Marshaling Lab Resources to Budget Effectively

By Diana L. Kremitske, MHA, MT(ASCP)
Preparing a sound annual operating budget for a clinical laboratory is one of the main competencies that a laboratory operations director must demonstrate. The financial health of the clinical laboratory relies on operational leaders at various levels in the chain of command who can manage a thoughtfully and accurately prepared budget. As important as it is to be focused on financial matters throughout the budget preparation process, however, maintaining a focus on what the laboratory needs to support its core strategy of raising the bar on quality and service standards to patients is central to this task.

Engaging one’s supervisory team in all phases of the budgeting process builds knowledge of operations, helps the management team stay attuned to the financial balance required to sustain and to acquire resources for operations, and instills accountability to manage by the information contained in the final, approved budget.

This article is based on my experiences working for a hospital laboratory within an integrated multi-hospital health system.

Fact Finding—Needs of External Customers

- Is the organization opening new medical services, making changes to current medical specialties, or starting new clinical programs?
- How are clinical specialties that are supported by the lab growing or changing? What outpatient volume projections are being made by these clinical specialties?
- Are there going to be changes in the number of test-ordering providers in the organization? What are their specialties? Are their specialties low or high utilizers of laboratory services?
- How will lab test ordering patterns be affected by any new outpatient health maintenance order sets in the electronic health record?
- Are there customer-service challenges where improved turnaround time may be more reliably met by a point-of-care test option? What are the overall expenses compared to the benefits of such alternative testing options?
- Has there been significant feedback on methodologies necessitating considerations about whether a test should be continued in-house or referred out?
- Are there going to be any new client contracts or possible loss of contracts?

The answers to these questions require research. The answers may necessitate test menu changes, test volume adjustments, or consideration of different skill levels of laboratory professionals. Or perhaps it means rationalizing where a subset of testing should be performed, for example, in the core lab, distributed, co-located with a medical specialty, or sent to a reference laboratory.

Fact Finding—Internal Laboratory Needs

Assess operational changes planned within the laboratory. Some questions to ask in this area include:

- Are workstations going to be reorganized for better efficiency?
- How does the full-time equivalent (FTE) total compare against productivity?
• Is the right skill mix in place for anticipated clinical and patient service needs?
• Is new technology or replacement equipment going to be acquired that will change the operation? For budgeting purposes, how will it change the operation in terms of volume and expense?
• Are there appropriate manpower resources for planned projects?

These are just a few of many questions that arise in the budget preparation process. All questions, which depend on a laboratory's individual situation, will aid in improving the accuracy of budgetary projections.

In addition to external and internal information gathering, a thoughtful productivity review is typically part of the operating budget preparation process. Productivity data trended monthly and compared against a reliable benchmark will assist in spotting functional areas or departments that require more in-depth analysis to determine cause(s) of unfavorable variances—over capacity or under capacity.

Over time, productivity data allows the computation of FTE needs or capacity, and is very useful in workload modeling. For example, can increases in volumes be safely absorbed or not? Of course, there can be defined pockets of expected, unfavorable productivity where patient service considerations outweigh the demonstration of favorable productivity.

**Engaging the Supervisory Team**

Bringing the supervisory team together at the beginning of the budgeting process for a high-level review and discussion of considerations is helpful and will benefit the operation overall by improving understanding of how decisions to balance the budget are made in the final approval process. This preliminary session will help to organize the team's thinking for the tasks ahead. Budget preparation tasks for each laboratory section can be appropriately assigned to team members. These tasks include determining new growth in volumes and trends in current volumes; assessing manpower needs based on productivity trends; identifying equipment that has expiring first-year warranties; and obtaining price quotations for minor equipment needs. Setting up individual meetings with the financial representative and each laboratory supervisor who is responsible for budget preparation allows for a review of budgeting details of each accounting unit under their responsibility.

**Anticipating Revenue and Test Volume**

An understanding of current procedure (test) volumes and anticipated changes to volumes drives the revenue components of the budgeting equation. A laboratory operations director may consider budget volume projections in two ways: first, current, incremental growth and second, new business growth. Other intricacies of volume projections may exist depending on the organization's financial methodologies. For example, over a course of time, volume growth may be forecasted at the organizational level. Projected inpatient hospital testing volumes is one such instance.

