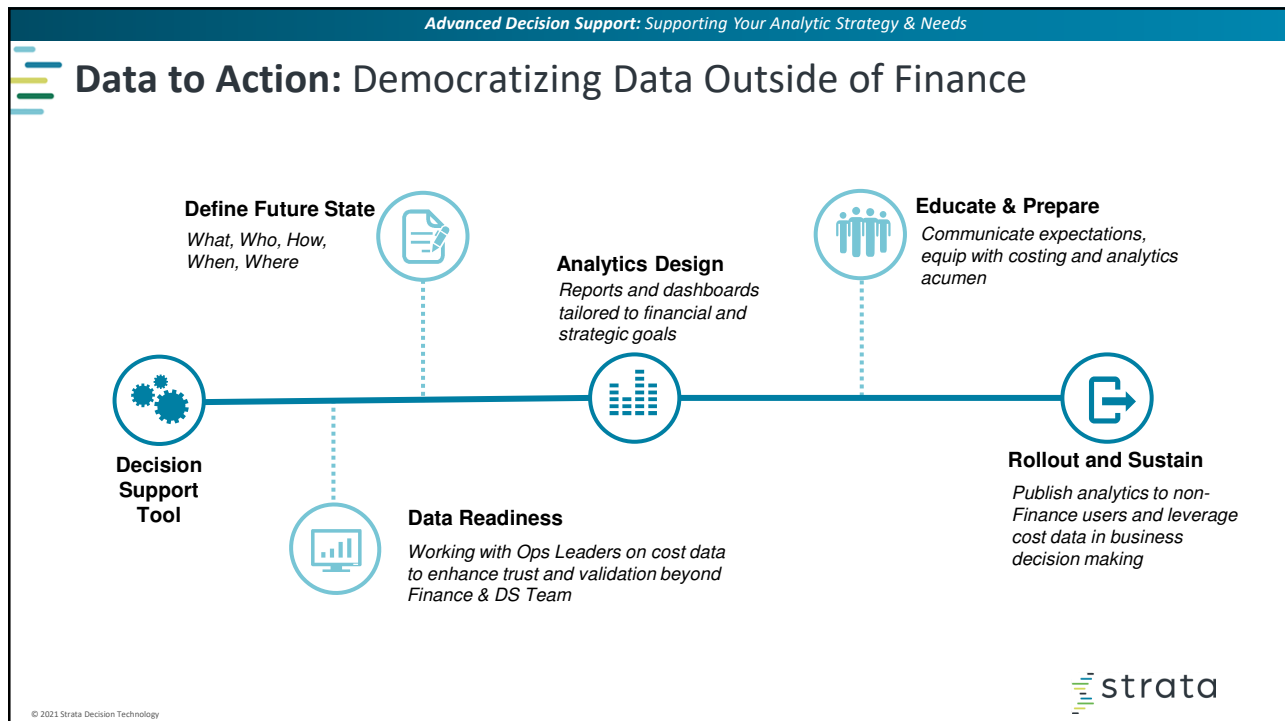
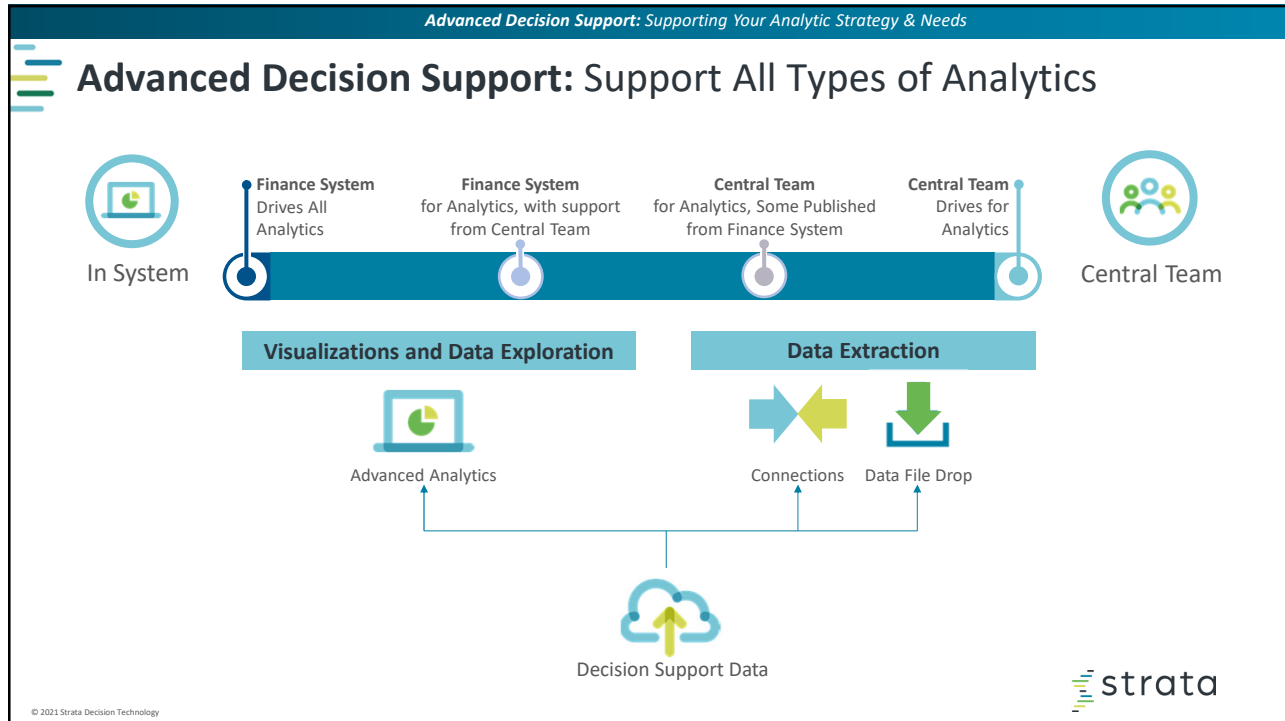


