

## “ Budgeting Process; Dream or Nightmare?”

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### Objectives:

At the conclusion, the reader will be able to:

1. Understand how the budget process works.
2. Discuss what Capitol Equipment Requests means.
3. Explain the difference between “new” and “replacement” capitol requests.
4. Discuss how the operational budget can affect future spending.

For most people working in the CS arena, the budgeting process is not something you generally have to be familiar with. This is usually left up to the Supervisor or Manager or Director. But, in today's world, knowing how this process works and how it impacts your daily life is something that everyone should know at least a little bit about.

Because of the amount of monies necessary for pieces of equipment, like sterilizers, for instance, these purchases have to be planned. When we talk about the budgetary process, there are several different venues that must be looked at. The first is called the “Capitol Equipment Request” for the next fiscal year. What this means is that in 2007 we start looking at what pieces of equipment we need to replace due to age, availability and support issues. Is the equipment difficult to repair? Does the manufacturer still have parts for it? How much has it cost us to repair each time it needs to be fixed? Is there newer technology out there for this piece of equipment? These are questions we need to have answers for as we move into the process of capitol equipment requests. Under

“Capitol Equipment Requests” also falls the plan for purchasing new equipment. We are all aware that there are newer technologies for doing the same job we have done in the past. For instance, look at the Ozone Sterilizers. They have the potential for making the job of sterilization much easier and more convenient. But they are not cheap so we have to plan on when and how to purchase them. Also there are items that are for the betterment of the staff such as chairs for picking instrumentation or putting up trays. The tables with all the bells and whistles on them for the convenience of the staff are also not cheap so they also have to be planned for. Along with wanting new equipment or even replacing old equipment comes the myriad of paperwork. There are many questions to be answered before one can even turn in a request for Capitol Equipment. For instance, is the manufacturer part of the facility's buying group? Do we need to do an RFP (request for product) before proceeding? We send these to three manufacturers minimally and based on their responses, will choose the one that meets our needs the most.

Another question involves the use of disposables. Are there disposables with this product? Since we are not considered a money-making department, everything we buy must be looked at to see if the use of this item outweighs the cost of the item. We also have to look to see if there are re-usables that we can use instead of the disposables. If it uses disposables, do they come in different sizes and do we need to have all the sizes or can we just get two or three of the most commonly used sizes?

Other questions involve integration with current computer systems. Do the systems talk to each other? Is there an interface cost? Will we need additional hardware? How about the software upgrades? Are they included in the original purchase price or must we budget for the up-

grades separately? What is the life expectancy of both the hardware and the software?

Is there a maintenance contract we can buy or is there an extended warranty? Speaking of warranties, what does it cover and how long does it last? Do we need to take the manufacturer's warranty or can we get a third party to give us a contract on equipment that will cost us less. By the same token, we also need to look at the coverage from the third party company. When we compare the two contracts, are they looking at the same things? Is it a parts and labor contract or is it just parts? What about after hours; do we get service when we need it or just between 9 and 5? What about pms? Are they included in the warranty or the maintenance agreement or are they extra? If we get a service agreement, what are the costs and terms? Does it use Radio Frequency and are the signals an issue? Do we get service manuals and training on the upkeep of the equipment? As you can see, these questions can make or break a buy.

What about the operational budget? This is what we call the daily expenses and the cost of running the department on a daily basis. In actuality this consists of all the expenses that are consumable and are used directly in caring for patients. You have both direct and indirect, or overhead, expenses. Direct expenses includes the cost of salaries, paid time off, benefits and raises for the staff. Also included are productive and non-productive hours of the staff. It also includes the cost of running the equipment from the cost of making steam for the steam sterilizers to the cost of distilling the water for the washers. This also includes the cost of the electricity, the wrappers and the sterilization pouches. And what about the cost of the ethylene oxide? If you use this product, you know it is not cheap to run a load in this sterilizer. And what about the cost of the chemicals you use to clean with?

There is a certain mixture that involves the chemicals used in cleaning and while there is a little movement in the amount of chemical per gallon of water, you can only dilute the chemical so far before it will no longer do the job you want it to. Indirect or overhead expenses include the value of the capitol equipment, number of employees within the department and the number of square feet the department occupies.

One way that we, as managers, are able to predict with some regularity, what next year's budget is going to be is by reading the monthly variance report. The difference between the actual results and the planned results represents a variance. These are the reports that are sent to us every month from the finance department. Variance analysis provides the opportunity to examine the operations of the department by reviewing the workload, identifying the payroll and non-payroll costs associated with that workload and taking action on the findings. This tells us how we spent our money for the previous month. Included in this is the amount of the total expense spent, including salaries. It also includes what it costs the department on a daily basis to operate based on the number of patients in the facility or the number of cases done in the operating room. There is also a report that shows what was ordered and by whom within the department along with the PO or ordering number. From this, we can look at the POs and see how many cases of sterilization wrap we ordered as well as the number of disposable ER suture trays we received and how they were expensed so we can see if items ordered and used by someone else, were mistakenly charged to our department.

This is just a very surface look at how the budgeting process works. Each individual facility will do it differently. If you are interested in how your facility does their budgeting process, ask your manager or Chief Financial Officer. The more you know about how the system works, the better able you are to judge whether or not something needs to be changed and how to be more cost effective so that in the end, the result is a more cost efficient and well run unit.

## Post Test — Budgeting Process; Dream or Nightmare?

1. Capitol Equipment requests include both repairable and new equipment.  
     True                      False
2. When buying new equipment we need to know if we need to purchase disposables with the equipment.  
     True                      False
3. When doing Capitol Equipment purchases, the process starts the year the purchases are needed.  
     True                      False
4. The operational budget consists of items not necessary for the direct care of patients.  
     True                      False
5. Included in the cost of the operational budget are both direct and indirect or overhead expenses.  
     True                      False
6. The difference between the actual results and the planned results represents a variance.  
     True                      False
7. Variance reports tell us how many tools we bought the previous month.  
     True                      False
8. Productive and non-productive hours are included in the indirect operational budget.  
     True                      False
9. When looking at the cost of running a department on a daily basis, things like electricity costs, sterilization pouches and wrap as well as ethylene oxide must be considered.  
     True                      False
10. Variance analysis provides the opportunity to examine the operations of the department by reviewing the staff's performance issues.  
     True                      False

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