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A BETTER VIEW

HOW THE UNIVERSITY OF PENNSYLVANIA HEALTH SYSTEM CUT BUDGETING AND PLANNING TIME BY A QUARTER

With healthcare costs skyrocketing, healthcare providers are working harder than ever to develop rigorous budgeting processes that are transparent, flexible, and responsive. Those that reduce the time it takes to react to market changes, align financial and operational planning, and improve business predictability can retain their competitive edge while others decline. Investing in a best-in-class budgeting and forecasting solution can help meet these objectives and strengthen a provider's ability to withstand the turbulence of today's healthcare environment.

When the University of Pennsylvania Health System (UPHS) set out to find such a solution, it faced several challenges. How could it fix inefficient budgeting processes that had been in place for years? How could it manage several different businesses, US\$3 billion in operating revenues, and more than 15,000 employees? And operationally, how could it determine the financial impact of buying equipment that cost millions of dollars?

DIAGNOSIS: CHANGE

UPHS is made up of three hospitals, two outpatient medical centers, and two suburban patient care centers. Its employees deliver medical, administrative, and support services through UPHS's clinical, home care, and corporate practices and its large

primary care network. Annual budgets are prepared by all seven business units, each with its own employment base, revenue, ancillary expenses, and capital projects.

The health system needed to control costs, optimize staffing, project accurate revenues, and oversee capital expansion. The challenge was how to manage a vast and complex budgeting process while maintaining the flexibility required for each organization to be nimble in a changing marketplace.

UPHS's budgeting process was being done manually and in silos, making it difficult to do comprehensive financial analysis and planning. UPHS partially solved this issue in 1995 by implementing Hyperion Pillar, an early Microsoft Windows-based Hyperion product, to report expenses, and Microsoft Access to report revenues. In 2002, it also implemented Oracle Essbase and Oracle Hyperion Financial Reporting for management reporting. But the process was not Web-based, and management felt that it could have been more integrated. "With an integrated budgeting system, we felt that it would be much easier for us to get an accurate read of our revenues and expenses," says John Kilroy, director of operational budget, planning, and capital at UPHS. "As our number of patient admissions, inpatient days in the hospital, and outpatient visits changed, we wanted our budget to update automatically

on both the revenue and expense side.”

UPHS also needed a solution that would enable it to manage and analyze its labor dollars in a more detailed and automated fashion. Finally, UPHS was doing all of its capital budgeting and reporting through Microsoft Excel, making it difficult to analyze and prioritize projects across multiple entities. UPHS needed an integrated, automated, and Web-based capital planning solution.

PRESCRIPTION FOR SUCCESS

In mid-2005, UPHS chose Oracle Hyperion Planning to integrate its financial and operational planning processes. “We saw the opportunity to leverage the investment we had already made in Hyperion Essbase and take that to the next level,” says Kilroy. “We had a good experience with Hyperion Pillar, and we knew that Oracle Hyperion Planning was a good product.” To help implement the solution, UPHS called on its longtime technology services partner ISA Consulting, which specializes in performance management, data integration, and advisory services.

UPHS and ISA implemented Oracle Hyperion Planning between August 2005 and January 2006. ISA worked with the design team, helping UPHS configure the solution to integrate

all system processes into a single Oracle Hyperion Planning tool. The result enables 500 users throughout UPHS to perform sophisticated analysis of business operations without switching to different tools. Using a single interface, they could now create accurate forecasts and plans and access interactive analytics and richly formatted financial reports. Oracle Hyperion Planning also helps UPHS track more than 30 different key statistical indicators, such as admissions, patient days, outpatient visits, and procedures such as MRIs and chemotherapy treatments.

Kilroy says the new system has cut by 25 percent the amount of time UPHS spends on budgeting, planning, and reporting processes. “Previously, when we did reports in Excel, the reporting process would take us more than a day,” he says. “Now, it’s just a matter of a couple of hours.”

Revenue and expense is one of the major areas where Oracle Hyperion Planning has helped UPHS improve its budget and planning processes. “In healthcare, it’s important to link revenue and expense with patient volume, because many types of revenue and expense line items will vary based on the number of patients and the extent of healthcare services they receive within the institution,” says Ernie DiSandro, vice president for perfor-

Technology Trends for the Healthcare Industry

Marc Holland is program director of healthcare provider research at Health Industry Insights, an IDC company. He talked to Profit about technology trends in the healthcare industry.

PROFIT: What are the biggest technology challenges facing healthcare providers today?

HOLLAND: Hospitals are exceedingly complex organizations, and providers need to respond to a lot of different demands. A hospital is essentially a confederation of a lot of individual businesses, each driven by different incentives. Each one has different cost parameters to deal with and different processes for delivering the services in its area of expertise. And yet, each one is very tightly interwoven into the overall fabric of the larger enterprise. In the case of UPHS, you’re dealing with multiple hospitals in one system. You can see how the level of complexity begins to increase geometrically. If you’re trying to do financial planning for an organization this complex, you need to have control and an understanding of what drives costs and revenue at a very granular level.

PROFIT: When healthcare companies are looking for budgeting solutions, what should they keep in mind?

