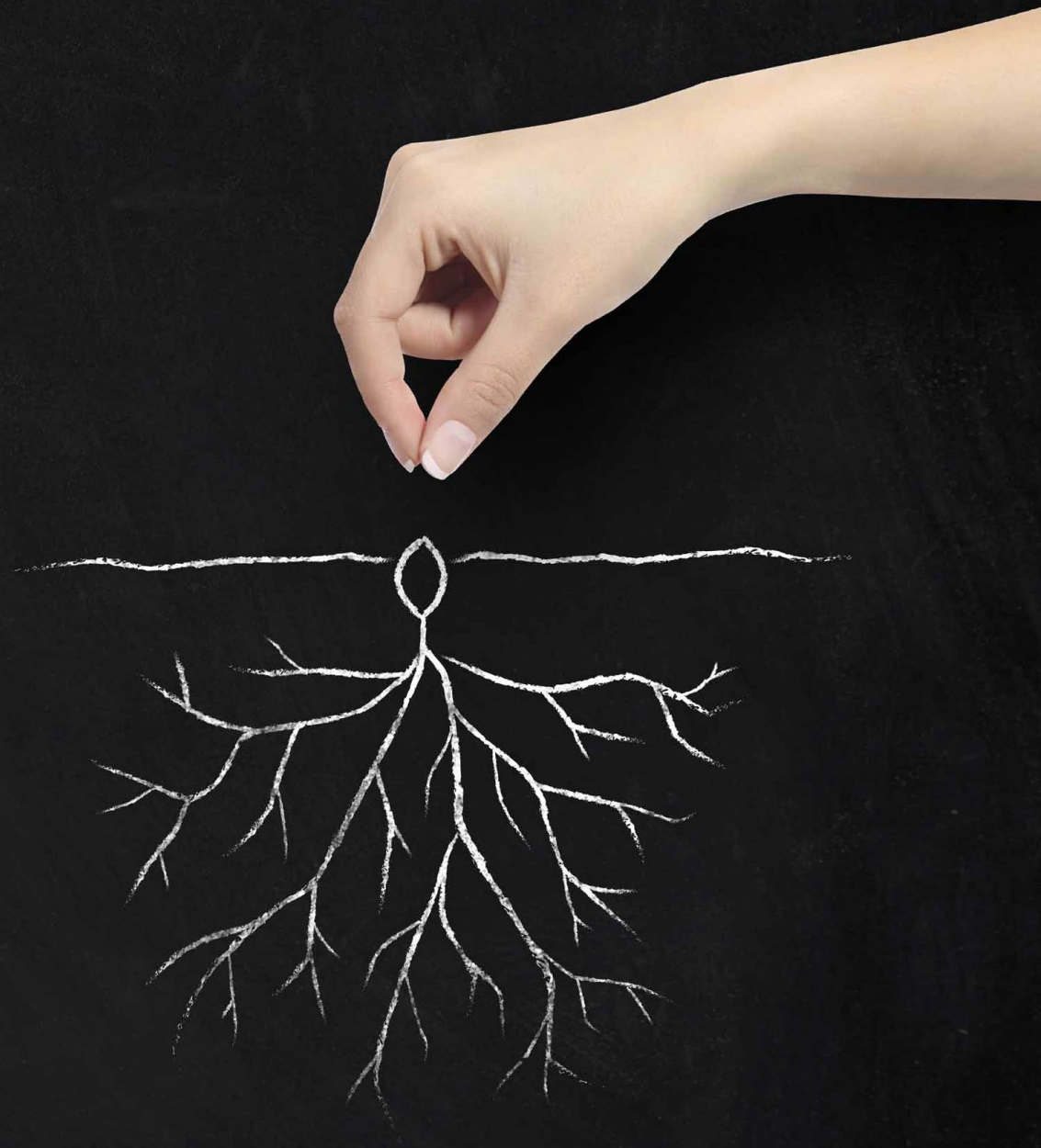# Getting Value from Your Back Office

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Learner Objectives

After this session, we hope you will be better equipped to:

1. Implement key processes for improving billing and collections

2. Ensure the accuracy of reported financial information

3. Enhance relationships with department heads and the board of directors

4. Develop a decision-making model for hiring or outsourcing back office functions

5. List key considerations when considering a new software solution

6. Design internal controls to minimize the risk of fraud and misappropriation
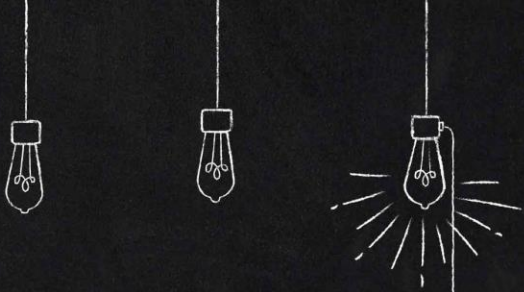
Accounts Receivable

Best Practices

How to Track Accounts Receivable

Although many nursing homes have computer systems capable of tracking accounts receivable (AR), there is sometimes an information gap.

