PART I

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CHAPTER 1

Introduction to Healthcare Finance

LEARNING OUTCOMES

1. Identify the different accounting authorities and their functions within the accounting process.
2. Explain the process by which financial reports are generated and the accounting principles that govern this process.
3. Describe the objectives for financial reporting and its impact on the management process of an organization.
4. Identify the different types of financial transactions in a healthcare facility and the transactions in a healthcare facility that help to control the planning and forecasting of a healthcare organization.
5. Describe the sources of financial data in a healthcare organization.
6. Identify three uses of financial data and how they impact reimbursement in addition to planning and forecasting.
7. Explain the various elements that constitute the financial statements of the healthcare organization.
8. Explain the different types of financial organizations, such as sole proprietorship, partnership, and corporation.
9. Describe the characteristics of for-profit and not-for-profit organizations.

Introduction

Through the years, health care has evolved from a cash payment to the physician at the time of the office visit or home visit to insurance coverage for the visit. Over the years, patients have had changing responsibilities with regard to payment for services; for example, these responsibilities have extended from paying the provider first and receiving reimbursement from the insurance company in a major medical environment to making a copayment or paying a coinsurance amount to the provider and the insurance company paying the provider directly.

This changing environment has placed many challenges on the healthcare provider and administrator. The timing for payment is different from most industries; for example, when people go to the store to buy lumber and supplies for a weekend project, they pay at the time of check-out in the form of cash or credit card. For health care, the patient receives services and leaves the facility, and the hospital or provider bills the insurance company several days later and waits up to 45 days or longer for payment. This process requires the healthcare administrator to be well versed in healthcare finance and general accounting principles.

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This chapter will help to uncover some of the concepts and principles of the basics with regard to accounting by identifying and describing the accounting authorities who oversee the financial transactions for federal and public organizations. This chapter will cover the objectives for financial reporting and the uses of financial information that will support the decision-making process in running an organization. This financial information, which represents the data or transactions of an organization, will help compile the various financial statements that will assist the for-profit or not-for-profit organization in its decision-making process. The sources of this data come from clinical services, patient records, the health information department, and the administration. The financial data will help in areas of reimbursement, control, planning, and forecasting for the healthcare organization.

Accounting Authorities

Federal Accounting Standards Advisory Board

The mission of the **Federal Accounting Standards Advisory Board (FASAB)** is that it "serves the public interest by improving federal **financial reporting** through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information" (FASAB, 2022).

The FASAB is an independent organization that works toward setting the accounting standards for all businesses that operate in the private community (Oachs & Watters, 2020, p. 806). The FASAB works to provide for public accountability through financial reports that include **financial statements** that are prepared in a format that is compatible with generally accepted accounting principles. The board for the FASAB plays a critical role in achieving the government's objective, which is to be accountable in the public's eye. The use of financial reports on the federal level will demonstrate the government's ability to show effective and efficient processes and social, political, and economic impact of various uses of federal resources.

The FASAB aims to improve the financial reporting of the federal government to meet its accountability responsibilities through an independent process that is comprehensive and invites participation from all stakeholders. The FASAB strives to provide a timely and comprehensive study of issues, participation by various stakeholders involved in the standards-setting process, consideration of the costs involved with and the benefits of the financial information, understanding of the information obtained via financial reporting, availability of informal and formal guidance for preparers and auditors, and holding itself accountable through transparency and comprehensive governance practices.

The history of the FASAB started in 1990 after Congress passed the Chief Financial Officer's Act (CFO Act). The CFO Act required that selected federal reporting entities provide audited financial statements. This process was in line with the eventual requirement for audited financial statements that was established four years after the CFO Act in 1994. The requirement of federal agencies to provide audited financial statements would not fully eliminate the possibility of fraud and other financial management issues, but the idea of imposing another level of discipline could, in the long run, help to reduce the frequency of these types of issues.

