THE BACK OFFICE IMPERATIVE

WEDNESDAY MAY 20, 2015

11:15 TO 12:45 P.M.

LEADINGAGE NY ANNUAL CONFERENCE
SARATOGA SPRINGS, NY

Strategies and Options for Managing Back-Office Operations

YOUR PRESENTERS:

- KAREN DONOVAN, DIRECTOR OF LTC OPERATIONS AND TECHNOLOGY, IM SOLUTIONS INC.
- PATRICK CUCINELLI, VP FOR FINANCIAL POLICY, LEADINGAGENCY
- PATRICK FLAHERTY, MANAGING DIRECTOR, IM SOLUTIONS INC.
- KEVIN QUIST, EXECUTIVE VICE PRESIDENT, BTQ FINANCIAL
- DAVID TERRIO, PRESIDENT, BTQ FINANCIAL
Strategies and Options for Managing Back-Office Operations

AGENDA
- NY NURSING HOMES AN INDUSTRY IN TRANSITION
- LATEST TRENDS AND DATA
- THE CASE FOR NEW THINKING
- THE REVENUE CYCLE
- ALTERNATIVE STRUCTURES AND CASE STUDIES

Strategies and Options for Managing Back-Office Operations

PROVIDERS ARE FACING INCREASING PRESSURE ON SEVERAL FRONTS:

SHRINKING MEDICAID AND MEDICARE FUNDING
DISAPPEARANCE OF PRIVATE PAY FUNDING
INCREASING COMPETITION FOR MEDICARE DOLLARS
INCREASING COMPETITION FROM NEW MODELS OF CARE
SPECIAL CONCERN – PRESERVING THE NOT-FOR-PROFIT MISSION OF PROVIDERS IN THE FACE OF FINANCIAL AND OPERATIONAL CHALLENGES, AND IN SOME CASES OVERWHELMING MARKET FORCES. THESE CHALLENGES AND TRENDS HAVE BEEN RECOGNIZED AND WELL-DOCUMENTED OVER THE PAST FEW YEARS, AND ONLY INTENSIFIED BY THE CURRENT SHIFT TO MANAGED CARE.
Strategies and Options for Managing Back-Office Operations

BACK OFFICE INITIATIVES: TO IMPROVE EFFICIENCY OF ADMINISTRATIVE FUNCTIONS AND SEEK TO ACHIEVE ECONOMIES OF SCALE IN ADMINISTRATIVE FUNCTIONS, WHILE TAKING STEPS TO ENSURE THAT A/R AND OTHER FINANCIAL FUNCTIONS ARE PROPERLY MANAGED AND THAT “DOLLARS ARE NOT LEFT ON THE TABLE.”

PURCHASED SERVICES: TO PROVIDE GROUP PURCHASING AND OTHER SERVICES TO ENSURE MEMBERS ARE OBTAINING THE MAXIMUM VALUE FOR THEIR DOLLARS AND MAXIMIZING ECONOMIES OF SCALE.

DATA TOOLS: TO UTILIZE CURRENT AND DEVELOPING DATA TOOLS TO IDENTIFY MEMBERS IN NEED AND PROVIDE THOSE MEMBERS WITH THE ADVANCED ANALYTICS NECESSARY TO ANALYZE CURRENT OPERATIONS AND SUPPORT THE CASE FOR NEW AND IMPROVED OPERATIONAL AND BUSINESS MODELS.
Public home median operating margin was -38.8% in 2013. The median AR for public homes was 41.2 days; AP stood at 8.1 days
Prevalence of Related Companies

Reported Related Companies, 2013

Percent with Related Company

- For-Profit
- Voluntary

Percent with Related Management Co.

Percent with Related ADP/ACETG Co.

Financial Health by Related Party Status- Downstate

Based on 2013 cost report data for downstate homes that offer only non-specialty nursing home services, multi-facility organizations tend to fare better financially, although their administrative costs are higher as a proportion of total expenses.
Financial Health by Related Party Status - Upstate

Based on 2013 cost report data for upstate homes that offer only non-specialty nursing home services, organizations with related ADP/accounting companies tend to have a significantly higher operating margin and lower administrative costs.

