

Health Care

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CPAs & Advisors

Everyone needs a trusted advisor. Who's yours?



**Key Drivers of
CAH Financial
Performance**

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September 10, 2019

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What keeps you up at night?

- Increasing patient demand with an eroding Medicare payer mix
- More uninsured/underinsured patients
- Revenue cycle management issues
- Maintaining positive cash flows to meet health hospital ongoing needs (debt reduction, replacement of property, plant & equipment & maintenance of reserve funds)

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Response to Challenges

- Understand your operations
- Understand significance of the budgeting process
- Implement Accountability using KPI's
- Create a strategic plan

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Keys to Understanding Healthcare Finance

- You need to understand Critical Access Hospital Reimbursement
- The concept of changes coming may force strategic planning for the future

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Critical Access Hospital Benefit Example

• Swing Bed Benefit	210,000	600,000
• IP (Acute Care) Benefit	(10,000)	500,000
• OP Benefit	160,000	625,000
• Bad Debt Benefit	<u>5,000</u>	<u>60,000</u>
• Total	365,000	1,785,000

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	TOTAL COST	MEDICARE COST REIMBURSEMENT	MEDICARE COST REIMBURSEMENT PERCENTAGE
Routine:			
Adults & Pediatrics	1,557,635	1,302,266	83.61%
Nursery	34,234	-	0.00%
Ancillary:			
Operating Room	698,070	406,321	58.21%
Delivery Room	81,803	-	0.00%
Anesthesiology	95,217	53,041	55.71%
Radiology-Diagnostic	962,582	606,741	63.03%
Laboratory	1,006,941	663,402	65.88%
Cardiac Rehab	468,122	276,102	58.98%
Physical Therapy	479,765	257,357	53.64%
Occupational Therapy	157,244	118,551	75.39%
Speech Pathology	39,418	20,959	53.17%
Medical Supplies	255,168	135,919	53.27%
Drugs	661,395	396,545	59.96%
Clinic	234,141	126,614	54.08%
Emergency Room	579,502	197,560	34.09%
Observation	119,082	64,156	53.88%
Rural Health Clinic	1,782,263	771,328	43.28%
Not Cost Reimbursed:			
Worksheet A-8 Adjustments	1,040,793	-	0.00%
Home Health	220,791	-	0.00%
Hospice	210,311	-	0.00%
Other Nonreimbursable	2,658	-	0.00%
Guest Meals	3,107	-	0.00%
Outside Meals	27,311	-	0.00%
Family Practice Associate	11,229	-	0.00%
Wellness/Pace	4,175	-	0.00%
Community Educations	253	-	0.00%
	<u>10,733,210</u>	<u>5,396,862</u>	<u>50.28%</u>

Example of a CAH Hospital -

	Medicare	Private Insurance	Bad Debt Charity	Total
Revenue	9,000,000	1,700,000	1,750,000	12,450,000
Contractuals	1,187,711	425,000	1,750,000	3,362,711
Expenses	7,734,940	1,461,044	1,504,016	10,700,000
Net Operating Income	77,350	(186,044)	(1,504,016)	(1,612,711)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				<u>487,289</u>



Example of a CAH Hospital -

	Medicare	Private Insurance	Bad Debt Charity	Total
Revenue	5,000,000	5,700,000	1,750,000	12,450,000
Contractuals	659,839	1,425,000	1,750,000	3,834,839
Expenses	4,297,189	4,898,795	1,504,016	10,700,000
Net Operating Income	42,972	(623,795)	(1,504,016)	(2,084,839)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				15,161



Example of a CAH Hospital -

	Medicare	Private Insurance	Bad Debt Charity	Total
Revenue	5,000,000	5,700,000	1,750,000	12,450,000
Contractuals	659,839	2,280,000	1,750,000	4,689,839
Expenses	4,297,189	4,898,795	1,504,016	10,700,000
Net Operating Income	42,972	(1,478,795)	(1,504,016)	(2,939,839)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				(839,839)



