



Strengthening Your Financial Position After COVID

June 23, 2020

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1

[COVID Relief Funds](#)

[Balance Sheet Strategies](#)

- Cash and Investments
- Billing and Accounts Receivable
- Refinancing Long Term Debt

[Achieving Stronger Earnings Amidst PDPM and COVID](#)

- Budgeting
- Monthly Reporting
- Optimizing Revenue
- Managing Expenses

[The Financial Ratios Trifecta](#)

[Sample Monthly Dashboards](#)

[Discussion and Questions](#)

2

2



3

Maximize COVID Related Funding Opportunities

HHS Provider Relief Fund

- Remain informed of evolving requirements and continually updated FAQs related to HHS Funds
- Track lost revenue
- Track additional COVID related expense (be creative but compliant!)
- Many questions remain on the HHS Provider Relief Fund

Paycheck Protection Program

- Remain informed of evolving requirements related to PPP Funds
- Maximize forgiveness of the PPP loan

Telehealth Grant

Wisconsin COVID Relief Payments

- Deadline for filing is June 30th
- <https://www.dhs.wisconsin.gov/covid-19/dpp.htm>

4

HHS Funds— Important Updates

Uniform Guidance Audit Requirement - We have received confirmation that receipt of greater than \$750,000 in federal award expenditures (including but not limited to HHS Provider Relief Funds) will trigger a Uniform Guidance audit requirement for governmental and non-profit organizations. A Uniform Guidance audit would be completed at the same time as your normal annual financial statement audit but is a higher audit standard than the typical generally accepted audit standard. The Uniform Guidance compliance supplement, which informs audit firms of the required procedures related to the HHS Provider Relief Funds, has not been released yet and we are unsure when this compliance supplement will be available.

5

5

HHS Funds— Important Updates

Quarterly Reporting Requirement - One of the recent updates to the FAQ relates to the reporting of lost revenue or additional COVID related expense to justify a provider's retention of the HHS Provider Relief Fund distributions. Until this time, it had been communicated that providers would need to complete a quarterly reporting by the 10th day after the end of the quarter so the first reporting was expected to be due July 10. On June 13, the FAQ was updated to indicate that there will **not** be a quarterly reporting requirement. The FAQ indicates there will be reporting requirements at some point in the future but no further details are available at this time.

6

6

HHS Funds— Important Updates

Updated FAQs - The HHS website has an FAQ related to the stimulus funds that is frequently updated. We encourage you to review the entire FAQ periodically as there is likely information that would be pertinent to your organization. You can find the FAQs at this link <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/faqs/index.html>. On June 2, 2020, the FAQ added the following question and response related to what expenses or lost Revenues are considered eligible for reimbursement:

Question: What expenses or lost revenues are considered eligible for reimbursement?

Response: The term “healthcare related expenses attributable to coronavirus” is a broad term that may cover a range of items and services purchased to prevent, prepare for, and respond to coronavirus, including:

- Supplies used to provide healthcare services for possible or actual COVID-19 patients;
- Equipment used to provide healthcare services for possible or actual COVID-19 patients;
- Workforce training;
- Developing and staffing emergency operation centers;
- Reporting COVID-19 test results to federal, state, or local governments;
- Building or constructing temporary structures to expand capacity for COVID-19 patient care or to provide healthcare services to non-COVID-19 patients in a separate area from where COVID-19 patients are being treated; and acquiring additional resources, including facilities, equipment, supplies, healthcare practices, staffing, and technology to expand or preserve care delivery.

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7

7

HHS Funds— Important Updates

Providers may have incurred eligible health care related expenses attributable to coronavirus prior to the date on which they received their payment. Providers can use their Provider Relief Fund payment for such expenses incurred on any date, so long as those expenses were attributable to coronavirus and were used to prevent, prepare for, and respond to coronavirus. HHS expects that it would be highly unusual for providers to have incurred eligible expenses prior to January 1, 2020.

*The term “lost revenues that are attributable to coronavirus” means any revenue that you as a healthcare provider lost due to coronavirus. This may include revenue losses associated with fewer outpatient visits, canceled elective procedures or services, or increased uncompensated care. **Providers can use Provider Relief Fund payments to cover any cost that the lost revenue otherwise would have covered, so long as that cost prevents, prepares for, or responds to coronavirus.** Thus, these costs do not need to be specific to providing care for possible or actual coronavirus patients, but the lost revenue that the Provider Relief Fund payment covers must have been lost due to coronavirus. HHS encourages the use of funds to cover lost revenue so that providers can respond to the coronavirus public health emergency by maintaining healthcare delivery capacity, such as using Provider Relief Fund payments to cover Employee or contractor payroll, Employee health insurance, Rent or mortgage payments, Equipment lease payments, Electronic health record licensing fees.*

8

8

PPP – Important Updates

Paycheck Protection Program Flexibility Act (Flexibility Act)

- Extended maturity date from 2 to 5 years
- Extended covered period from 8 to 24 weeks.
- Reduced the amount needed for payroll from 75% to 60%.
- Date to replace FTEs and restore salaries extended to December 31, 2020.
- The “incurred or paid” rule still applies.
- The SBA also released two new applications: a revised full-loan application and a new EZ Version.