Focus of the Discussion

Today’s discussion focuses on two “back-office” functions

Fiscal and Accounting
Revenue Cycle Management

In addition, there are other critical back-office operations that can be evaluated:

IT support
HR Services
Options

- Do Nothing
- Bring in Consultants
- Share Services with other providers/networks
- Outsource – Today's session will focus more on how this option works

Pros of Outsourcing

- There is generally cost savings of 10-30% or more
- A higher level of expertise and industry knowledge than a free-standing operation might be able to attract or afford
- More of Executive Management’s time can be focused on core mission services
- There can be higher level of internal controls and regulatory compliance
Some of the Cons and Pitfalls of Outsourcing

- Organizational oversight, fiduciary obligations and critical strategic decision making shouldn’t be outsourced.
- Outsourcing a systemic problem won’t solve it.
- Lack of clarity on deliverables and other operational expectations leaves everyone frustrated.
- Slippage of service usually occurs when there is no system of structured feedback and evaluation of the engagement.

A brief overview of two firms

- IM Solutions, Inc.
- BTQ Financial
About IM Solutions

- Operating since 2001
- Emphasis on Long-Term Care Operations and Revenue Management;
- Business Practice Innovation (BPI) by leveraging investments in people, process and technology;
- Business Process Outsourcing (BPO) in billing, MDS coordination, HIM, corp. finance...;
- Information Systems facilitator, not a sales rep;
- Practice only in New York State.

Desired Results of Back Office Imperative

- Productivity – create business and clinical efficiencies and eliminate redundancies.
- Risk Management – revenue, care coordination and regulatory compliance that improve fiscal and quality performance.
- Labor – competency alignment and process ownership; train, encourage and retain staff.
- ROI – Get the most from your limited discretionary resources.
The Revenue Cycle

Business Practice Innovation (BPI)
People, Process and Technology

ADMISSION

- Critical Assessment of referral / potential admission
- Verify insurance data, determine payer and benefits. Collect co-pay/deductible
- Referral to financial counselor for Medicaid pending, Medicaid active & self-pay cases
- Completion of Admission Agreement
- Point of entry demographics (standard demographics, payer, guarantor, qualifying stay, diagnosis, etc.)
**ASSESSMENT**

- Determine coverage based on clinical assessment
- Determine RUGS scores per MDS Schedule
- Tracking and updating diagnosis information
- Monitor for the exhaustion of benefits & verify Medicaid application process is intact

---

**DOCUMENT**

- Management of daily census changes (beds, rooms, transfers, bed holds, etc.)
- Nursing documentation
- Therapy (PT, OT, Speech)
- Other (Lab, Radiology, Supplies, EKG, Drugs, RT, IV, Nutrition)
Revenue Cycle Imperative Case Studies

- 120 bed freestanding non-profit SNF
- 100-bed hospital-based SNF
- Non-profit retirement and aging community with 300+ bed SNF
- Multi-site for-profit SNF provider
BTQ Financial

- BTQ Financial:
  - BTQ has been operating since 2000 as a financial and accounting services firm
  - Prior to 2000, the firm provided planning services to the nonprofit sector for 20 years
  - BTQ’s exclusively serves the nonprofit sector, primarily health care but also human service agencies, cultural groups, public policy groups
  - It currently has 44 clients
  - It has close approximately 90 staff – 50 New York based staff & 40 off-shore staff
  - It is managing over $700 million in client revenues

Potential Scope of Services for a Fiscal and Accounting Outsourcing (FAO) Engagement

- A FAO provider can provide comprehensive finance and accounting services including accounts payable, cash management, receivables management, general ledger as well as CFO strategic and support services.
- A FAO provider set up the control environment and policies and procedures for each client
- The scope of services can be customized as appropriate for each client
- A FAO provider can manage monthly closings, reports and forecasts; vendor payments; funder finance reports; budgeting; cash flow forecasts; and audits
- The FAO provider can provide all accounting and transactional services and report into a CFO or COO; or it can serve as the CFO and report directly to the CEO and Board.
Client Profile

