



Alaska Department of Health and Social Services
Division of Behavioral Health

“Getting to the Bottom Line”

An Optimal Model For Creating Budgets

*State of Alaska Division of
Behavioral Health*



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OPEN MINDS

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Agenda

- I. The Importance Of Budget Development
- II. Types Of Budgets
- III. Budget Development Process
- IV. We Have the Numbers – Now What? Keys To Successful Budget Management
- V. Budgeting Considerations



I. The Importance Of Budget Development

Industry Trends

- Focus on quality
- Price competitiveness
- Informed consumer
- Managed behavioral health care
 - Scrutiny of practices
 - Fixed revenue of contract – provider pushdown
- Performance-based payments
- Reduction in government funding
- Value purchasing

Trends In The Nonprofit World

- Increasing concern about the sustainability of non-profit entities
- Diminishing distinction between non-profits and market-drive, profit centered concerns

Industry Trends & Budgeting

- Address trends by
 - Allocating resources in alignment with strategic goals
 - Planning and monitoring costs and quality
 - Budgeting exercise should clearly show the cost of providing services

So Really, What Is A Budget?

- A balanced financial plan that promotes the efficient allocation and use of resources and ensures that all funds received and disbursed are accounted for in accordance with current laws, regulations, and policies
 - A plan
 - Identifies receipts and expenditures in specific amounts
 - Specific cost categories
 - Set period of time
 - Monitoring mechanisms

Benefits Of Budgeting

1. Specifies goals and allows progress toward goals to be monitored and assessed
2. Identifies resources needed to accomplish goals
3. Provides financial and operational guidance to implement policies
4. Measures and guides immediate and long-term financial health and operational effectiveness
5. Creates a tool for controlling spending and deficits
6. Integrates all functional activities
7. Guides acquisition and use of resources
8. Can be basis for performance reviews and compensation criteria
 - ✓ What gets measured gets done!



II. Types Of Budgets

Types Of Budgets

- Company-wide
 - Combination of all unit budgets
- Individual unit budgets
 - Service units
 - Expenses and revenue
 - Cost center – HR, maintenance, administration, etc.
 - Expense only
- New business opportunities
 - New program, new grant
- Capital budgets
- Cash-flow budgets

Company Operating Budget

- High-level view of entire company
- Roll-up of all individual components
- Supported by detailed individual operating budgets
- Useful for determining overall achievement of budget targets

Company Operating Budget

Company-wide Budget							
	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Annual
REVENUE							
Medicaid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Medicare	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Managed Care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Raising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENSES							
Officers Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Support Staff Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Independent Contractors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education & Training	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
401K Plan Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank Service Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal & Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lease Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Postage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recruitment Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer-related Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internet Access Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marketing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Association Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subscriptions & Dues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Telephone	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET PROFIT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Individual Operating Budget

- Budgeting units
- Revenue
- Expenses
 - Direct expenses
 - Cost to deliver care
 - Indirect expenses
 - Administration
 - Overhead

Individual Operating Budget

Program Operating Budget							
=====	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Annual
REVENUE							
Medicaid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Medicare	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Managed Care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

TOTAL ADJUSTMENTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NET REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

EXPENSES							
Officers Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Support Staff Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Independent Contractors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education & Training	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
401K Plan Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Postage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recruitment Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer-related Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marketing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Association Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subscriptions & Dues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Allocation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

TOTAL EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NET PROFIT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Shared expenses such as rent are now included in Corporate Allocation

New Business Opportunities

- Expansion of mission
- Project income and expense related to new ventures
- Treat the same as an individual operating budget

Non-Operating Budgets

- Capital budget
 - Plan for major purchases
- Cash flow budget
 - Timing issue of inflow and outflow of cash
 - Complex issue in healthcare
 - More important you know they exist and why than that you could create one

Capital Budgets

- Major, nonrecurring expense
- Over specific dollar amount
 - Based on internal policy
- Useful life of more than one year