The FASAB sets the accounting standards for federal and other entities that will assist them in selecting the most applicable form of guidance to use in preparing and auditing accounting and financial reports, which is accomplished through two types of information sources labeled authoritative and other. The authoritative source is considered to be the *FASAB Handbook of Accounting Standards and Other Pronouncements*, or otherwise known as the *FASAB Handbook*. The other sources of information that the FASAB has developed include guides, reports, and other documents that are not considered to be authoritative sources but can be appropriate when used in the proper environment.

American Institute of Certified Public Accountants

The American Institute of Certified Public Accountants (AICPA) is the most influential group of professional accountants in the United States and around the world. The AICPA mission is "to drive a dynamic accounting profession ready to meet the demands of a constantly changing, disruptive world. We provide the tools, resources and intelligence that members need to clarify complexity, anticipate risk and create opportunity. We are their voice, protecting the public interest and powering trust, opportunity and prosperity worldwide" (AICPA, 2022).

The AICPA Values and Vision Statement identifies it as "the world leader in driving vitality, relevance and quality across the accounting profession, furthering its trust and influence" (AICPA, 2022). This is accomplished through its four values of integrity, passion, innovation, and collaboration. By following this Vision Statement, AICPA upholds the highest ethical standards that create and maintain trust and credibility in the accounting industry, exceeds personal and organizational goals by providing exceptional member services, encourages creativity in members' ideas and approach to the industry, and by being one inclusive team that can realize the highest level of outcomes and solutions by working together.

Another part of the AICPA is the Chartered Institute of Management Accountants (CIMA). The CIMA works with individuals and businesses to help guide them to utilize managerial accounting and all of its benefits, not just accounting for the balance sheet. This is accomplished by providing professional development, the funding of research, developing leadership, professional standards, a code of ethics, and involvement in the preparation for the examination process.

International Accounting Standards Board

The International Accounting Standards Board (IASB) is an independent organization that oversees the international financial reporting standards. The IASB provides experts with a mix of recent practical experience in setting accounting standards in areas of preparing, auditing, the use of financial reports, and in accounting education. The IASB is one of two standards setting boards under the IFRS Foundation that "is a not-for-profit, public interest organization established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards—IFRS Standards—and to promote and facilitate adoption of the standards" (IFRS, 2022). The second standards setting group is the International Sustainability Standards Board (ISSB). The two boards work closely together to ensure that they complement each other, that in doing so they will provide investors with "transparent and reliable information about a company's financial position" (IFRS, 2022). By doing this, the IFRS helps organizations to keep focused on sustainability factors that if not watched, could have a negative impact on its value in the short- and long-term outlook.

Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (PCAOB) oversees audits of public companies. Their Mission Statement states that "the PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports" (PCAOB, 2022). The Vision Statement for the PCAOB states that it will "be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. At all times, we will act with integrity, pursue excellence, operate with effectiveness, embrace collaboration, and demand accountability" (PCAOB, 2022).

The PCAOB achieves its Mission Statement and Vision Statement by maintaining integrity by utilizing the highest standards of ethical and professional conduct, by being committed to excellence and effectiveness, and by following these up with collaboration and inclusiveness, coupled with accountability of the staff of the organization, all the while appreciating and recognizing outstanding performance.

Generally Accepted Accounting Principles

The term **generally accepted accounting principles (GAAP)** consists of accounting principles that are used in the preparation of financial reports and statements for businesses or entities. GAAP "is often used to describe the body of rules and requirements that shape the preparation of the four primary financial statements" (Cleverley & Cleverley, 2018, p. 196).

According to Flood (2022), GAAP establishes "the measurement of economic activity, time when such measurements are to be made and recorded, disclosures surrounding this activity, and preparation and presentation of summarized economic information in the form of financial statements" (p. 2). GAAP comes into play when questions arise regarding how to best accomplish these objectives, and the result is that GAAP will develop accounting and financial reporting standards. According to GAAP, there are two categories of accounting principles: recognition, which covers timing and measurement of items to enter the accounting cycle, and disclosure, which involves nonnumeric issues, such as reporting all data (Flood, 2022, p. 2). If recognition and disclosure were not part of the financial statement process, the result would be that statements would be misleading, requiring the person who is reading the statements to make or render a decision based on the information provided. Disclosure ultimately supports the recognition principles in that assumptions that are part of the numeric information are explained; these assumptions provide additional information to the person reading the financial reports.