- BTQ serves a broad array of nonprofits:
  - Health Care Organizations
  - NYS Health Homes
  - Community Based Article 28 Clinics
  - Federally Qualified Health Centers (FQHC)
  - New York State Health Homes
  - Adult Day Health Care Programs
  - Community Based Case Management
  - Housing and Human Services, including Settlement Houses, Family and Foster Care Services and Mental Health Providers
  - Government Sponsored Initiatives
  - Public Policy Organizations
  - Cultural Institutions
  - Private Foundations

- BTQ’s Clients have many revenue sources
  - Government funding – federal, state and local
  - Foundation, Corporation, and Individual
  - Fee-for-Service
  - Entrepreneurial Ventures

How an FAO provider might work

- A client manager (CM) is your CFO. The CM is responsible for all aspects of the engagement and is the primary liaison.

- The client team might include: deputy client manager, controller, accounting, revenue cycle management and contracts/grants management staff and accounts payable staff. This team is managed by the CM.

- A weekly finance meeting with the client reviews all critical and routine items – calendar of deadlines, cash flow, financial reports, emerging problems, new initiatives.

- On-site presence of FAO team members as needed for meetings and team work. Transactional work can take place at the FAO offices.

- Real-time availability of reports, data and finance team

- Emphasis on reporting through dashboards and forecasting with strong analysis.

- Frequent reporting of results: cash can be done daily or weekly, receipts and disbursements are reviewed with client at least weekly, detailed monthly P&Ls for each cost center and/or contract.

- All financial results are monitored closely in relation to the detailed budgets and/or forecasts. While the general ledger is maintained by the FAO, the client can have access to view all records and run reports.
How an FAO provider might work (Continued)

- The highest industry standards for internal controls are maintained; the client specific policies and procedures are adhered to in all functional areas.

- FAO clients are audited by their independent CPA firms annually.
  - The FAO provider manages many audits with many audit firms each year and is aware of new and emerging Best Practices and Risk Areas.

- Generally, the FAO only has “view-access” to client bank accounts.
  - No client funds can be directly disbursed by FAO without the approval of the client. (In some cases, clients allow digital signatures for disbursements below a specified amount if approval of invoice and disbursement is made).

- Accounts payable maintained on a weekly schedule (with room for exceptions, for course!) The Accounts Payable system uses paperless Doc-Link system.
  - Paperless Accounts Payable systems make for easy workflows and for transparent and searchable database of all vendor activity.
  - The AP workflow is set up to provide for consistent processing and multiple approval levels by the appropriate client staff.
  - “Safe Pay” and other controls provide a very high level of internal controls.

- Frequent and timely bank reconciliations are done. (For many clients, the bank reconciliations are real time through the link with the bank).

How an FAO engagement is started

- 3-6 week orientation/assessment of all systems, reporting requirements.

- Meet with all key stakeholders to identify requirements and preferences, e.g., how do the board committee chairs want reports and communication to be handled.

- Observe and work, to the extent possible, with the current fiscal staff.

- Develop implementation Work Plan that lays out calendar and goals/objectives to be met.

- Develop the policies & procedures and train the FAO client team on all requirements.

- Set up systems, report formats, AP system.

- Although, most FAO providers are be prepared to take over operations with a short notice, a 2-3 month transition with phased exit of current staff.
Approach to Pricing

- The initial assessment will look at all transactional processes, volume, timing, and current level of staff resources to determine:
  - Appropriate staffing levels
  - Areas/Functions where efficiencies can be implemented
  - Systems requirements.
- A modified cast plus fee schedule is usually best in initial engagement – mutual agreement of level of resources to be deployed
- Multi-year pricing agreements are optimal
- An implementation or start-up fee is usual

Questions and Further Information

- Patrick Flaherty, IM Solutions Inc., 716-491-1679
  pflaherty@imsolutionsinc.net

- David Terrio, BTQ Financial, (212) 901-2444
  dterrio@btqfinancial.com