Cash Flow Budgets

- Difference of actual cash received and spent
- Often expenditures are made in advance of income receipt
- Adjust for lag in payments or receipts
- Key is to avoid negative cash flow
- *Beware of averages* – if you have seasonality issues in your operating cycle, adjust the income and expense projections appropriately or you run the risk of a negative cash flow

Cash Flow Budgets

Cash Flow Budget							
	Beginning Balance	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
=====							
Cash on Hand (beginning of month)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CASH RECEIPTS							
Cash Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collections fm CR accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loan/ other cash inj.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CASH RECEIPTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cash Available (before cash out)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CASH PAID OUT							
Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gross wages (exact w withdraw al)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll expenses (taxes, etc.)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank Service Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal & Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lease Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Postage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recruitment Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer-related Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internet Access Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marketing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Association Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subscriptions & Dues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Telephone	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loan principal payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital purchase (specify)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other startup costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve and/or Escrow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CASH PAID OUT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Position (end of month)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



III. Budget Development Process

Three Types Of Budget Development Models

- **Incremental model**
 - Use historic information and make incremental changes
 - Personnel budget – salary and expenses remain relatively the same year to year
- **Zero-based model**
 - No historical data
 - All revenue and expense accounts start at zero
 - Type of budget you might see with your first job out of college
- **Activity-based model**
 - Cost based

Incremental Budgeting Model

- Establish a base line
 - Typically use previous year actual costs
- Adjust for known factors
 - COLA for salaries
 - Yearly increases in leases and agreements, e.g. rent
- Inflate for unknown factors
 - Assume health insurance costs will rise. How much?

Zero Based Budgeting Model

- If this service did not exist today, how would you budget the cost and income?
- Zero based budgeting
 - Start at ground zero
 - Justify all expenses with little reliance upon historical experience
- The past should have no bearing on what is planned for the future

Zero Based Budgeting *Answers*

- This method of budgeting helps to answer the following questions:
 - Should the program be continued?
 - Should operations be modified?
 - What would the modifications be?
 - What is the appropriate level of expenditure?

Zero Based Budgeting *Considerations*

- More difficult than incremental budgeting
- Requires detailed cost information
- Can be threatening to managers and staff
- Necessitates detailed planning and cost calculations
- Time-consuming process

Activity Based Budgeting

- Outgrowth of Activity-Based Costing (ABC)
- Understanding cost through process mapping and ABC
- Method of assigning indirect costs
- Identifies core processes and activities
- Links activities with costs – cost drivers
 - Example (above): Billing staff salary expense may be assigned based on each program's share of charges
 - \$60,000 in indirect costs can be assigned
- Ties to strategic goals of the organization

Cost Measurement

- Health care measurement is challenging because delivery itself is so complex
- Trend toward driving down cost through value-based purchasing necessitates assessing total cost of care
- Evaluate all resources used by a patient or “path of care”
- Utilize process mapping to track sequence and duration of clinical and administrative processes
- Assign cost by percentage or time to arrive at cost of care for patient and populations

Components Of Budget Process

1. Key concepts
2. Guidelines
3. Preparation and assumptions
4. Policies and procedures
5. Roles and responsibilities
6. Revenue estimates
7. Expense estimates
8. New business opportunities
9. Approval process

Component #1: Key Concepts

- Understand the nature of operations
- Understand the key contractual requirements
- Understand the reimbursement methodologies for all lines of service
- The accountant needs to be able to translate numbers to non-numbers people and to understand the concerns and driving elements of their functional responsibility

Meaningful Budget Talk

1. Are there specific financial objectives that we want for the next year?
2. Are there desirable new projects, program expansions, or changes in compensation?
3. Are there large expenses for which we should be saving?
4. Are there changes to the system environment that may impact our operations?
5. Is our dollar allocation generally in line with our priorities?