- Accounts can go uncollected when they get lost in a large AR aging report.
- Therefore, a provider should establish a process to document collection efforts.
  - Separate by payer and contain the resident's name, date of service, amount owed and status
  - The documentation should include all the collections-related activity that has taken place on the account
  - All information related to the account should be listed so collection efforts are not duplicated especially when multiple staff members are working on the same accounts.

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How to Track Accounts Receivable

- Identify Follow-up Timelines
    - Medicare:
        - If submitted electronically, the AR software may have the ability to generate a report which will identify whether or not the submission was successful.
        - Billers should check status of Medicare claims on a weekly basis.
    - Medicare Advantage/Managed Care: After 30 days, call HMO's claim processing center; after initial call, follow up every 15 days.

How to Track Accounts Receivable

- Identify Follow-up Timelines (Continued)

  - Medicaid:

    o If billed through the portal, biller should be able to tell at the time the claim is entered if it is paid.

    o If submitting electronically, should check the portal the next day.

  - Coinsurance: Call customer service department after 30 days from the date of the Medicare paid date; follow up every 14 days thereafter.

  - Private and patient-paid amounts: First follow up when account is 10 days late; then follow up every 10 days after.

How to Track Accounts Receivable

- Administrator's role

  – Request a copy of the end-of-the-month aging report. Every month!

  – You will want to focus on the following:

    - Medicaid Pending
      o They are actually pending (meaning they have applied for Medicaid) or they are private pay (they have not applied for Medicaid).
      o In Wisconsin, Medicaid coverage will retro back 3 months.
      o How long they have been pending and what is the status?
      o Make sure someone is reviewing the status weekly.

  – Insurance accounts over 90 days
      o Insurance is notorious for paying late so make sure your facility is persistent on getting them everything they ask for and make sure follow up calls are done weekly until resolved.

- Administrator's role (Continued)
  - You will want to focus on the following:
    - Medicare
      - Claims typically pay 14 days after a clean claim is submitted.
      - If you have unresolved Medicare balances, jump on this. There is usually a simple reason why you're not getting paid.
    - Resident Liability
      - For a resident admitted under Medicaid, request the liability payment upon admission
      - These amounts should be pre-billed at the beginning of each month and payment should come directly to the facility.
      - Resident liability amounts can add up quickly month to month. Don't let this roll month to month.

How to Track Accounts Receivable

- Administrator's role (Continued)
  - You will want to focus on the following:
    - Supplemental Insurance
      - o Is your facility billing supplemental insurance for 30-days of non-Medicare skilled nursing care when appropriate?
      - o Upon receipt of the Medicare RA, a copy should be attached to the UB04 and mailed within 3 days.
      - o A rule of thumb is not later than 3 weeks after the claim is mailed, you should be able to confirm either by phone or online that they have your claim.

How to Track Accounts Receivable

- Administrator's role (Continued)

    - You will want to focus on the following:
        - Full Insurance
            - One of the most problematic types of claims to get paid.
            - Insurance companies use several tactics which will delay payment:
                - Claim never received
                - Record requests
                - Incomplete UB04
        - It is necessary to follow up on these claims every 1-2 weeks to ensure they will continue to process.

How to Track Accounts Receivable

- Administrator's role (Continued)

    - Private pay who haven't paid – Do you expect to get paid?

    - Account balances over $10,000
        - o If someone hasn't payed you for 3 months, there's a problem which needs to be addressed.

Communicating Financial Results to the Board of Directors

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Effective Financial Communication to the Board

- The Finance Team is responsible for providing

  - **Timely,**

  - **Accurate,**

  - **Useful, and**

  - **Transparent**

  Information to the Management Team and the Board of Directors

Effective Financial Communication to the Board

Without timely <u>and</u> accurate financial statements, management and the board of directors is "flying blind" in executing their responsibilities.

"Timely"

- The ability of the finance team to deliver timely and accurate financial statements will depend on their level of expertise, experience, and other competing responsibilities.