Securities and Exchange Commission

The **Securities and Exchange Commission (SEC)** has a mission of "protecting investors, maintaining fair, orderly and efficient markets, and facilitate capital formation" (SEC, 2022). Because of the changing marketplace and the increasing amounts of new investors to the market who are looking toward the future on ways to pay for new homes and college tuition through these markets, the need to regulate the market to sustain continued economic growth has increased.

Investing in the market can be exciting and rewarding, and at the same time, it can be dangerous. The federal government may guarantee deposits in a bank, but stocks, bonds, and other types of securities can pose a risk of losing their value. The SEC strives to have a straightforward approach to the laws and regulations that govern the securities industry. It aims to ensure that all investors, regardless of their size, have access to basic facts about a particular investment or multiple investments through the disclosure of meaningful, timely, and accurate information from the public companies to the public or individual investors. This way, individual investors can determine on their own whether to buy, sell, or hold a particular investment or security.

The responsibility of the SEC is to interpret and enforce federal securities laws, issue new rules and amend existing rules, oversee the inspection of securities firms, monitor private regulatory organizations, and coordinate regulations with federal, state, and foreign authorities (SEC, 2022).

The SEC oversees securities exchanges, securities brokers and dealers, investment advisors, and mutual funds to ensure disclosure of market-related information and protection against fraud. The SEC accomplishes effective oversight through its ability to enforce the laws through civil enforcement actions against individuals and corporations that violate these laws. These violations include insider trading, fraud, and companies providing misleading information surrounding the securities they issue. The SEC works closely with several other institutions, such as Congress, various federal agencies, stock exchanges, state securities regulators, and other private-sector organizations.

Internal Revenue Service

The **Internal Revenue Service (IRS)** "is a bureau of the Department of the Treasury and is considered to be one of the most efficient tax administrators. In the fiscal year 2020 alone, the IRS processed over 3.5 trillion in revenue and processed more than 240 million tax returns" (U.S. Treasury, 2022).

The mission of the IRS is to provide to the American taxpayers the highest quality services surrounding their personal taxes and business taxes and help them understand their tax responsibilities and, in the process of doing this, enforce the law fairly and with the highest integrity. Overall, the IRS helps taxpayers understand the laws that Congress passes and ensures that they are compliant, and for those who are not compliant, the IRS will make sure that they comply and are responsible for their fair share. In looking at efficiency, "the IRS spent just 35 cents for each $100 it collected in FY 2020" (U.S. Treasury, 2022).

The IRS "is organized under the United States Treasury under the Internal Revenue Code, section 7801, and the secretary has the full power to administer and enforce the laws associated with the IRS and also has the power to create an agency to enforce these laws" (U.S. Treasury, 2022). The IRS is supervised by a commissioner who is appointed through the Internal Revenue Code.

Centers for Medicare & Medicaid Services

Medicare was established as a result of Title XVIII of the Social Security Act and was designated as being "Health Insurance for the Aged and Disabled" (Centers for Medicare & Medicaid Services [CMS], 2015), which is commonly known as Medicare. The Medicare legislation started a program that provided health insurance for persons over the age of 65 to complement other insurances a person may have, such as retirement benefits, survivor's benefits, and disability insurance benefits (Klees, 2009). According to the CMS, the Health Insurance for the Aged and Disabled Act (Title XVIII of the Social Security Act), commonly referred to as Medicare, has made this coverage available to nearly every American over the age of 65. Also, this broad program is designed to assist the nation's elderly in meeting hospital, medical, and other covered healthcare costs. The program includes two related health insurance programs called Hospital Insurance and a Supplementary Medical Insurance, which is under Part B (CMS, 2015). CMS will be covered in greater detail later in this text.