Example of a CAH Hospital -

	<u>Medicare</u>	<u>Private Insurance</u>	<u>Bad Debt Charity</u>	<u>Total</u>
Revenue	5,000,000	5,700,000	1,750,000	12,450,000
Contractuals	659,839	798,000	1,750,000	3,207,839
Expenses	4,297,189	4,898,795	1,504,016	10,700,000
Net Operating Income	42,972	3,205	(1,504,016)	(1,457,839)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				642,161



Keys to CAH Success

- Increase Medicare Utilization
- Provide programs with higher Medicare Utilization
- Proper Utilization of Swing Bed
- Time Studies/ Statistics/ Square Footage
- Reimbursement Focus



Know Other Payor Profitability

- What are you getting paid for Non-Medicare and Non-Medicaid Services?
- Does this represent 10% of your payor mix or 40% of your payor mix?
- This can have a major impact on your overall profitability?
- **We have to worry about more than just the Medicare reimbursement**



Example of a CAH Hospital -

	Medicare	Private Insurance	Bad Debt Charity	Total
Revenue	9,000,000	1,700,000	1,750,000	12,450,000
Contractuals	1,187,711	425,000	1,750,000	3,362,711
Expenses	7,734,940	1,461,044	1,504,016	10,700,000
Net Operating Income	77,350	(186,044)	(1,504,016)	(1,612,711)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				487,289



Example of a CAH Hospital -

	<u>Medicare</u>	<u>Private Insurance</u>	<u>Bad Debt Charity</u>	<u>Total</u>
Revenue	9,000,000	1,700,000	1,750,000	12,450,000
Contractuals	1,552,771	425,000	1,750,000	3,727,771
Expenses	7,373,494	1,392,771	1,433,735	10,200,000
Net Operating Income	73,735	(117,771)	(1,433,735)	(1,477,771)
Other Income				
Property Taxes				2,000,000
Grants				50,000
Contributions				50,000
Net Income				622,229



Budgeting

- Prepare meaningful budgets
 - Involve department managers
- Anticipate changes from year to year
- Budget expenses based on expected volume/revenue
- Closely monitor budgets
 - Compare actual to budget
- Hold departments accountable for their performance



Budgeting



Purposes of Budgeting

- Setting goals for financial performance
....PLANNING
- Facilitating coordination
- Identifying areas needing attention
- Allocating resources
- Establishing metrics to measure performance

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Next Steps – Indicators & Benchmarking



Purposes of Indicators & Benchmarking

- Provide information to monitor health system performance to:
 - Communicate information within the organization
 - Implement strategy
 - Gain/give feedback
 - React to problems
 - Respond to opportunities

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Next Steps – Indicators & Benchmarking



Establishing Key Performance Indicators (KPI)

- KPIs should be established for:
 - Operational profitability
 - Balance sheet health (ongoing growth of health center net assets position)
 - Cash flow targets
- Measurement of KPIs should be performed at the same level as what is reflected in your financial plan (organization, site specific, program specific, etc.)



Performance Indicators

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Budget to actual • Operating indicator income • "Bottom Line" • Cash margin • Cost per visit • Cost per provider • NPSR per visit • Payer mix • Practice type mix • % Grant Revenue to total revenue • Margin per visit • Operating income as a % of revenue • Change in net assets as a % of expense • CPT Count • RVU's • Days cash on hand • Net days in AR | <ul style="list-style-type: none"> • Days in accounts payable • Current ratio • Quick ratio • Debt to equity ratio • Return on equity • Return on assets • Long term debt to capitalization • Debt service coverage • Equity financing • Total debt / total assets • Cash flow to total debt • Fixed asset turnover • Total asset turnover • Current asset turnover • Salaries, wages, & benefits as a % of expense • Bad debt expense per visit • Dollars of denied claims | <ul style="list-style-type: none"> • Gross charges & net revenue • Collections to gross charges • Collections to net charges • Market share • New patient visits to existing patient visits • Credit balances in AR • Un-posted encounters • Clean claim ratios • Average days to pay • Average days to file • Average reimbursement rate • Same day collection ratios • Billing / examining provider coding trends • Appt. ratios: appt. count, no shows, cancellations & reschedules |
|--|--|--|