Robotic-assisted procedures

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Poll Question: Is your organization investing in cloud analytics tools or data warehouse platforms?

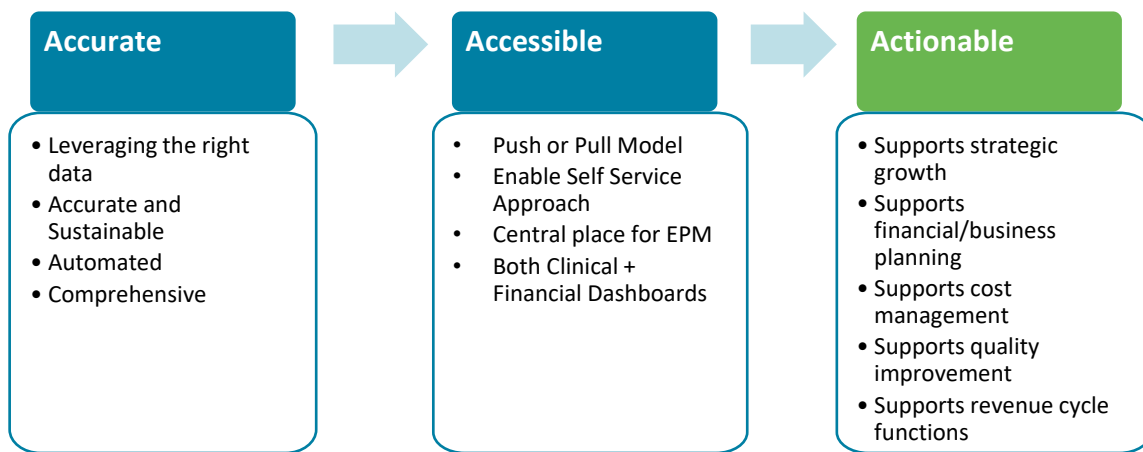


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Advanced Decision Support: Accurate, Accessible and Actionable Data To Inform Decision Making



3 Guiding Principles (Decision Support)



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Advanced Decision Support: Services can enable better adoption and utilization of data and insights

Advanced Decision Support: Enablement Checklist

Strengthening data and teams to pave the way for enterprise-wide Decision Support

