



Financial management

Can room and board lead to hidden revenue?

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Abstract: Review how a hospital's financial department builds inpatient room and board charges.

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Hospital administrators typically adjust their facilities' inpatient room and board rates and service charges in response to rising costs.

Finding the right formula

Financial staff may use the following to determine costs:

- ◆ actual costs multiplied by a markup percentage
- ◆ allocated costs multiplied by a markup percentage
- ◆ historical trends
- ◆ prices indexed to a fee schedule (such as Medicare)
- ◆ a combination of relative value units and allocation multiplied by a markup percentage.

To assist with accurate cost determination, financial or decision-support staff rely heavily on utilization data provided by individual inpatient units, materials management, and the accounting department. Some facilities group all supply and personnel costs into the room and board charge and then don't charge for individual procedures in inpatient units. But technology improvements and declining profit margins have prompted many facilities to accurately document and charge for supply-intensive, physician/prescriber-ordered inpatient procedures. The addition of new procedure charges often requires the analysis and recalculation of room and board fees.

Personnel

Staffing costs comprise the most significant portion of the daily room charge. Payroll data and statistical reports provide costs per department. A simple formula is to divide personnel costs by the number of patient days. Conduct a

Use tracking and distribution systems to control inventory and accurately capture charges.

detailed analysis by assessing staffing costs in accordance with diagnosis code, length of stay, and patient acuity.

Also consider evaluating different employee categories, including technicians and secretaries, and staff from nursing, social services, and housekeeping.

Patient acuity

Consider using acuity systems to identify the level of service for the room and board charge, which will help identify low-intensity and high-intensity patients. If your facility uses acuities to identify a variable charge, then it's important to educate nurses about how their charting and acuity assignment impact the patient's bill.

Supplies

Medicare rules and regulations indicate what items to include in the room and board charge. The materials management staff can help identify the average supply costs per patient. Call on staff nurses to validate routinely used items for patients of varying acuities. Accurate tracking and distribution systems will allow you to identify increasing or decreasing supply usage, ultimately enabling you to build accurate room and board rates. Nurses' effective use of these systems is key to inventory control and charge capture.

Revenue codes indicate where the service originated and help ensure that the revenue and expenses associated with an item are allocated to the same department. Revenue codes should specifically represent the service identified in the charge description master (CDM) and be appropriately mapped to the CPT-4/HCPCS code where applicable. Medicare Provider Reimbursement Manual HCFA Pub.

15-1 outlines supplies that aren't reimbursable—most notable, routine supplies such as linens, tissues, gloves, chux, and admission kits. Most billing and coding staff recommend including floor stock items in the appropriate room and board or for a specific procedure or service.

To bill a patient for a supply item, it must be:

- ◆ directly identifiable
- ◆ furnished upon prescriber request
- ◆ medically indicated
- ◆ nonreusable and/or represent a cost for each preparation.

To efficiently track equipment utilization, hospital administrators may set up a counter on the facility's CDM to identify supply usage. Although these counted items don't incur a separate charge, they may influence the service level that a patient receives.

Procedures

Nurses use order entry software and documentation systems and collaborate with health information management coders to ensure accurate identification of procedures. Facilities that don't use computerized physician/prescriber order entry depend on nursing and health information staff to work with others to identify methods of capturing all procedure charges. To best build a procedure charge, create a team of nurses, prescribers, materials management staff, and coders to work together to accurately identify all supply items used during a procedure.

Overhead costs

All businesses have fixed and variable costs associated with daily operations. Assign items such as electric bills, facility maintenance, and administrative costs to the individual units and the room and board rates. Mentor staff to take ownership of cost containment and inventory control. Without a high level of detail, uncharged items must be allocated to overhead, which unnecessarily drives up costs.

Part of a process

Although complex and tedious, defining room and board charges is a necessary means of adjusting for increased costs. To increase revenue, managers should also renegotiate contracts and help the organization improve documentation and processes to eliminate insurance payment denials.

Keep in mind that hospital processes intersect interdepartmental lines; it's critical for nurses to understand how the finance department operates and the steps involved in pricing services to help capture all potential revenue. **NM**

About the author

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