

Pro Forma Explanation Material

There are two types of costs to consider planning the HIT program pro forma. These two types of costs are capital costs and operating costs. While the accounting definition of these costs varies depending upon the organization, the general definition of these costs are capital costs (being one-time expenses) and operational costs (being ongoing or reoccurring cost of the program).

The HIT Program Pro Forma Template provides the opportunity to estimate both capital and operating costs for an HIT program. The following information is a description of each line item on the HIT Program Pro Forma Template. Keep in mind that as you are working through these costs on a year-by-year basis that you are working diligently with teams of stakeholders to best estimates these costs. Therefore, your cost estimates will be generally more accurate for the first fiscal year and second fiscal year of the program and be more vague as the fiscal years of the project go out into subsequent years. For this reason, the HIT program pro forma is updated often, based on new information and changes in the program environment.

Capital costs generally consist of the following categories: consultative services, implementation salaries, database software, hardware costs, network costs, and other licensed software costs. The following is a description of the meaning of each of these line item categories on the HIT Program Pro Forma Template. Keep in mind that if your organization organizes capital costs in a different way or asks you to capitalize costs under your program that fall outside of these categories you can add additional rows to your program pro forma file.

Consulting services vendor or third-party: Often the help of external consultants from either the HIT vendor or another third-party are used in order to implement systems. Often, these costs are significant at the early stages of a project and are capitalized by an organization. It is possible, as the program progresses, that the chief financial officer of the organization may ask that these costs be moved into operating expenses. A solid understanding of the scope of the project and the project plan enables organizations to have an idea of how to estimate consulting costs. Most accounting rules do not allow organizations to capitalize travel associated with consultants. Thus, these costs will typically only involve the hourly rate paid to the consulting company for the consultants.

Implementation salaries: Often, chief financial officers of an organization will allow or prefer that internal staff salaries that are associated with implementing the program to be capitalized with the program. This is an internal decision; it is permitted by General Accounting Principles. If the organization prefers that this be the case, planners work with leaders in the organization to estimate a blended rate for different kinds of staff who are working on the implementation and estimate their hours to come up with the implementation salaries cost estimate.

Database software: Often organizations purchase software from vendors and have to pay separate software licenses for the database product that runs the vendor applications. For example, if a site purchases an electronic health record from Cerner Corporation they may need to buy associated Oracle licenses for its use. These details need to be clarified with the vendor and HIT staff. If this is the case, this line item is included to record the usually significant licensing costs associated with licensing a database. If this database cost is estimated at the “per user” rate then the program planner must provide an estimate of the number of users who will be on the system every year and multiply by that per user cost to get this line item estimate.

Hardware costs, servers, and devices: There are many types of devices required to implement different kinds of solutions in the healthcare environment. If any of these devices are purchased by the organization as a depreciable asset then these costs should be noted as capital costs. This may include, but would not be limited to, desktops, laptops, printers, scanners, thumbprint login devices, and other peripherals.

Network costs: Senior network engineering staff work with project and program planners to determine what kind of network requirements are necessary to run planned solutions in the healthcare environment. Network assessment should be conducted to ensure that the expected service that is assumed as part of the program is aligned with current network capabilities. Additional network hardware and or bandwidth may need to be purchased in order to execute the program. These costs should be estimated as closely as possible for the entire program and updated as information progresses.

Licensed software-vendor and third-party software: Often HIT program solutions in healthcare involve significant capital purchases from vendor suppliers. Depending upon the terms of the contract with these vendors these costs may be loaded into early years of the project or they may be paid out in increments over the life of the program and associated with milestones. The planner who is executing the pro forma must include the cost of all licensed software including any kinds of software products that are needed to run other software products or desktops and servers.

Operational costs generally consist of the following categories: Software maintenance and support, hardware maintenance and support, physician salary support, postproduction support salaries, travel training, and other. The following is a description of each of these operational cost items. Keep in mind that these operational costs may reside in different organizational budget throughout the organization. Having said that, often senior leaders want to see all of the capital and operational costs associated with an HIT program in one place in order to manage these significant investments.

Software maintenance support: The software that is being licensed in the capital area will need to be supported on an ongoing basis. Often those support costs “kick in” after a license is paid and the software has been installed for a year. Solutions vary in how they are priced and sold to organizations. It is important for the organizational planner to understand when those software maintenance and support fees “kick in” in the lifecycle of a program.

Hardware maintenance and support: Similar to software, when hardware is purchased whether it be servers running in a data center or desktop computers or printers, there are often support fees associated with keeping those hardware products up and running and supported on an ongoing basis. Sometimes organizations don’t even purchase hardware. They may “lease” hardware products such as desktops. If this were the case, then the estimated leasing fees for those desktops per year would be inserted in this part of the program pro forma.

Physician salary support: Sometimes, but not always, organizations make a financial commitment to cover internal salary costs of physicians when they are working on significant program efforts. Organizations do this because they want to have the ability to pull those physicians out of clinical service for a period of time and have them focus on an HIT program. If this is the case, this is the place where those salary estimates would be inserted. Keep in mind that any time you are estimating salaries in a pro forma, whether it be capital or operating, you most likely will work with leadership to determine a “blended” salary rate for an average personnel cost and use that rate in your pro forma. Also, keep in mind that a typical salary year is budgeted at 2,080 hours per year per full-time individual.

Support and postproduction salaries: Similarly, this line item is used to record any and all other salaries needed to support the program on an ongoing basis. This line item requires significant work in that one has to understand all of the different individuals, skill sets, and compensation levels of those individuals that go into supporting the technology that is being implemented. Sometimes individual efforts are budgeted at a full-time effort for an entire year; other times portions of people’s time is budgeted on these programs from a support perspective.

Travel training: Accounting rules prevent two items—travel and training costs—from being recorded as capital expenses. Salaries associated with training people on new HIT systems and any travel associated with training or implementation staffs must be recorded as operating costs. Training may include training of IT staff as well as training of end-users.

Other: Many other types of costs may come into play when planning a program. For example, there may be outside legal costs incurred, or there may be marketing costs involved if a program includes patient facing applications that

require a marketing campaign. Any other capital or operating costs should be included in the pro forma and aggregated for each year to understand a total program cost.