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How Benchmarking Can Help Your Facility Achieve Financial Wellness

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During these turbulent times of economic uncertainty, healthcare providers must be vigilant in effectively monitoring and aggressively managing their bottom line to ensure long-term viability of their facility. Benchmarking your facility's performance using financial metrics and data analysis tools are keys to this process. It transforms Medicare cost reporting and billing compliance to proactive financial management and budget forecasting. If information derived from your reporting systems is applied appropriately, these tools also help to detect and resolve major problem areas.

Operational and financial performance indicators that should be regularly analyzed and evaluated include:

- **Profitability Ratios:** Operating Margin, Income Index, Return on Equity, Equity Growth Rate
- **Liquidity Ratios:** Current Ratio, Days Cash on Hand, Average Net (of contractual write-offs) Days in Patient Accounts Receivable by major payer class, Average Payment Period
- **Capital Structure & Liability Ratios:** Long-Term Debt to Capitalization, Equity & Fixed Asset Financing, Cash Flow to Total Debt Ratio, Debt Service & Expense Percentages
- **Asset Efficiency Ratios:** Total/Fixed/Current Asset Turnover, Inventory Ratio, Average Age of Plant, Depreciation Rate
- **Operational & Reimburse-**

ment Ratios: Average Revenue per Patient Day, Average Cost per Patient Discharge, Average Cost-to-Charge Ratio, Average Medicare/Medicaid/Insurance Payment per Patient Discharge Percentages, Contractual Allowance/Bad Debt/Charity Percentages, Personnel & Administrative Expense Percentages (of Operating Costs), Case Mix Index

While each of these metric categories focus on different aspects of a facility's operational and financial condition, collectively these indicators can help management establish trends over time and strategically make critical management and budgeting decisions based on the results. By using data derived from a reliable source like the Medicare cost report to formulate most of these indicators, facilities can also compare their performance with their peers and industry best practice benchmarks.

These performance "flash points" can also provide facilities with timely, needed information to detect financial distress signs and billing noncompliance. How? By specifically targeting areas of patient care and support operations that require immediate corrective action, as well as systemic improvements to effectively respond to internal and external factors that impact facility financial performance and long-term viability.

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Once key problems have been identified, a corrective action plan can be developed to remedy the root causes of those factors that often lead to a distressed financial situation:

1. Define Scope of Corrective Action Plan – Target major patient activity processing and reimbursement problem areas adversely affected by current patient care practices, including high risk patient billing and compliance categories targeted for OIG, Medicare Recovery Contractor (RAC) and Medicaid Integrity Program (MIP) Audits.
2. Collect and compile Medicare and Medicaid billing denials and payment recoupment data for current and previous fiscal cost reporting periods; perform trend analysis of results; immediately address compliance issues, correct, resubmit and/or appeal claims that have technical billing and coding errors but have supporting medical documentation – prioritize based on highest billed amounts and filing/appeal deadlines.
3. Conduct comprehensive review of entire reimbursement and reporting process, from point of patient registration, service coding and charging, utilization review, medical documentation, post-discharge billing reconciliation, claim submission and follow-up, payment/denial tracking and transaction posting, patient care activity/resource utilization statistical and cost reporting, to reconciliation of revenue and expense results on the monthly and year-to-date financial statements; insure

that proper system controls and processes are in place.

4. Analyze charge master coding, service pricing and related fee schedules, lost charges and unbilled items, reimbursement-to-billed charge ratios, contractual allowance adjustments, over coding/under coding occurrences and other related billing compliance issues – It's been FCAW's experience with compliance audits that providers tend to under code their claims resulting in significant underpayments that should have been paid had those claims been coded correctly.
5. Analyze Inpatient DRG and Outpatient (including ER and clinic) APC acuity levels to insure accurate coding, billing compliance and optimal reimbursement.
6. Immediately resolve noncompliant billing issues by implementing corrected/updated charge codes, policy, procedures, and system controls to insure accurate claims submission and cost reporting.
7. Establish new monthly/quarterly/annual performance benchmark targets and goals throughout the entire reimbursement and financial reporting process to track improvement measures taken for enhancing revenue capture, reimbursement-to-billed charge ratios, and operating margins.
8. Track reimbursement performance separately for all major payer categories (Medicare, Medicaid, Commercial Insurance, etc.), addressing deficiencies and problems specific

to each payer class.

9. Implement monthly training and updates for all staff involved in the reimbursement and financial reporting process, including billing compliance requirements and performance monitoring.
10. Regularly follow-up, evaluate and report progress made in addressing operational, financial and billing compliance issues to management staff and board members.

For more information on Financial Wellness indicators, billing compliance and RAC audits, go to www.FCAWreimbursement.com.

***Donna Herbert** is the founder of Financial Consultants of Alaska & Washington (FCAW). Since 1979, she has provided advice and counsel to health care providers in both Alaska and Washington concerning all aspects of budget, finance, and preparation of third-party cost reports. FCAW has expanded their client base throughout the U.S. She can be reached at 907-790-1026 or at fcaw@fcawreimbursement.com.*

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