Component #2: Guidelines

- It's not ROCKET SCIENCE
 - Bean counters only want you to think it is!
- Don't sweat the small stuff
- History is generally the best predictor
- Have faith in regression to the mean
- Know who controls what and let others worry about their part
- Program people need to own it, meaning:
 - Participate in development
 - Understand it
 - Believe it to be fair and reasonable
 - Know how budget will be monitored
- Accountant's role is that of scribe, NOT OWNER

Component #3: Preparation & Assumptions

- Know the purpose of this particular budget
- Have good historical accounting information
- Understand the key concepts
- Break budget down to appropriate organizational units
- Know what income and expense items you are responsible for and what is the responsibility of others

Structure Of Budget

- What level of detail will be incorporated?
 - Documentation of assumptions
 - Period projections – monthly, quarterly, etc.
- Who will be involved in the process?
- Is this a top-down or bottom-up approach?
 - Top-down starts with income
 - Bottom-up starts with expenses
- What are appropriate targets?

Alternatives For Developing Key Assumptions

1. Historical
2. On-going operations
3. Current information
4. Planned operations changes

Alternative #1- Historical

- Gross billing per hour of service by staff type
- Collection rates by team on gross billings
- Operating costs of ongoing efforts by team
- Employee health costs
- Other employee benefit costs

Alternative #2- On-Going Operations

- Incumbent staff
- Salary schedules
- Grant continuations and renewals
- Contract continuations and renewals
- Leases that reflect rental income and expense

Alternative #3- Current Information

- Notices of government funding
- Rental building budgets provided by property managers



Alternative #4- Planned Operations Changes

- Most commonly change is to add staff
- Second most common is to add program
- Has included the reduction / elimination of programs

Component #4: Policies & Procedures

- List specific steps, responsibilities, and timetables
- Identify those responsible for preparing and distributing the budgeting package
- Determine content and format of budgets
- Specify persons responsible for preparing draft budgets
- List approval process with appropriate parties

Component #5: Roles & Responsibilities

- Board Members
- Executive Director
- Chief Financial Officer
- Program Manager



Board Responsibility

- Budget policies
 - Balanced budget
 - Cash reserves
 - Salary & personnel changes
 - Capital projects
 - New programs
- Legally responsible
 - Meets applicable laws and regulations
 - Fiscally sound
 - Further nonprofit's tax exempt status
- Goals and activities to support mission
- Formal review and approval
- Review of budget implementation and planning process

Executive Director's Role

- Arranges strategic planning sessions
- Guides budget development process
- Ensures budget schedule is met
- Reviews budget drafts
- Allocates resources
- Presents budget to board
- Communicates to staff
- Monitors and corrects on ongoing basis

Chief Financial Officer's Role

- Creates budget calendar and enforces deadlines
- Communicates budget policy and procedure
- Creates budget format
- Analyzes external economic and competitive trends
- Collaborates on setting targets
- Evaluates draft budgets
- Discusses budgets
- Recommends resource allocations
- Prepares and may present budget for board presentation

Program Manager's Role

- Provides information on current program needs
- Identifies costs and effects of changing operations
- Drafts budget for area of responsibility
- Assists with assessment of new programs or opportunities, as appropriate
- Works with finance to prepare draft and revisions of budget

Component #6: Revenue Estimates

- Grants
- Fee for service
- Capitation or case rates
- Fundraising
- Other income
 - Semi-variable

Revenue Estimates - Grant Revenue

- Current grants
- Amounts are generally known if period is greater than one year
- What is the likelihood of reduction or increase to amount?
- New grants
- Grant application submitted
- Evaluate the likelihood of receiving the grant
- Evaluate the likelihood of the dollar amount

Revenue Estimates - Fee For Service Revenue

- Analyze your current mix of payers
 - Medicaid
 - Medicare
 - Managed care
 - Indemnity
 - Workers compensation
 - Other
- By payer type, review the following:
 - Number of patients
 - Services by billing code
 - Frequency of service
 - Negotiated fee schedule reimbursements
 - Billed rates
 - Average collected rates