- Below are some guidelines:

  - Best Practice – End of the 2nd or 3rd week of month-end

  - Barely Tolerable – Within 5 weeks of month-end

  - Unacceptable – Any later than that

- If you are not producing accurate financial statements within this timeframe, you need to find out why and take corrective action.

Effective Financial Communication to the Board

"Accurate"

- Failure to keep the financial records "clean" can be very expensive. It can result in expensive "financial housekeeping" services by the audit firm or another third party.

- If internal processes are working correctly, there should be minimal adjustments resulting from the audit process.

- Understand the trial balance chart of accounts and set expectations for how often accounts should be reconciled.

- An internal but independent person (either CFO or Administrator) should spot check account reconciliations regularly.

- If internal spot checking or the audit process identifies accounts which are not being reconciled, determine why and take corrective action.

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Effective Financial Communication to the Board

"Useful"

- Department heads need to understand their expenses in light of volume for the month and year to date.

- Department heads also benefit from seeing the financial position of the organization as a whole. This would be the same information provided to the board of directors.

- The Board of Directors' responsibility is governance-level oversight –

  - Unacceptable - Provide no financial statements to the Board.

  - Worst Practice - Provide very detailed department-level detail and financial statements.

  - Best Practice - Provide "financial dashboard" a relatively brief memo outlining key factors affecting financial statements, and be prepared to answer specific questions from the Board.

Effective Financial Communication to the Board

Key Financial Indicators			
	2014	**2013**	**2012**
Operating Revenue	$ 5,586,982	$ 5,358,690	$ 5,159,543
Operating Expense	5,046,158	5,310,932	5,376,514
Operating income (loss)	$ 540,824	$ 47,758	$ (216,971)
Operating margin	9.7%	0.9%	-4.2%
EBIDA *	$ 1,116,512	653,379	412,593
Debt service coverage ratio	2.06	1.21	0.76
Current ratio	1.24	0.78	0.80
Days net revenue in accounts receivable	41.53	39.97	50.52
Days cash and investments on hand - all sources	96.73	81.99	57.86

* EBIDA - Earnings before depreciation, amortization, interest

Effective Financial Communication to the Board

Payor Mix & Census Information			
	2014	**2013**	**2012**
Average Daily Census:			
Nursing Home (50 bed capacity):			
Medicare	7.44	7.23	7.83
Medicaid	28.88	30.15	35.70
Private Pay	11.22	7.44	5.45
Total	47.54	44.82	48.98
Housing			
Assisted Living (25 units capacity)	21.58	21.18	15.55
Independent Living (18 unit capacity)	16.33	16.35	15.81
Total	37.91	37.53	31.36

Effective Financial Communication to the Board

Revenue and Expense Per Resident Day					
	2014		**2013**		**2012**
Revenue per day:					
Nursing home	$	240.85	$	234.47	$ 219.02
Assisted living	$	95.59	$	97.11	$ 101.79
Direct care expense per resident day					
Nursing home	$	111.61	$	124.65	$ 116.78
Assisted living	$	29.71	$	28.55	$ 34.16

Effective Financial Communication to the Board

"Transparent"

- The Board of Directors is ultimately responsible for ongoing governance of the Organization.

- The Board should have at least one board member who is financially knowledgeable and "savvy".

- If the Board is not functioning effectively or doesn't include the appropriate types of expertise, board governance education and restructuring may be necessary.

- Management is responsible for providing full information and responsiveness to the Board of Directors.

- Management should not try to "sugar coat" or hide any information about the Organization's finances – even though it may be undesirable or uncomfortable to inform the Board of certain information.

The Importance of Budgeting

Setting Expectations

The first key to successfully communicating financial results to the Board and department heads is to set expectations through the creation, discussion, and approval of an annual financial budget

- The budget should include enough detail so that the information can be used throughout the year to explain variances.

- The budget should include:

  o Patient days by payer

  o Reimbursement rates by payer

  o Hours by department

  o Average wage rates by department

  o A description of how non-wage expenses were budgeted

Involving Staff

- In order to get everyone to buy into the annual budget it is important that staff are involved in the budget process so that the budget becomes theirs!

- The budget process should begin by the department heads reviewing their staffing and expense results from the prior year.

- Once the department heads have finished reviewing their staffing and expenses, they should develop a staffing budget and expense budget for the upcoming fiscal year.

  o As part of this process, department heads should identify the reasons behind any significant changes in staffing or expenses and be ready to discuss those changes with the management team.

