

# **Objectives of Financial Management in Healthcare**

Health care finance management teams focus on helping organizations such as hospitals and nursing homes run efficiently and profitably. Finance professionals provide general managers with accounting and other financial information that helps them make smart decisions, monitor internal spending and figure out areas of financial strength and weakness.

## **1. Generating Income**

Health care finance managers develop and implement strategies to help health facilities generate sufficient revenue to offset expenses and finance future development. This typically involves investing in assets, reviewing the prices of health care services to reflect market rates, evaluating the effectiveness of hospital departments and launching new services. For example, finance managers working in an outpatient hospital might advise senior management to invest in inpatient services as a new source of income. If senior managers approve of the idea, the health care finance management team prepares a project proposal indicating the estimated costs of launching the service, potential funding sources and annual profit projections.

## **2. Protecting Tax Status**

With federal and state governments consistently looking for new revenue sources, non-profit health facilities must protect their tax-exempt status. A health facility's health care finance management team focuses on ensuring compliance with tax exemption requirements. It might do this by limiting charges for indigent patients, or conducting a community needs assessment and implementing a strategy to address those needs. For example, if the hospital operates in a community with few educational institutions, it might build a nursing school for local students to pursue diplomas in nursing at affordable rates.

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## **3. Monitoring Internal Spending**

Health care finance managers monitor spending within a health system to detect fraud or misuse of funds. In particular, physicians are closely monitored because they influence much of the spending attributable to hospitals and nursing homes. For instance, a physician might place a purchase order of medicine and equipment that is inconsistent with patient needs, exposing the facility to unnecessary expenses and legal liabilities. To combat this practice, the health care finance management team can set up a special committee to conduct a monthly or annual audit on all drugs and equipment purchases to detect misappropriation of hospital funds. If there is

evidence of fraud, the hospital can initiate disciplinary proceedings against the physician in line with institutional policies, or launch criminal proceedings in accordance with federal fraud and abuse laws.

#### **4. Influencing Third Party Payers**

Third party payers are insurance companies and other organizations that cover all or part of a patient's medical bills. Third party payers are largely profit-oriented and often aggressive in asking healthcare facilities for discounts if they provide large numbers of patients. However, hospitals can lose money if they don't receive the appropriate amount of payment for the care they provide. The health care financial management team develops strategies to help the facility mitigate financial risks associated with entering into agreements with third party payers by negotiating better contracts with insurance companies.

#### **5. Managing Resources Efficiently**

Health care administrators negotiate escalating health care costs, changing trends in reimbursement for services, increasing demands for transparency and increasing workforce shortages to fulfill a hospital's social mission in the delivery of quality health care. They rely on their knowledge of financial management to allocate funds to all hospital departments and units equitably, while also investing in new supportive technologies and capital improvements. A hospital administrator also supports development of health professional knowledge and skills required to care for patients in a complex working environment, according to the Joint Commission.

- The most important objective of healthcare financial management is to generate income.
- The second most important objective of a healthcare financial manager is to respond to regulations.
- Healthcare organizations must maintain their accreditation in order to qualify for loans and reimbursement from many third-party payers. Because healthcare organizations rely on third-party payers to pay most, if not all, of a patient's medical bill the third most objective of healthcare financial management is to facilitate relationships with third-party payers.
- Because of the symbiotic relationship between healthcare organizations and third-party payers, the fourth most important objective of healthcare financial management is to influence method and amount of payment.
- Over the years third party-payers have become increasingly aggressive in requesting discounts, It is an important objective of healthcare financial management to mitigate these requests and find a solution that satisfies both parties.