An important aspect of volume projections involves delineating whether volume changes will be inpatient, outpatient, or both. Inpatient and outpatient test payment methodologies are different, and understanding the differences and impact of prospective payment systems (PPS) will help you fully appreciate the revenue variables relative to volume projections. Also, an understanding of the mix of payment methodologies, whether it be PPS, fee schedule, or percent of charges, will help you appreciate the imperative to control costs and improve operating efficiencies. Budget calculations with the anticipated revenue mix should ultimately deliver a positive operating return for the laboratory. After net patient service revenue and any other sources of revenue are applied against total expenses, hitting a target, net positive contribution of the laboratory to the organization's bottom line, is the desired outcome.
Reports from the organizational budget software package can aid in deriving incremental outpatient volume projections for the laboratory. Using trend reports and comparing fiscal years, a laboratory operations director can assess the rate of outpatient growth, positive, negative, or stagnant, drilled down to laboratory section. This data applied with previously obtained external and internal information assists in making reasonable budget assumptions about volume changes in the upcoming fiscal year.

What can be more challenging to accurately predict is new business volume growth. What proportion of the growth in new medical practices or clinical services requires laboratory procedures? Sometimes, if not most of the time, the knowledge of new business growth does not come along with detailed predictions of laboratory test utilization. Reasonable estimations may be based on historical experience, such as number of tests per requisition, established standards for laboratory testing per diagnosis(es) or treatment, and evidence-based practice.

Reports from information systems within the organization will aid in this analysis. The reliability of projections can be improved by speaking with subject matter experts who may be the pathologists-administrative partners and other relevant physician leaders or departmental administrators.

**Scrutinizing Expenses**

Expenses may be broadly categorized as salary and nonsalary. Approximately 33 percent of laboratory expenses at Geisinger Wyoming Valley Medical Center, Wilkes-Barre, Pa., are attributed to nonphysician salary and wages, plus benefits. Because this area of the budget accounts for such a high proportion of the total laboratory expenses, it deserves increased scrutiny. Human capital is the foundation of the laboratory. As a result, it is critical to ensure that all positions and FTE needs are reviewed and properly accounted for in the budget.

Other FTE position changes or additions by job title, pay rates, overtime, shift differential, bonuses, incentive payment plans, and contracted staff are generally accounted for in this area of the budget. The justification of new position additions requires at the very least an analysis of current productivity and the impact of anticipated volume or workstation changes. Staging of new FTEs for a particular month in the coming fiscal year can be done and may be appropriate for specific situations. Also, due to the workforce shortage of laboratory professionals, the recruiting time can be lengthy.

Another consideration for thorough FTE budgeting involves open positions that have been approved but not yet backfilled. Due to timing of information downloads from human resource departments to get to know the laboratory operation very well and understand what it takes to afford the operating needs of the business. Then you can prepare the budget based on how your organization’s laboratory may efficiently provide for and excel at maintaining a focus on the patient.

### The End Result

After accounting for all expenses for the upcoming year and entering projected volumes, the successful budgeting process should calculate at the end to a percent margin that is within a positive, targeted percentage range. The upcoming fiscal year’s percent margin is defined here as the contribution margin over net revenue compared to the current year annualized. The desired margin may not occur in the first roll up for all laboratory accounting units. Iterative adjustments of the major categories of expenses and outpatient volume projections may be required to reach desired financial targets.

The budget preparation process enables laboratory operations directors to get to know the laboratory operation very well and understand what it takes to afford the operating needs of the business. Then you can prepare the budget based on how your organization’s laboratory may efficiently provide for and excel at maintaining a focus on the patient.

**Acknowledgments**

I would like to thank Jeffrey Renn, Financial Liaison, Laboratory Medicine Clinical Service Line, Geisinger Health System; and John Yurko, Senior Laboratory Operations Director, Geisinger Wyoming Valley Medical Center, for their feedback on this article.

Ms. Kremitske serves as the Laboratory Operations Director, Geisinger Northeast, Wilkes-Barre, Pa. She is responsible for clinical pathology laboratory operations at Geisinger Wyoming Valley Medical Center and Geisinger South Wilkes-Barre campuses. In addition, Ms. Kremitske is a member of the ASCP Council of Laboratory Professionals and serves as the ASCP Regional Representative for the Northeast.