Alternative Approach For Revenue Projections

If client and payer mix are fairly consistent, may be able to project revenue on overall collection rates



Revenue Estimates Capitation & Case Rates

- Review previous year's experience
- Total number of covered members or cases
- Reimbursement per member, per month, or per case
- Project covered members or number of cases for next 12 months
- Look at expenses to determine if capitation or case rate is sufficient to cover expenses

Revenue Estimates - Fundraising

- Pledges and collection rate
- Prior experience
- Fundraising campaign plan

Revenue Estimates - Other Income

- Interest
 - Generate from cash flow projections
- Donations
- Miscellaneous

Component #7: Expense Estimates

- Direct Expenses
 - Cost to deliver care
- Indirect expenses
 - Administration
 - Overhead
 - Expense Categories
 - Salaries
 - Benefits
 - Program Supplies
 - Office Expense

Expense Estimates - Dimensions of Expense

- Category
 - Direct
 - Clinical/service
 - Administrative
 - Indirect
 - Overhead
 - Administrative
- Characteristic
 - Fixed
 - Variable
 - Semi-variable



Expense Budgeting

- Know if expense is fixed or variable
- Look for relationships between expense items and revenue or other expenses
 - Match to units in revenue projections
 - Analyze mix of services provided with level of provider and productivity standards
 - Psychiatrist performs 19 medication management visits (CPT 90862) per day based on 15 minute visit and 60% productivity standard
 - Merit increase, payroll taxes, and fringes as percentage of salary
 - Analyze costs per FTE or other reasonable base
 - Contractual requirements
 - Grant requires that 90% of funds be spent directly on providing care to consumers

Personnel Expenses - Salaries

- Salaries
 - Detail schedule with name, title, department, salary
 - Number of FTEs should be consistent with revenue projections
 - Merit increase
 - Date of hire – anniversary review
 - Company review – specific date for entire company
- Overtime
- On-call compensation
- Bonuses

Personnel Expenses – Payroll Taxes & Fringe Benefits

- Payroll taxes
 - Federal
 - State
- Fringe benefits
 - Medical
 - Dental
 - 401(k)
 - Life insurance

Occupancy

- Rent
 - Inflation based on contract terms
- Utilities
- Telephone
- Maintenance and repairs

Capital Expenditure Policy

- Minimum dollar value for classification
- Desired rate of return
 - Return on investment (ROI)
 - Payback period
- Cost impact
- Age of existing asset
- Expected capacity
- Asset life

Capital Expenditures Budget

- Capital assets by major category
- Required funding
 - How much?
 - When?
- Location of assets
- Purpose

Component #8: New Business Opportunities

- Project income and expense
 - Can use relationships developed to determine operating costs for new line of business with no experience
 - Supplies average \$30 per FTE per month
 - Direct and indirect expenses
 - Consider effect on fixed costs
 - Rent – enough space?
 - Overhead changes
- Identify any capital requirements

Contract Application Budgets

- Start with an understanding of the program
- Costs generally are cut and paste (or copy) from parts of the operation budget
- Hardest part may be to get service utilization information
 - Usually can construct from history
 - If in doubt, its better to be too high than too low

Component #9: Approval Process

- Board presentation
 - Presentation by CEO and CFO
 - Alignment with mission and goals
 - Budget package
 - Comparison of budget to prior year
- Modifications if necessary
- Final board approval
- Published minutes noting board approval

Approval Process - The Budget Package

- Memo or cover letter
- Graphs and charts to depict numbers
- Company-wide budget
- Capital expenditures summary
- Cash flow budget
- Detailed supporting budgets
 - Based on particular board interests

Approval Process - Comparison To Prior Year

- If prior year is not complete, annualize
 - Nine months of data –
divide by 9 and multiple by 12
 - Adjust for any major known factors
- Highlight differences with rationale readily available
- Be aware of any current issues that have caused significant budget variances and be able to state how they have been addressed in current budget