Objectives for Financial Reporting

The objective of effective financial reporting is to provide information in a timely and efficient manner that will assist in making decisions regarding the allocation of resources for the organization. Managers need financial reports so that the information about the organization makes sense in a way that will assist them in predicting future cash flows of the organization. This cash flow affects an organization's ability to meet its obligations, such as accounts payable, payroll, and loans, along with paying dividends to the shareholders. Several information categories provide information, such as economic resources, claims against the entity, and **owners' equity**, which is where the financial reporting illustrates the organization's cash flows and identifies its strength, weaknesses, and solvency. Next, economic performance and earnings is where the organization looks at past performance to predict its future performance. According to GAAP, "in this instance, when an organization uses the accrual accounting method, it will be a better indicator of future cash flows and overall performance than using current cash receipts and disbursements" (Flood, 2022, p. 15). The liquidity, solvency, and funds flow are information about cash and other funds from borrowing, expenditures, capital transactions, obligations, owners' equity, and earnings that an organization may experience. In assessing an organization's management, monitoring the company's stewardship and performance is critical in determining how effective they are with regard to managing the organization and the earnings that they report. Finally, management explanations and interpretations cover managers' responsibility to be efficient with the organization's resources.

Usefulness of Financial Information

Financial reporting is a tool for providing information to decision-makers that will influence and support the decision-making process. Information required for decision-making should have the following traits: usefulness for the decision, relevance, faithful representation, comparability, verifiability, timeliness, understandability, trade-offs, and cost constraint.

The first area is *fundamental qualitative characteristics*. According to GAAP, information must be useful in order to be beneficial to the user. According to GAAP "to be useful, accounting information must both be relevant and faithfully represent what it claims to represent" (Flood, 2022, p. 16). These two characteristics are impacted by the overall completeness of the information reported.

Relevance of information is determined by whether the data provided can impact the individual's decision-making process because it can influence the ability of the person to predict events effectively or to accurately authenticate expectations. Even though the information provided may not ultimately change the person's decision process, it can reduce the level of uncertainty regarding the outcome of the decision. Information is necessary and relevant if it provides understanding surrounding past and future events and if it is timely. Also, based on the materiality of the information to the organization, information should be reported if it has value to the organization.

Faithful representation is where financial statements demonstrate the important financial relationships of the organization itself. For information to be considered faithful representation, it must be complete, neutral, and free-from-error (Flood, 2022, p. 17). A *complete representation* contains all information, such as quantitative and descriptive information, that can be used in a decision-making process. Another area related to faithful representation is *neutrality*. Neutrality is where accounting information is a tool for communicating without providing any influence that would sway a decision in a particular direction or that would favor a particular interest group. The term *free-from-error* is not meant to identify the information provided as being entirely accurate, but it does mean that the information or description is accurately described and that any unusual occurrences are explained.

Another feature that will generally enhance the information is *comparability*, which means that, at the time that information is relevant and faithfully represented, it can be used to assess the similarities or differences of similar organizations during the same period. *Verifiability* is where a measure, such as an accounting measure, may be repeated with the same result each time. *Timeliness* means that all information needs to be presented or reported in a timely manner to be useful. *Understandability* of information or reports means that the person reading the report—someone who has sufficient experience or knowledge of the business and activities and who can analyze the data provided in the reports—will be able to understand the information presented. A *trade-off* is a situation where a characteristic is obtained from the information; however, accomplishing this will come at the expense of eliminating another characteristic. Finally, there is a characteristic called a *cost constraint*, and this is where information should only be presented if the benefit of the information outweighs the cost of obtaining the information (**Exhibit 1.1**).

Exhibit 1.1 Traits of Useful Information

- Usefulness for decision-making
- Relevance
- Faithful representation
- Comparability
- Verifiability
- Timeliness
- Understandability
- Trade-offs
- Cost constraint

Recognition and Measurement in Financial Statements

Financial statements are considered to be the principal means of communicating useful financial information. The included data cover the financial position of the organization at the end of the period, the earnings of the period, the overall income for the period, the cash flows during the period, and the investments by and distributions to the owners (Flood, 2022, p. 18).