- Once department head budgets have been submitted and summarized into a budget document, a department head budget meeting should be scheduled to discuss, modify, and finalize the budget.

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Educating the Board

- After the budget has been approved by the department heads, the budget should be brought to the Board for their review, discussion, and approval.

- In order to ensure the Board understands the budget, an overview of the budget should be given which should include:

  o The key assumptions:

    - Changes in staffing levels

    - Budgeted wage increases

    - Overall occupancy and payer mix

Educating the Board

- In addition to providing an overview of the key assumptions to the Board, it is also important to identify potential areas of concern such as:

  o *With the new rehab unit opening at the competitor nursing home we may see a decrease in our Medicare census.*

  o *We are having a difficult time hiring qualified CNA'. We may need to look at increasing the starting wage if recruiting efforts don't improve.*

  o *In talking with our maintenance staff, it is likely we will need to replace one of the boilers this fiscal year.*

- If you have these discussions at the beginning of the year during the budget process and then continue to update them each month, they feel better informed and less surprised when issues arise.

Empower Your Department Heads

- If you did a good job including them during the development process, the department heads should understand the budget and feel engaged.

- Once the budget is approved, allow department heads to manage their own budget.

- Spend down worksheets can be a useful tool for department heads and as long as the department head doesn't exceed their spending limit, they manage the timing and quantity of purchases.

- Budget monitoring needs to take volume changes into consideration for variable expenses.

- Managing their budget should be included in annual reviews - Some organizations give bonuses to department heads who come in under budget at year end.

Sample Spend Down Worksheet

Facility Name: ABC Nursing Home			
Department: Dietary			
Budgeted PPD	$8.40		
Starting Date	8/30/2015		
Ending Date	9/5/2015		
Today's Date	8/28/2015		
Current Census	45		
Weekly Budget ($8.40 x 7 x 45)	$2,646.00		
Expenditures:			
Date	Vendor	Amount	Balance
8/30/2015	Reinhart Foods	$250.00	$2,396.00
8/31/2015	SYSCO Foods	125.00	2,271.000

Internal Controls

Internal Control Procedures

Just a few examples of frauds which have been perpetrated:

- Unauthorized cash disbursements

- Personal credit card expenditures

- Theft of resident trust funds

- Theft through fraudulent activity in the accrued vacation process

Internal Control Procedures

Separation of duties

- Involves separating duties so a single person does not have access to all aspects of a process.

- For example:

  - Does the person posting payments to accounts receivable handle the actual checks and cash?

  - Does the person processing payroll have the ability to set up a new employee?

  - Does the person processing vendor checks also either sign or even mail out the checks?

  - Can the accountant who reconciles the bank account set up electronic funds transfers?

Internal Control Procedures

There are almost always creative ways to implement appropriate "internal controls" or "mitigating controls".

Worst Practice –

- Tell yourself, and your auditor, that we are too small to have appropriate internal controls.

Best Practice –

- Document and review all key processes annually to identify risks.

- Have segregation of duties which would eliminate or minimize risk.

Alternative Practice –

- Document and review all key processes annually to identify risks.

- Establish mitigating controls, such as detection controls, which would minimize risk of a fraud going undetected for a period of time.

Do you think this situation could resulted in theft?

If so, how?

Person Performing Task	Business Office Manager	Social Services	Receptionist	Accountant	Someone Else	Administrator
Sets up new resident in the system	X					
Posts charges for resident days and services	X					
Bills third party payor (Medicare / Medicaid for services)	X					
Prepares log of all incoming receipts at time mail is opened			Not Done			
Endorses checks with "for deposit only" stamp			Not Done			
Prepares bank deposit				X		
Handles or receives cash and checks for services	X			X		
Has access to posting cash receipts & adjustments to the accounts	X			X		
Posts cash receipts to accounts receivable system	X					
Reconciles log of incoming receipts to accounts receivable postings and bank deposit			Not Done			
Delivers deposit to bank				X		
Prepares and mails patient statements	X					
Reviews aging detail and follows up on old balances	X					
Ensures aging detail review has been performed			Not Done			
Approves adjustments and write-offs			Not Done			
Posts adjustments to accounts receivable system	X					
Reviews report for adjustments which were posted to accounts receivable			Not Done			
Reconciles g/l cash account balances to bank statements				X		
Reconciles g/l accounts receivable balances to detail				X		
Periodically reviews general ledger reconciliations			Not Done			

Is this situation better

If so, how?