Four Rules Of Best Practice Budgeting

- The budget is a plan of receiving and spending money in a specified period of time to attain goals
- *Garbage in, garbage out* – the budget is only as good as the time, effort, and information put into it
- *A budget is not exact* - predicting the future with 100% accuracy is impossible
- To attain goals, the budget must be monitored and adjusted as necessary



IV. We Have Numbers – Now What? Keys To Successful Budget Management

Successful Budget Management

- Monitoring budgets
- Corrective actions
- Budgets and budgeting in employee compensation
- Industry trends
- Budgeting traps

System For Monitoring Budgets

- Monthly analysis of budget to actual for current month and year-to-date
 - Written explanation of significant variances
 - Over certain dollar and percentage
 - Rate and volume variance
 - Identify if one-time or on-going variance
- Reviewed by program manager, CFO, and CEO
 - Board should see high level unless requesting more information

Monitoring Budgets

- Reforecast as necessary
 - Generally after first quarter
- Rolling 12-month projection
 - Latest trend due to reporting requirements
- Particularly crucial if cash flow is an issue
- Flexible budgeting
 - 20 patient days increases to 25 days
 - Adjust days and recalculate budget

Monitoring Budgets (con't)

- The key is to have a tool to monitor organizational performance
 - NOT to see how precise the budget may have been!
- Were key assumptions valid?
- Have circumstances changes?
- Are performance issues evident?

Monitoring Reports

- Productivity reports
- Income and expense by team
- Income and expense by organization

Variance Analysis

	Budget	Actual	Variance
Visits	1,000	1,100	100
Rate	\$80	\$75	\$5
Total	\$80,000	\$82,500	\$2,500

Corrective Actions

- Postpone filling new or vacant positions
- Defer nonessential purchases
- Restrict travel or other costly items
- Defer capital expenditures
- Assess possibility of generating additional funds
- Delay payment of invoices and bills

Alternative Compensation

- Tailor performance measurement to the business unit
- Link performance measurement to the unit's short and long term targets
- Combine financial and operating measures based on key value drivers
- Identify performance measures that serve as early warning indicators
- Compensation tied to actual performance without regard to budgeted targets
 - Need to evaluate the appropriate compensation for performance
- Qualitative factors that enhance the strategic goals of the company
 - Customer satisfaction
 - Employee turnover

Compensation Tied To Budget

- Leads to gaming
 - Delay or speed-up revenues and expenses
 - Pad budget to ensure hit targets – “sandbagging”
- Several lawsuits due to fraudulent activities related to attaining revenue and earnings goals
- Focus on net income, not revenues and expenses
- Employee knows that each year, the bar will be raised higher so they will target minimum performance to earn bonus

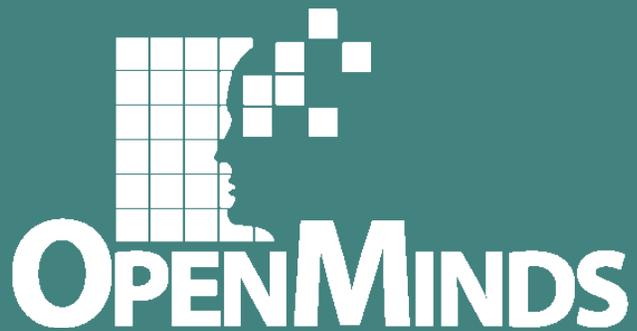


V. Budgeting Considerations

Top 10 Traps of Budgeting

1. Not creating strategic plan first
2. Working without solid cost information
3. Failure to gain input from frontline managers
4. Compensation tied solely to budget
5. Treating the budget as if written in stone
6. Not using the best system resource for budgeting
7. Buying budget software that doesn't match company process or needs
8. Using budget as a business plan – motivational tool not a balance of risks and opportunities
9. Not investigating variances to budget
10. Not assessing if rolling budgets are appropriate

The market intelligence to navigate.
The management expertise to succeed.



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