

Activity Based Costing



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ABC Overview

- ◆ Current environment
- ◆ What is ABC?
- ◆ Workgroup Activities to Date
- ◆ Activity Dictionaries
- ◆ Budget and Performance Requirements (BPRs)
- ◆ Next Steps
- ◆ Questions and Answers

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CMS Contractor Environment

- ◆ Variations of unit cost
- ◆ Inconsistent interpretations of definitions/approaches used in CAFM-based costing
- ◆ Inconsistencies in financial reporting
- ◆ Strain on contractor relations



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Activity Based Costing

ABC is a means of identifying the resources - money, people, assets - consumed by each activity that is performed in a organization.



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ABC Terms

Activity - a unit of work that has identifiable starting and ending points, that consumes resources (inputs) and produces measurable outputs.

Task- work assigned or carried out as a part of duties

Process- a series of activities that are linked to perform a specific objective.

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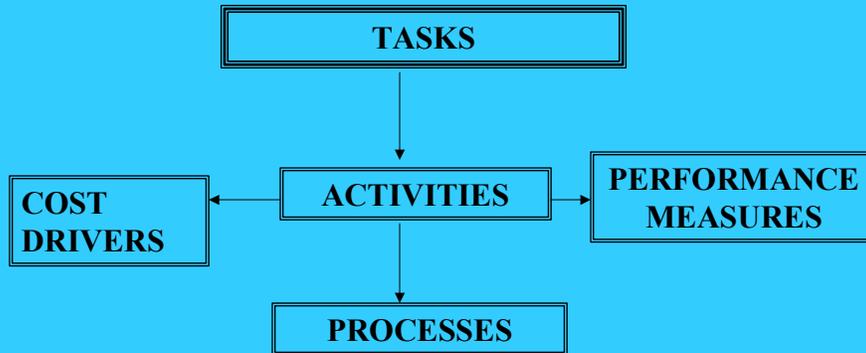
ABC Terms cont.

Cost Driver - a factor that causes a change in the performance of an activity and, in doing so, affects the resources required by the activity.

Activity Based Management - management use of ABC methods to report and control operations.

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ABC Model



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WHY ABC ?

- ◆ More accurate cost management methodology
- ◆ Assigns rather than allocates costs to the particular activity based on cost drivers
- ◆ Makes “indirect” expenses “direct” by assigning them to an activity (strives to eliminate overhead allocation)
- ◆ Allows a true picture of what an activity actually costs

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ABC Justification

- ◆ Better understanding of costs to be included in activities
- ◆ Understand and manage unit cost variations among contractors
- ◆ Improve financial (CAFM) data for better understanding of the use of contractor resources
- ◆ Help formulate/justify budgets
- ◆ CMS Management Plan priority

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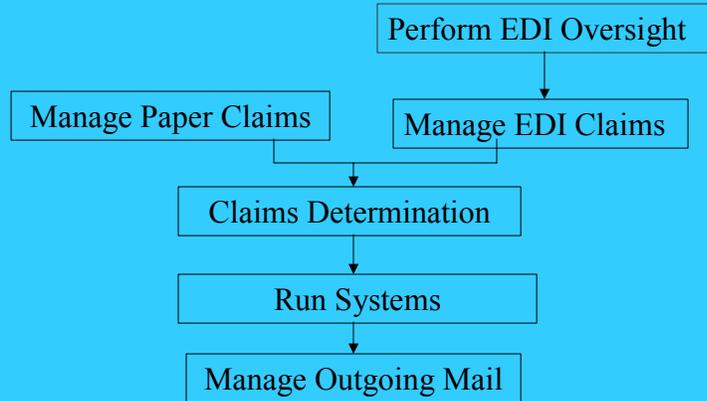
CMS Activity Based Costing

- ◆ ABC Pilot Study- Contractor Process workgroup
- ◆ ABC workgroup -OFM,CBC,CMM ,OIS, ROs
6 subcommittees (workgroup plus experts):
 - Bills/Claims
 - Appeals
 - Inquiries
 - Provider Education
 - Medical Review
 - Provider Enrollment

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BILLS/CLAIMS PAYMENT CAFM 11000

A. Core activities



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BILLS/CLAIMS PAYMENT CAFM 11000 cont.

B. Support activities

- ◆ Manage Information Security Program
- ◆ Manage Third Party Agreements
- ◆ Conduct Quality Assurance
- ◆ Reopen Claims
- ◆ Recover Carrier Part B Program Management Overpayments

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Workgroup Outcomes To Date

- ◆ Contractor Site Visit
- ◆ Contractor conference calls
- ◆ Defining Activity Dictionaries
- ◆ Feedback:
 - Central Office
 - Regional Offices
 - Contractors



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Activity Based Management

- ◆ Eliminate non-value added activities
- ◆ Know true cost as well as cost drivers
- ◆ Understand the relationship between activities
- ◆ Major process improvement depends on managers having accurate financial information on their processes



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ABC Activity Phases

Phase I - Develop an activity dictionary through overhaul of CAFM

Phase 2 - Validate and adjust ABC model

Phase 3 - Conduct ABC value analysis

Phase 4 - Measure results

Phase 5 - Fully integrate ABC into budgeting and planning