Person Performing Task	Business Office Manager	Social Services	Receptionist	Accountant	Someone Else	Administrator
Sets up new resident in the system		X				
Posts charges for resident days and services	X					
Bills third party payor (Medicare / Medicaid for services)	X					
Prepares log of all incoming receipts at time mail is opened			X			
Endorses checks with "for deposit only" stamp			X			
Prepares bank deposit			X			
Handles or receives cash and checks for services			X			
Has access to posting cash receipts & adjustments to the accounts	X					
Posts cash receipts to accounts receivable system	X					
Reconciles log of incoming receipts to accounts receivable postings and bank deposit				X		
Delivers deposit to bank					X	
Prepares and mails patient statements	X					
Reviews aging detail and follows up on old balances	X					
Ensures aging detail review has been performed						X
Approves adjustments and write-offs						X
Posts adjustments to accounts receivable system	X					
Reviews report for adjustments which were posted to accounts receivable				X		X
Reconciles g/l cash account balances to bank statements				X		
Reconciles g/l accounts receivable balances to detail				X		
Periodically reviews general ledger reconciliations						X

Internal Control Procedures

Similar analysis should be done for all key processes to identify where weaknesses and risks exist:

- Accounts Receivable and Cash Receipts

- Accounts Payable and Cash Disbursements

- Payroll

- Resident Trust Funds

- General Ledger and Financial Reporting

Outsourcing Services

Outsourcing versus Hiring In-house

What is outsourcing?

If you hire an outside consultant, service provider, or agency to manage a portion of your business, that is outsourcing.

Here are some reasons to outsource:

- Specialized skills – The task is highly specialized and requires expert skills or systems, such as:

  - Accounting and Financial Reporting

  - Accounts Receivable

  - Payroll

  - Reimbursement

  - Human Resource Compliance

Outsourcing versus Hiring In-house

- The task requires specialized equipment which is not cost effective for your organization to purchase such as:

  - General ledger software

  - Accounts receivable software

  - Payroll software

  - Medicare cost report software

  - Human resources management system

Outsourcing versus Hiring In-house

- The cost of turnover for both full-time and part-time personnel. Cost of turnover includes:

  - Internal training $$ or external training $$ for newly hired personnel

  - Bad debt write-offs resulting from inexperienced billers-in-training

  - Financial "housekeeping" costs resulting from new staff in the training phase

  - Cost of bad decisions resulting from poor financial management and reporting

  - Additional stress on administrator and others in dealing with the above

Outsourcing versus Hiring In-house

- The task is temporary or short-term

  For example, you may need someone to assist in getting your accounts receivables cleaned up and collected. Don't be short sighted in spending some money to save some money!

- The amount of work which needs to be done doesn't justify the cost of in-house staff. This may be because:

  - The position does not require a full-time person or

  - You can't afford to hire a highly skilled person for a part-time position.

- The cost of hiring in-house is prohibitive for the amount of work. This is usually because the task is not full-time and you simply can't afford to hire a highly skilled person for a part-time position.

Software Selection

Software Selection — Things to Consider

- Figure out what it is you really need.

  – Separate your list into a "must-have" list and a "nice-to-have" list.

  – To know your options, consider some software products demos.

- Check the software provider's credentials.

  – How long have they been in business?

  – Are they growing or downsizing?

Software Selection — Things to Consider

- Check for hidden or additional fees.

  - Look for hidden contract costs, such as:

    - Additional fees for in-person training

    - Document management services

    - Setup costs

    - Annual maintenance fees in addition to the monthly support costs.

Software Selection — Things to Consider

- Take a test drive

    - Schedule demos with software vendors you are considering

    - Schedule all demos on the same day or within a couple of days - This keeps the information fresh in your head

    - Make a list and/or scorecard which includes all of the key "must have" and "nice to have" functions you want to view on the software

Software Selection — Things to Consider

- Questions to ask of the vendor and the references:

    - Ask for references from similar sized organizations in your industry.

    - How are updates and upgrades managed?

    - How will the vendor support you after the sale?

    - How easy is it to set up and train users?

    - Will the software integrate easily with our existing systems?

    - Who gets custody of your data should you switch vendors?

    - What do their customers have to say?

    - Would existing customers choose this software again?

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Software Selection – Things to Consider

- Agree to key performance indicators before signing a contract

  - Both parties agree on performance metrics which will determine whether the implementation was "a success"

  - Make sure software enhancements are identified in the contract

  - Understand how would you get your data back if you leave

  - Payment for services should be tied to the key performance indicators

Questions?

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Thank you!

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