Financial statements are a result of taking the organization's transactions, simplifying and condensing them, and aggregating them into one financial report. A financial report or statement of financial position can provide information about an organization's **assets**, liabilities, and equity. A useful measure of an organization's performance during a period is when, at the end of the period, earnings are realized. *Earnings* are similar to *net income* but do not include any accounting adjustments. Comprehensive income takes into account all changes in equity outside of any investments or distributions involving the owners. A statement of cash flows reflects cash payments made to the company that are derived from operations, financing, and any investment activities. Any investments by the owners or distributions to the owners during the period will be considered capital transactions during the same period.

Income, or a profit, is when the monetary amount increases during a period, and this includes all sales transactions collected during a period; if this value is greater than the expenses of the period and the net assets have increased, then there is a profit.

Elements of Financial Statements

The following are several elements that compose various financial statements:

- Assets—As a result of past transactions, a positive economic benefit is realized by the organization, such as an increase in accounts receivable, cash, or inventory.
- Liabilities—As a result of a past transaction, a negative economic benefit is realized by the organization, such as accounts payable, loans payable, and variable expenses.
- Equity—This amount is what is left in an asset after removing any liability from its value. For example, in a partnership, equity is considered to be the owner's interest.
- **Revenues**—This is where an organization increases accounts receivable or cash in exchange for products or services provided by the organization.
- Expenses—These are items that are satisfied by the discharge of assets, such as cash, to the organization or entity that supplied the items to the company.
- **Gains**—These are increases in equity, or net assets, from the process of completing transactions to external customers.
- **Losses**—These are a negative impact on an owner's equity in the organization. Also, loss is defined by situations where the liabilities are greater than the increases in assets during a period.
- Event—This occurs when the use of raw materials by a company is provided to a customer and an exchange is made.
- **Transaction**—This is an external event that involves transferring something of value, such as services or products, to another company, and in exchange, the company will receive payment.

Financial Organizations

Three types of organizations will be discussed: sole proprietorships, partnerships, and corporations. Organizations will be structured based on their financing, leadership, and tax status. Also, two characteristics that define the type of organizations are for-profit organizations and not-for-profit organizations.

The first type of organization is a **sole proprietorship**. This type of organization consists of one person who owns the company. The owner may be considered a proprietor who leads the organization and is responsible for all aspects of managing this business. All revenues are realized by the owner on his or her individual tax return. The structure of the organization can change with regard to adding consultants, independent contractors, or employees.

The second type of organization is a **partnership**. This is where two or more people get together to form an organization. The partners will share duties and responsibilities for running the company, and all revenues will be distributed to the partners, who will pay taxes on the money on their individual tax returns. In some cases, the partnership can be required to file its own tax return that will show in detail the income distributed to the partners of the company. If there is any change in ownership, it will dissolve the original partnership that was formed.

Finally, a **corporation** is a legal entity that exists separately from the owners. A corporation will pay its own taxes and is subject to its own legal rights and responsibilities (Oachs & Watters, 2020, p. 807). In this situation, the owners of a corporation can operate without having anything to do with the day-to-day operations, or they can have different levels of responsibility. The corporation may be governed by a board of directors or trustees. The administrator, chief executive officer, or president will report directly to the board of directors. If money is left over at the end of the period or year, this income can be distributed to the shareholders or held for future projects. The corporation's income is taxed, and then when there are distributions to shareholders, they are taxed at a personal level. This type of taxation is considered a two-tiered taxation occurrence or double taxation and can make this type of corporate structure less appealing to individuals.

The status of sole proprietorships, partnerships, or corporations can be categorized as either a for-profit or not-for-profit entity. For-profit is where the organization realizes the profit after all obligations have been discharged, from accounts payable to taxes. These profits will increase the wealth of the owners or the company itself, as the profits can be distributed to the shareholders or held for future projects. A for-profit company can be held privately or publicly with regard to ownership. In "private" ownership, the owner(s) can be an individual or a group of people who join to form the organization. In a public organization, the ownership of the company can be bought or sold on the open stock market. In a publicly held company, the board of directors will be the deciding factor on the distribution of profits and satisfaction of liabilities, such as mortgages.

Not-for-profit organizations are held in trust rather than owned, as in for-profit organizations. Many hospitals and healthcare organizations fit into this tax status. Other organizations also fall into this category, such as professional associations like the American Red Cross. To set these organizations apart, the IRS has established two categories for not-for-profit organizations: 501(c)(6) and 501(c)(3).

