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Jersey Shore Medical Center JSMC Cancer Program

Tracking Costs and Margins

"To more effectively monitor costs and track margins, we decided to take a hard look at product-line management," said Cancer Program Director Mary DeSane, R.N., of Jersey Shore Medical Center (JSMC) in Neptune, N.J. "The hospital's cancer program was one of the first departments to encounter this approach."

To investigate implementation of product-line cost-analysis reporting for cancer, hospital administrators put together a team that included the cancer program director, the manager of cost accounting, and the cancer data manager, who is a certified tumor registrar. The Management Information Systems Department was involved from the beginning to provide access to the hospital information system. These key hospital managers were supported by outside consultants.

"Looking at the data, we quickly found that cancer was not an easy product line to define," said DeSane. Cancer includes more than 65 different DRGs. Some DRGs place cancer and noncancer patients together, which frustrates efforts to develop discrete information about a cancer product line.

The team decided to create a cancer product line by ICD-9-CM code. Thus, the cancer product line is defined on the basis by which the hospital is reimbursed. The team agreed on how to classify oncology cases. A cancer case is defined as any patient with a primary and/or first two secondary ICD-9 cancer diagnosis codes. This definition allows capture of 93 percent of all cancer patients regardless of the patient's admitting major complaint.

AN EYE ON COSTS

Team members realized they had to carefully define financial terms. In the DRG world, for example, where hospitals are only reimbursed for what Medicare provides, revenue cannot be defined simply as "charges."

"For Medicare patients, we define revenue as the actual DRG rate payable. For Blue Cross patients, revenue means charges less contractual allowance. And for managed care patients, we use the

Jersey Shore Medical Center (JSMC) is a tertiary-care center and teaching hospital serving Monmouth and Ocean counties in New Jersey. JSMC houses The Center for Cancer Therapy and The Jersey Shore Gynecologic Institute. The hospital's diagnostic capabilities reflect the full range of cancer services, including laboratory services, diagnostic imaging, and radiology. JSMC participates in clinical trials through Research Resources, the research arm of University Health Systems, a consortium of teaching hospitals in New Jersey, including JSMC.

VITAL STATISTICS

- Total institution bed size: 501
- Dedicated cancer unit beds: 33
- New cancer patients seen each year: 950
- Managed care penetration in the state: 12.6 percent

SOCIAL SUPPORT SERVICES

- JSMC's Hospice Program provides medical, psychological, emotional, and spiritual support for cancer patients and their families.
- A free cancer support group series helps cancer patients and their families survive the cancer experience.
- Cooperating with the entire cancer team, members of the Rehabilitation Department aim to maximize the independence and comfort of each patient.
- An educational outreach program sends qualified cancer specialists to professional groups.

negotiated bid or contract agreement rate," noted DeSane.

The hospital has implemented a cost accounting system developed by Kaden and Arnone, Inc., called POMS (Physician On-Line Management System). The system provides reliable direct costs (i.e., costs for labor and supplies) and fully allocated costs (i.e., direct costs plus such overhead items as electricity and cleaning) by patient by procedure. Clinical data in the cancer registry were integrated by patient with revenue and cost data for each patient stay.

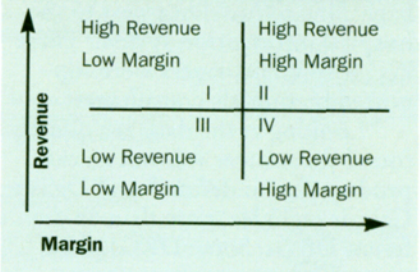
Knowing true cost is the only reliable way to determine margin (revenue minus cost). To manage and track revenue and margin, the team plots revenue and margin from low to high in four quadrants (Figure 1). "Everyone wants to operate in quadrant II, which includes high revenue and high margin. Effective planning using real numbers will help you plot where you are and help you decide where you want to go," said DeSane. "For us, this was a very important step."

JSMC's oncology information system provides cancer program management reporting at five specific levels including: 1) patient, 2) physician, 3) financial class or payment source, 4) cost center where each revenue and expense item is booked within the hospital, and 5) anatomical cancer site.

Color graphic displays, such as bar or pie charts, and more traditional tabular style reports are used by the hospital's cancer program management and hospital administration. More than 28 menu selectable reports are available, including cancer revenue for the top 10 anatomical sites, physician profit and loss by payment source, and cancer margin by anatomical site.

All data from this oncology information system are stored on the computer maintained in the

FIGURE 1. MARGIN ANALYSIS



cancer program, which also houses the tumor registry. The cancer data manager acts as the "quality police," continually monitoring the accuracy of the registry's clinical data, which contains more than 10,000 records, and how this information is integrated with the new cost-accounting database.

Through this integration process, administrators will be able to determine, for example, the cost of providing care to a stage IV breast cancer patient versus a stage II patient (Table 1). Such cost comparisons are important for bidding managed care contracts.

"The newly evolving managed competition demands that we know how to negotiate and bid managed care contracts to ensure that our cancer program will remain economically viable," said DeSane.

In early January 1994, the oncology information system, containing data from the first eight months of 1993, was up and running. About 1,500 cancer cases, which accounted for more than 310,000 financial transactions, were analyzed.

FORWARD STEPS

Recently a project was started to capture all outpatient demographics and services in JSMC clinics. Full-year costs for 1993 will soon be loaded. An upgrade to the cost-accounting system is also being developed to reduce the time lags for cost data to less than one week.

"In our quest to monitor costs and margins, this process has afforded us small but significant steps to provide administration with profits and losses that are reflective of the cancer product line within our institution," said Vice President of Operations Lawrence Spellman, M.H.A., J.D.

In his judgment, JSMC has no other choice but to monitor costs in its cancer program, as well as all other hospital departments. "Over time, managing costs will become part of the management fabric at Jersey Shore Medical Center. As other product lines develop, we believe this approach will enable our hospital to continue to compete aggressively in our region and maintain its financial viability, particularly during these changing times," said Spellman. "It is our function as health care administrators to respond to that need. As our hospital CEO John Lloyd said in JSMC's *Annual Report*, 'People are counting on us.'"

TABLE 1. COST BY STAGE OF DISEASE

Cancer Site: Breast Cancer Stage: All

Stage of Disease	Average Revenue	Average Cost	Average Margin	Number of Cases
Stage I	$2,500*	$2,000	$500	450
Stage II	$3,100	$2,950	$150	200
Stage III	$4,000	$3,100	$900	175
Stage IV	$5,200	$6,300	($900)	250

*Costs do not reflect true numbers