HOLLAND: The structure of the underlying data management and database should be highly flexible and able to accommodate a lot of unique qualities in the various entities where you’re tracking costs and doing budgeting. For example, the criteria you would use to do cost accounting in one clinical department may be very different from the criteria you would use in another. The same thing is true even with in-patient units that serve different types of patients. The underlying data structure that you create, monitor, feed, and then report against needs to be sophisticated enough to accommodate those unique qualities.

PROFIT: How can providers improve budgeting and financial processes?

HOLLAND: They need to have an understanding of cost drivers and the way costs are allocated in their department, and how their department influences costs in other departments and vice versa. They need to factor in effective long-range budgeting and forecasting. Most importantly, they need to find

a budgeting solution that provides the flexibility to grow and change as their organization, customers, and requirements grow and change.

PROFIT: What does the future hold for healthcare technology?

HOLLAND: We’re seeing the greatest information technology growth on the clinical side of healthcare. Notwithstanding the current economic climate, we see healthcare as one of the fastest-growing vertical markets, not just in the U.S. but worldwide. The clinical side includes everything from automating analysis of lab specimens to capturing radiographic images digitally and sharing them within hospital networks and externally to physician offices and even other healthcare systems. This involves electronic capture of all the documentation that goes into a traditional paper medical record. The technology gives providers the ability to develop data mining strategies and to analyze and manage that data, which has traditionally been done on paper. Electronic medical records and business intelligence are perhaps the fastest-growing software segments within the healthcare provider market.

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mance management at ISA.

Because UPHS uses Oracle Hyperion Planning to drive revenue and expense numbers based on departments' own projected patient volume, managers now rely on the system to predict revenue by service line along with expected variable expense line items. For example, by entering the number of expected orthopedic admissions for the hospitals, users can more accurately predict how many prosthetics will be needed the following year and can calculate how that number affects projected revenue and expense totals. As the year unfolds, departments can update volumes, drill into variances, and adjust accordingly. “Clinical chairs or department managers would also talk to us about how many physicians they were going to hire or what new service lines they were going to start offering,” adds DiSandro, “and those numbers end up driving some of the departmental-level calculations.”

To help UPHS understand the bottom-line impact of patient volume changes projected by both the finance team and department managers, Oracle Hyperion Planning integrates and tracks net patient revenue by payer. “The big benefit here is that we can now use the same assumptions for both revenues and expenses,” says UPHS's Kilroy. “We're able to put data in once and have it flow through both the revenue and expense sides. This makes our volume-sensitive accounts much easier to budget and gives us increased reporting and analysis capabilities.”

The second area where Oracle Hyperion Planning has had a big impact for UPHS is staffing. Accurate labor planning is essential in the healthcare industry, especially in a system with more than 15,000 employees. UPHS and ISA built Oracle Hyperion Planning to calculate variable labor costs—notably nursing, which makes up a significant percentage of the payroll—based on drivers such as patient days, skill mix, and direct-care hours per patient day. Now, department managers can compare actual performance to the budget, drill down to investigate variances, and take corrective action before the impact is too great.

To simplify things, UPHS went from employee-based to position-based budgeting. Employee-based budgeting added a line to the database for every one of its employees within the health system; position-based budgeting added only one line for each position, reducing the amount of information the system processed. “Employee-based budgeting slowed down the system, especially during peak periods, and users who interacted with the system complained about it,” says Kilroy. “Position-based budgeting made labor planning a more streamlined process.”

The third area affected by Oracle Hyperion Planning is capital

planning, which underwent perhaps the most significant budgeting improvement. With a capital budget of more than US\$300 million, prudent management of multiyear projects is essential. In the past, capital planning and budgeting was done manually

on disconnected spreadsheets; the planning process was inefficient and the results unreliable. Now, the entire process is integrated and automated. If, for instance, the radiology department requests a new MRI machine, Finance can see how that capital investment will translate into revenue and expense, understand the rate of return, and make the decision to invest based on its real, bottom-line impact. Managers can track ongoing projects across fiscal years, identifying off-schedule projects in time to

take corrective action and avoid further overruns.

Kilroy also praises the system's ability to do mission-based reporting. UPHS has three missions—education, teaching, and research. Budgets are now broken down into each of these areas. “We can run these figures on demand during the budget process, and they also tie into a process that determines how dollars are allocated based on productivity,” says Kilroy. “It was a big win for us to be able to do that.” Users have reacted so favorably to the system that UPHS plans to implement the next release of Oracle Hyperion Planning in the summer of 2009.

PROGNOSIS: POSITIVE

“The Oracle Hyperion products have enabled UPHS to use the most-current information to inform the budget process, enhance management reporting, and put timely and accurate information into the hands of key decision-makers,” says Keith Kasper, UPHS's chief financial officer and senior vice president.

“We can anticipate staffing requirements and react more quickly to changes in volumes that affect revenue and variable expenses,” says Kilroy. “We are much better equipped to manage inventories, control rising costs, and maintain our focus on quality care. We have more information available to us and are able to get it out much faster, which has improved decision-making and has had a positive effect on our bottom line.” <>

MONICA MEHTA is a writer for *Profit* and *Profit Online*.

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