A. High Integrity Data

B. DS Design

C. Advanced Decision Analytics

D. Margin Management

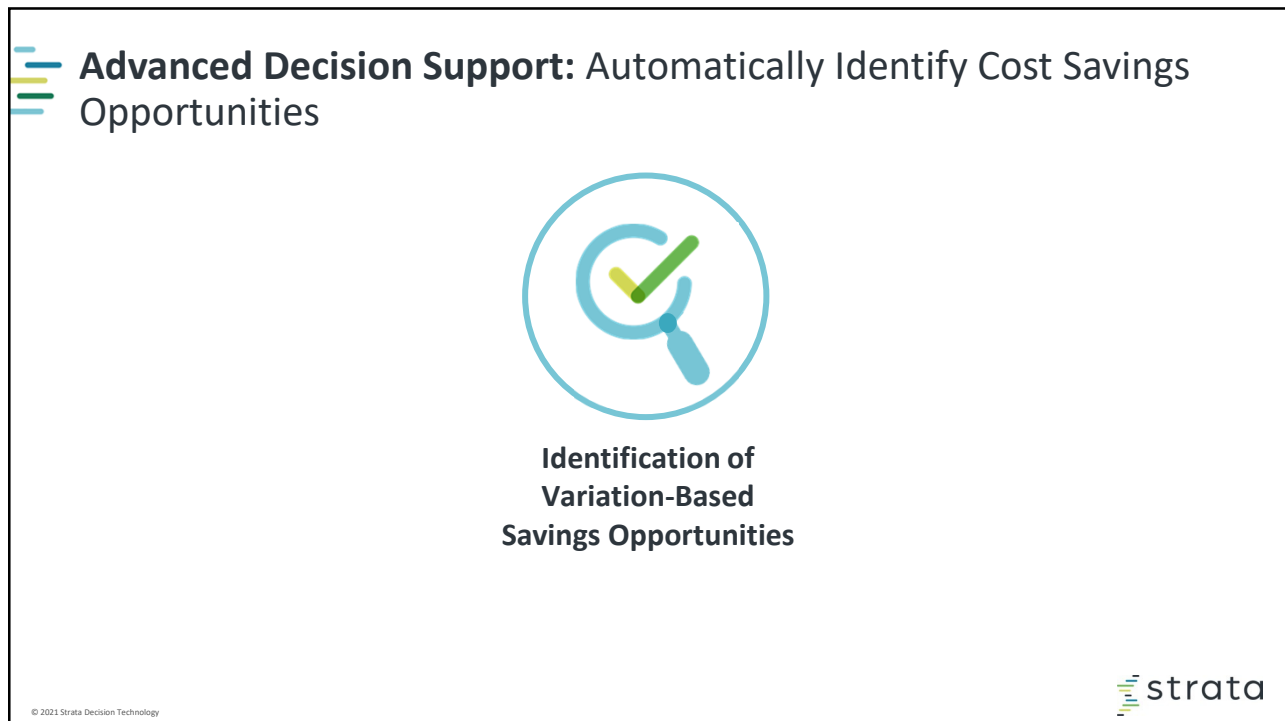
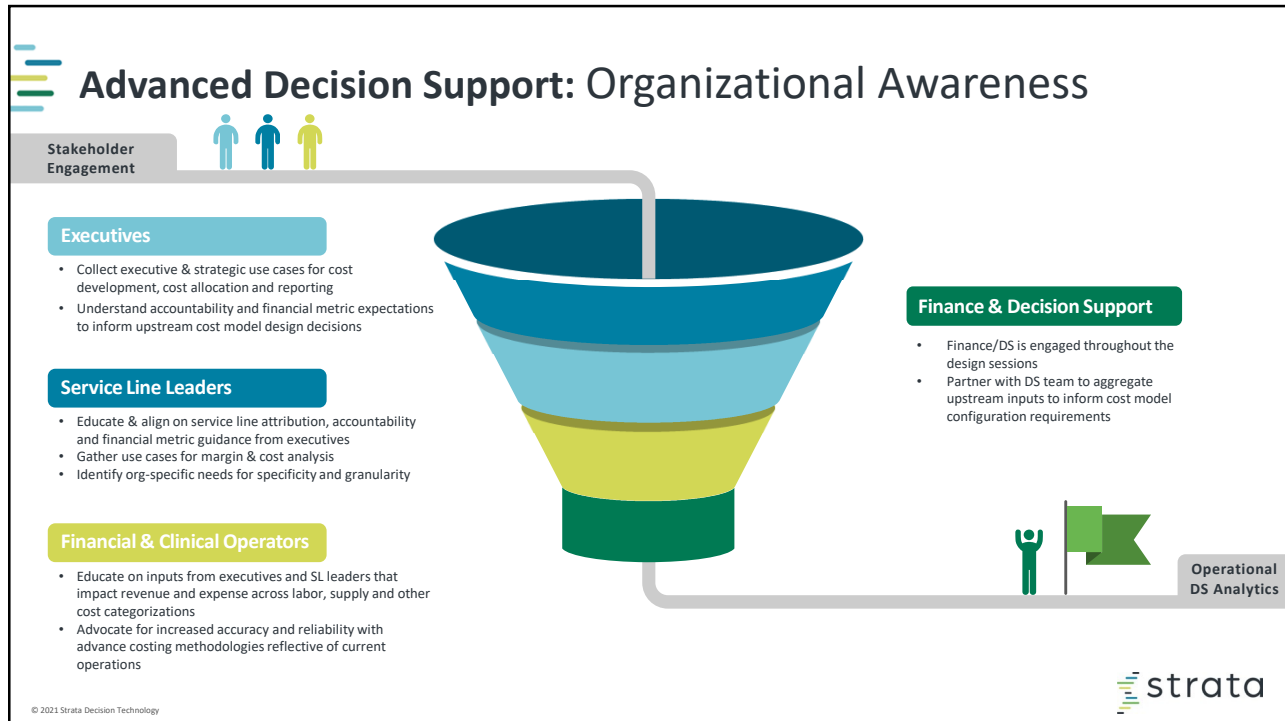
<p><i>Source data for DS is accurate, comprehensive and well-governed</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> GL alignment: exp/rev/stats <input type="checkbox"/> Chart of Accounts clarity <input type="checkbox"/> CDM size & accuracy review <input type="checkbox"/> Encounter data <input type="checkbox"/> Data Integration 	<p><i>Cost model reflects organizational priorities and enables cross-facility comparison</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Cost Model Design <input type="checkbox"/> Service line attribution <input type="checkbox"/> Patient data summarization <input type="checkbox"/> Episodes Design <input type="checkbox"/> Net Revenue Model Design <input type="checkbox"/> DS Model Configuration 	<p><i>Apply DS insights and analytics to complex and strategic decision-making</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Analytics Design <input type="checkbox"/> Analytics Configuration <input type="checkbox"/> Analytics accessibility <input type="checkbox"/> Analytics accountability <input type="checkbox"/> Patient Activity Planning 	<p><i>Well-defined processes and functions for cost savings and value creation</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Service Line Management <input type="checkbox"/> Cost savings governance <input type="checkbox"/> Comparative Cost analytics <input type="checkbox"/> Episode Analytics (Care Pathway)
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Team & Governance