Indicators




Days in Patient Accounts Receivable

- **38-43 days**




Indicators



Days in Accounts Receivable

- Percent of clean claims billed
 - Best practice: **95.5%***
- Days to charge entry
 - Best practice & average: **Same day or 24 hours**
- Days to claim submission
 - Best practice & average: **2 days**



Indicators



Claim Denial Rate

- Target = < 5% of total claims
- Reduce re-work
- Get paid faster
- Improve cash flow

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Indicators



Patient Revenue

- Monthly patient revenue collected
 - Total dollars collected each month
 - Previous six months
 - Same month past two years
 - Influencing factors
 - Changes in number of encounters
 - Changes in payer-mix

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Indicators



Bad Debt Rate

- < 3-8% of Net Revenues
 - Bad debt write-offs ÷ net revenues
 - Texas is seeing a shift from Bad Debt to Charity Care from changes to 1115 Waiver definition of UC

What Do KPIs Tell Us?

- Poorly trained staff?
- Lack of policies & procedures?
- Payer issues?
- Technology limitations?
- How are we trending?
- Are we meeting our goal?
- What do we need to know to stay on track?
- Where do we need improvement?



Accountability

- Use KPIs to motivate performance
- Set attainable goals & hold staff accountable
- Document goals not met in annual evaluations
- Consider rewards when goals are met
 - Departmental pizza party
 - Organization wide recognition (e.g., newsletter, plaque, etc.)
 - Special parking
 - Bonus
 - Extra paid time off



Evaluate Existing Services

- Evaluate departments that are not cost-based
 - Ambulance- Regulatory Changes effective 10-1-19
 - HHA
 - Hospice
 - Skilled Nursing Facility
 - Long-Term Care
 - Nonreimbursable cost centers



Evaluate Existing Services

- Prepare a department operating analysis
 - Evaluate departments that are winners and losers
 - Determine action steps
 - Evaluate strategies
 - Make conscious decisions based on outcomes

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Evaluate Existing Services

	Total Gross Revenues	Direct Cost & Overhead	Gross Contribution Margin	Net Patient Revenues**	Net Operating Margin
ADULTS & PEDS	3,138,114	2,660,165	477,949	2,940,180	280,015
OPERATING ROOM	934,005	821,815	112,190	573,519	(248,296)
RADIOLOGY	4,918,218	1,605,288	3,312,930	2,019,995	414,707
** Gross Revenues less bad debts and contractals					

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340B Program Evolvement

- Program allows hospitals to buy outpatient drugs at reduced prices and benefit from cost savings
- CAH's are newly covered entities
- Currently, not all CAH hospitals in Texas are enrolled in the 340b program
- Contract pharmacy arrangements give opportunity to new revenue streams
- No longer limited to one partner for contract pharmacy

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340B Program Evolvement

- Many respondents were concerned with regulatory and operational details of administering the program
- Challenges in implementation and administration of 340b program:
 - Maintaining separate records for IP/OP drugs
 - Having sufficient personnel to administer the program
 - Covered entity is responsible for compliance and must monitor contract pharmacies
 - HRSA recommends independent audits

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340B Program Evolvement

- Median Monthly savings on outpatient drugs of hospitals surveyed is \$10,000 or 25% of pharmacy budget
- **Reported savings range was \$600 per month up to > \$100,000 per month**
- 96% reported as being satisfied with the program
- Pharmacy Savings per month
 - Mean \$20,000
 - 25th Percentile \$ 4,000
 - 50th Percentile \$10,000
 - 75th Percentile \$28,000



Summary

1. Understand how the CAH reimbursement works
2. Budgeting and Benchmarking
3. Evaluate Existing Departmental Profitability
4. Focus on Non-Medicare Reimbursement Payment Rates
5. 340B



Questions?

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