The 501(c)(6) consists of professional organizations that may buy and sell goods and services but are doing so with the intent of benefiting a major interest group. These organizations are subject to state sales tax.

The 501(c)(3) organizations are, for the most part, exempt from federal taxes. However, they must limit their activities to those that are in the public interest. Any donations to this type of organization will be tax deductible for the person making the donation. Charities or charitable components make up the vast majority of organizations in this category (**Exhibit 1.2**).

Exhibit 1.2 Types of Organizations

- For-Profit Organizations
  - Sole proprietor
  - Partnership
  - Corporation
- Not-for-Profit Organizations—Voluntary
  - Church-related
  - Private schools
  - Foundations
- Not-for-Profit—Government
  - Federal
  - State
  - County
  - City
  - Hospital
  - State universities

Sources of Financial Data

Transactions in a Healthcare Facility

Typically three vital components compose financial transactions: goods or services are provided, a transaction is recorded, and compensation is exchanged (Oachs & Watters, 2020, p. 809).

In a healthcare setting, many services are performed, and four areas are of particular importance, the first of which is clinical services. Clinical services are where all clinical documentation in the patient's medical record is completed, and these services, as long as they are documented, will assist the facility in validating that the services were rendered to the patient. This clinical documentation will show who was in contact with the patient, what services were delivered, and any other clinical information that helped in the decision-making process for the patient while he or she was in the facility.

The next area is the patient accounts department, which is responsible for gathering all the transactions that are recorded in the patient account through the charge description master, producing a bill for the payer, and sending it to the payer either on paper or via electronic transmission. The overall success of this department is predicated on how accurate the charge description master is and the accuracy of the clinical staff who are recording the transactions in the patient account.

The Health Information Management Department is the next area. This department is fully responsible for the soft coding of the inpatient medical records. This soft coding process is where the coding department, which consists of coding professionals who usually carry the credential of Certified Coding Specialists, assign diagnosis codes and procedure codes and query the physician regarding documentation of the patient's illness and treatment. Once complete, the chart is finalized, and the bill is dropped and sent to the patient accounts department for processing to the payer.

Administration is the last area that examines financial transactions. These transactions take place throughout the facility and include employee compensation, purchasing of equipment and supplies, and services performed by some departments for other departments. At this level, the management team will review all transactions for the entire facility that impact the financials in the clinical and support areas.

Uses of Financial Data

Reimbursement

A healthcare facility will realize most of its revenue, or income, from clinical activities that surround patient care. So, the key here is to track all financial data and make sure that the data are accurate, timely, and documented. Typically, a good revenue cycle management team will put a process in place to ensure that all data necessary to support the charges to the various payers are captured on a timely basis (**Figure 1.1**).

Cost Control

The idea of cost control is best suited at the individual department level. There are many layers in a healthcare facility, and attempting to manage

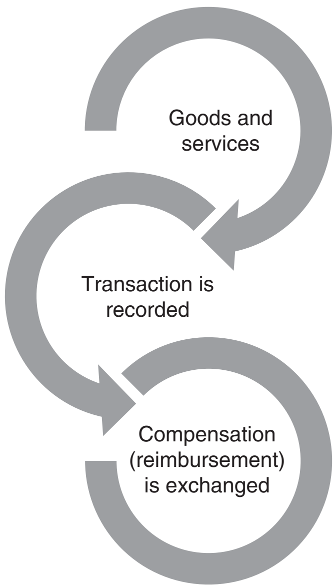

Figure 1.1 Components of a Healthcare Transaction

costs across the various departments would create room for error. When the costs are controlled at the individual department level, it makes it possible to manage costs more effectively because the costs are generally associated closely with the day-to-day flow of patient activity.

