

Underlying Financial Concepts – Competencies

Upon mastering this module, you should be able to:

1. Define the concept of a “unit of care,” including a range of examples of “units of care” that span different elements of care delivery operations.
2. Identify and define 2 stacked levels of “utilization,” linking them to units of care.
3. Outline the structure and function of a “cost master.”
4. Define “bundling,” in the context of units of care and a cost master.
5. Contrast a “charge master” to a “cost master.” Link that distinction to federally-mandated billing systems.
6. Describe how a billing system works, in the context of a charge master or a cost master. As part of that description, outline the structure and function of a “transaction file.”
7. Distinguish between “direct costs” and “indirect costs.” Include a summary of the major factors that make up each. Functionally distinguish between “direct costs” and “indirect costs,” in terms of ability to manage operating costs.
8. Define and distinguish between “fixed costs” and “variable costs.” Define “duty cycle.” Functionally link the concept of duty cycle to fixed cost allocation.
9. In the context of using better quality to take operating costs out of a system (that is, the idea of extracting quality-associated waste), use fixed costs versus variable costs to describe the form that savings arising from waste reduction take. Outline 2 major follow-on management strategies, when waste savings take the form of an increased level of unused capacity.
10. Define and describe “cost to charge ratios” (CCRs) and “relative value units” (RVUs). Link them to cost master versus charge master-based cost accounting approaches.
11. Outline and contrast 3 critical numbers associated with health care delivery costs, contracting, and billing: (1) true costs of operations; (2) allowed amounts; and (3) billed charges.
12. At a functional level, explain why waste elimination has much higher financial leverage than traditional revenue enhancement strategies, as reflected in operating margins.