Well-defined processes and functions

- ✓ DS Model
- ✓ Analytics & reporting
- ✓ Metric & KPI

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Poll Question: Is your organization performing and tracking cost savings initiatives? What percentage of initiatives are not achieving targets?



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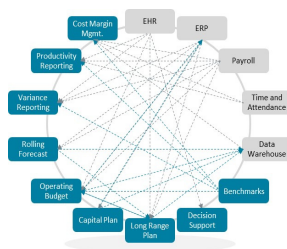


The Challenge: Improve Margin and Sustain the Gain

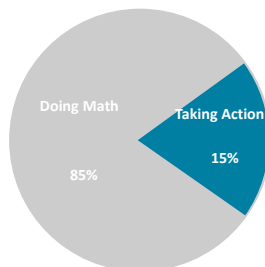
83% Of organizations report that Financial Improvement Initiatives are **NOT** achieving targets and financial performance is at risk

WHY EFFORTS TO ACHIEVE FINANCIAL IMPROVEMENT UNDER DELIVER

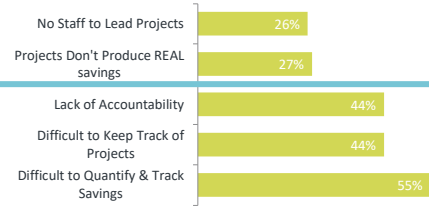
Lack Single Source of Truth



Labor Intensive = Less Time to Take Action



Lack Accountability for Results & Not Sustainable

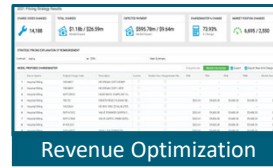


Source: Strata Decision Survey (n=100 providers)

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Advanced Decision Support: Not just cost, but full margin impact of performance

Advanced Decision Support: Analytics & Insights

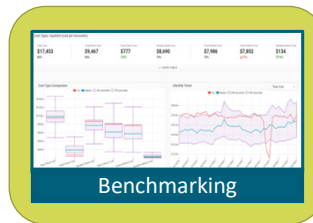
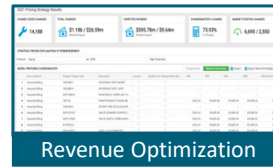


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Advanced Decision Support: Not just cost, but full margin impact of performance

Advanced Decision Support: Analytics & Insights



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Poll Question: Covid patients excluded, what percent the median cost per IP case increased since 2019?



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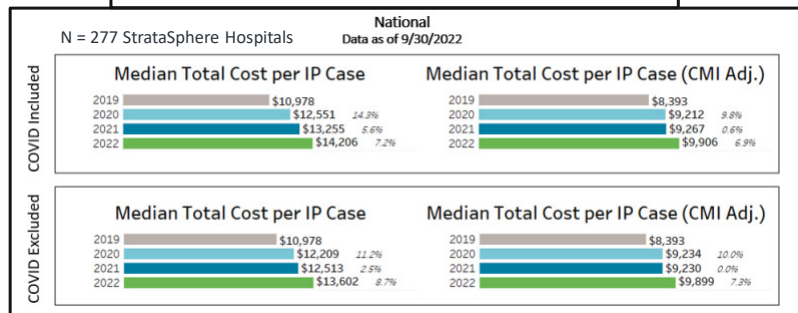


Costs increases continue to outpace revenue increases

- Inpatient Costs have been increasing every year for the past four years
- Revenues have not increased at the same rate as costs
- Organizations must continue to manage their costs

2019 > 2022 Median Cost per IP Case Increase:

24%



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Thank you!

If you have any questions – feel free to stop by Strata’s table or email me at:

jgoodman@stratadecision.com