Since COVID-19 impacted the country and the healthcare delivery model, the sense of urgency now present in the supply chain affects the financial operations of a healthcare organization. According to Cherf and Hermes (2021), the ability of a healthcare organization to control cost is key to future success, and one of the key areas of controlling costs is in surgical procedures. In the past a surgical department could look at a case and predict the profit from a case. Since COVID-19, the evaluation of a surgical case has shifted from profit awareness to looking at each and every procedure and detail the access and the costs of supplies for the procedures that will be performed in the facility. Cherf and Hermes (2021) go on to say that "if there is a silver lining with COVID-19, from an operational standpoint, the pandemic has brought a sense of urgency to supply chain issues. Today, 40% to 60% of a hospital's total supply spend comes from physician preference items (PPIs)."

Managing supply chain costs is something that can be handled by the purchasing department and the clinical team working closely to manage surgical costs, especially implantable device costs when it comes to high-end surgical procedures. More importantly, it is critical to have both the purchasing and clinical departments work closely to record the proper cost of acquiring the surgical devices that provide the highest level of quality to the patient and lead to high quality outcomes from the surgical cases completed in the facility.

A facility can focus on three areas to better manage costs in the post-COVID-19 recovery landscape. The first area is to identify new avenues to reduce costs for medical devices using clinical evidence. If an organization can improve on pricing at the individual level, on average it "can account for up to 42% savings" (Cherf & Hermes, 2021). This is a detailed and tedious process that truly puts the purchasing process on a case-by-case process. The next area is to have the clinical and purchasing teams work closely so as not to negatively affect patient care and outcomes. Just by simply bringing the level of awareness to the group, they can make a prudent decision to select the most cost-effective supplies or equipment that will provide quality outcomes from the procedures and maintain patient satisfaction at the highest levels. Finally, the last area to effectively reduce costs is to capture supply information during clinical documentation in the patient's record. By utilizing the electronic health record (EHR), this will ensure consistency in the data when looking to better manage purchasing and at the same time patient outcomes (Cherf & Hermes, 2021).

Planning and Forecasting

Planning and forecasting fall under the administrative area of the facility. **Planning** reflects what the organization is going to do based on its mission statement. In the mission statement are goals and objectives that support the vision of the organization and how it will serve the population for which it was established. Planning is an excellent tool for the healthcare administrator; however, this cannot be effectively done using historical data alone. This is due to the constant industry changes that have been occurring and will continue to occur as time goes on. With that said, healthcare administrators will need to plan multiple scenarios in the future and track them with current results and make the necessary changes to the plan to reflect the changing environment going forward (**Figure 1.2**).

Figure 1.2 Use of Financial Data

Forecasting goes hand in hand with planning because both look at future trends based on historical data. Organizations can predict revenues, profits, costs, staffing levels, and the profitability of contracts over the life of the agreement. They can also predict things like consumer behavior using predictive models that give the healthcare administrator the ability to look forward based on historical results to stay ahead in this prospective environment.

Conclusion

Although health care seems to be as simple as providing a service and getting paid for it, this chapter demonstrates that many components go into generating the financial statements that support the results of the organization's efforts. Not only are there different categories of organizations, such as for-profit and not-for-profit, but also different types of organizations, such as a sole proprietorship, partnership, and a corporation where the accounting and financial functions are governed by different authorities. In the healthcare arena, organizations are overseen by the FASAB and operate under GAAP. This structure is a result of Title XVIII of the Social Security Act that provided health insurance and supplementary medical insurance for beneficiaries who are 65 years of age and older or have certain disabilities that would make them eligible for Medicare. The financial components of a healthcare organization are defined by the financial data and transactions that take place in the day-to-day operations. Transactions result in reimbursement, or lack thereof, for services rendered to patients. These reimbursements, and the costs of operating a facility, especially during the recovery from COVID-19, make up the different financial statements that help to guide the decision-making process for the organization. These financial statements consist of assets, liabilities, equity, revenues, expenses, and profit or loss.

This chapter provides the student, or future healthcare administrator, with an introduction to the concepts and principles of the basics with regard to accounting and the information related to the sources and uses of financial data. A good understanding of financial statements is a foundation for the successful evaluation and use of the financial data within the healthcare organization that will enhance the overall foundation of the financial role of the healthcare administrator in this constantly changing and challenging environment.

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