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Carlsbad Home Care

In December, Joseph Blanchard became the controller of Carlsbad Home Care (CHC). After 10 years in the accounting department of a consumer products firm, Mr. Blanchard had decided to move into the nonprofit field where he felt his expertise would be needed. CHC, a small agency in Southern New Mexico, offered him that opportunity.

Before Mr. Blanchard accepted the position of controller, Ms. Louise Tucker, the director of the agency, briefed him on the agency's financial position. Like many home care agencies, CHC had become affiliated with a large health maintenance organization (HMO). The HMO paid a fixed fee of \$110 to CHC for each home visit.

Ms. Tucker was concerned because CHC's per-visit costs exceeded that amount. She had hired Mr. Blanchard with the hope that he could resolve this problem. CHC's average cost per visit calculation is contained in Exhibit 1.

BACKGROUND

CHC's goal was to provide home health visits to elderly and disabled residents of Carlsbad and neighboring towns. Several years ago, in response to community need, it had expanded its services to include physical therapy and social service visits. Because another organization in town, The Canyon Home Service, provided home health aide care, CHC did not offer aide services.

CHC currently had a staff of 13. Two registered nurses, two physical therapists, two social workers, and one psychologist were responsible for the home health visits. The administration consisted of a director, an assistant director, the newly appointed controller, and a support staff of three. The skilled nursing care visits were handled by the two registered nurses. The two physical therapists worked exclusively on patient visits. The social workers, in consultation with the psychologist (who made no visits), provided all the social service visits.

The two registered nurses who handled all nursing visits could provide as many as seven visits a day each. However, because the case visits varied significantly in time, effort, and location, the nurses averaged only 5.5 visits per day. The physical therapists averaged 3.3 visits per day, although Ms. Tucker thought their capacity could be increased by at least 33 percent if they had the demand. The social workers averaged 4.5 visits a day, but Ms. Tucker thought these could be increased to about 5.5 a day. The CHC staff worked an average of 240 days a year.

DATA

In his first few weeks, Mr. Blanchard reviewed CHC's financial statements, employee service sheets, and other working papers to become familiar with the agency's financial status and planning needs. He realized the agency had been operating without any cost goals. After a cursory review of past records, he decided that his first priority was to ensure that revenue met costs.

Examining CHC's Expense Record, shown in Exhibit 1, Mr. Blanchard determined that the agency had two types of costs: those that changed according to the number of visits provided and those that were unchanged, regardless of volume. He reasoned that at their breakeven point, CHC's revenue of \$110 per visit would equal the total cost of the expenses generated by each visit plus the fixed expenses.

Mr. Blanchard reviewed each item on the Expense Record to determine which type of cost it was. He thought the medically related salaries and the medical and nursing supplies were items that varied directly with the number of visits. When he discussed his analysis with Ms. Tucker, she suggested that staff automobile allowance varied with the number of visits because it referred to mileage incurred by the medical staff in making home visits.

This case was prepared by Professor David W. Young. It is intended as a basis for class discussion and not to illustrate either effective or ineffective handling of an administrative situation.

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"Terrific," thought Mr. Blanchard. "Now I can calculate a variable cost per visit and in no time I'll know the breakeven point. I can show them their costs and revenues, and where we'll have to operate to keep this agency in business."

Assignment

1. Identify the fixed and variable costs.
2. What is the breakeven point?
3. What assumptions were necessary in answering questions 1 and 2?

CARLSBAD HOME CARE Exhibit 1. Expense Record

	<u>Detail</u>	<u>Total</u>
1. Salaries.....		\$567,994
Director, assistant director, controller.....	\$165,140	
Nurses (2).....	105,920	
Psychologist (1).....	56,000	
Social workers (2).....	77,000	
Physical therapists (2).....	90,334	
Support staff (3).....	73,600	
2. Transportation costs.....		56,000
Automobile operation and insurance.....	16,000	
Automobile allowance for staff.....	40,000	
3. Purchased services.....		4,700
4. Medical and nursing supplies.....		14,800
5. Space occupancy costs.....		34,660
6. Office costs (telephone, postage, stationery).....		25,312
7. Other general costs (depreciation, insurance, legal).....		<u>35,720</u>
Total cost.....		\$739,186
Number of visits.....		6,384
Average cost per visit.....		\$115.79