9

9

COVID19 Telehealth Grants

- The Telehealth Program will provide immediate support to eligible healthcare providers responding to the COVID-19 pandemic by fully funding their telecommunications services, information services, and devices necessary to provide critical connected care services until the Telehealth Program's funds have been expended or the COVID-19 pandemic has ended.
- Grant funding up to \$1 million per applicant.
- The Telehealth Program is open to rural and nonrural providers.

<https://www.fcc.gov/covid-19-telehealth-program>

10

10



11

Cash and Investments

Many clients don't have a strong investment portfolio, but for those who do –

- Define when amounts will be transferred in and out of the investment portfolio
- Define risk tolerance and targeted asset allocations for the investment portfolio
- Determine what the goal of the investment portfolio is (rainy day, capital projects, entrance fees, etc.)
- Adopt an investment policy which guides investment portfolio decisions for the short and long run.
- Evaluate your investment advisor results and costs regularly – including an independent assessment
- And as a fiduciary for your employee retirement plan – have an independent assessment completed for your retirement plan investment options, cost, and returns

12

12

Billing and Accounts Receivable

- Managing accounts receivable is a key to financial success.
- Collection of receivables begin at the time of admission.
- Keys to success:
 - Efficient use of software technology
 - Robust triple check process
 - Payer grid
 - Monitoring (Days Net Revenue in Accounts Receivables)
 - Follow-up
 - Recognition

13

13

Refinancing Long Term Debt

- Many providers can improve cash flow by refinancing debt
- When providers are looking at their debt most often they evaluate their debt based on the interest rate affiliated with the debt
- Keys to evaluating debt refinancing
 - Interest rate
 - Loan term
 - Interest rate reset
 - Repayment penalty
 - Debt reserve fund requirements
 - Covenants
 - Cost of refinancing

14

14



Achieving Stronger

Earnings

15

Budgeting

- Budgeting is crucial to financial success
- Many providers do not use their budget as the financial management tool it should be!
- In order for a budget to be effective it must have enough detail to allow the user to measure their performance and explain the reason for variations
- Department heads should be involved in the budgeting process
- Department heads should be accountable for their department's budget
- Consider using spend-down sheets to assist department heads in managing to their budget
- Provider must define variable and non-variable expenses
- Keys to success:
 - Do not over budget average daily census
 - As the CEO, administrator or CFO to not try to manage to the budget on your own

16

Monthly Financial Reporting

- Accurate and timely financial reporting is a key to financial success
- Monthly financials should be completed between the 20th – 25th day of the month following the month the financials relate too
- Use of software is critical to producing accurate financials efficiently. Creating financials efficiently allows more time to evaluate financial performance.
- Monthly reporting should include a comparison to budget
- Monthly reporting should be done on a per patient day basis

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17

17

Optimizing Medicare Revenue under PDPM

- Due to the challenges of COVID-19 many providers have not evaluated their performance under the Patient Driven Payment Model
- Keys to success
 - Benchmark your level of care against CMS data
 - Ensure billing for services if accurate
 - Evaluate profitability

18

18

Optimizing Medicaid Revenue

- Ensure coding practices are maximizing case mix levels
- Review patient level reports used to set quarterly CMI levels
- Review Medicaid auditor adjustments and rate calculation thoroughly.
- Evaluate reimbursement benefit of incentives available for facilities which are 50 beds or less – if occupancy is hovering near this level

19

19

Optimizing Private Pay Revenue

- Pre-bill your private pay residents.
- Align private pay rates with quality of care and facility amenities.
- Charge a competitive extra daily fee for a private room.
- Set private pay rates based on acuity-based system rather than the traditional fixed rate per day.

20

20

Therapy Services

- Providers should review therapy invoices to ensure they are getting invoiced based on the contract
- Providers should evaluate the cost of therapy under PDPM compared to the historical cost of therapy under RUGs
- Receiving accurate and timely therapy information is key to accurate and timely billing for services

21

21

Salaries

- Salaries are a provider largest area of expense
- Staffing schedules must be in line with the budget
- Providers should complete an analysis to compare scheduled hours to actual payroll hours
- Providers should evaluate the effectiveness of their current compensation program. Does compensation support the behavior desired in employees?

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22

22

Payroll Schedule to Actual Comparison Tool

(for 14-day pay period)

	Productive Hours Per Resident Day (HRD)						
	Director	RN		MDS	Aide & Ward		Direct
	Of Nursing	Super.	Coord	Other RN	LPN	Clerk	Care
Actual	0.08	0.16	0.08	0.56	0.82	1.82	3.52
Scheduled	0.07	0.13	0.07	0.38	0.93	1.63	3.21
Variance	0.01	0.03	0.01	0.18	(0.11)	0.19	0.31
X Resident Days in period (ADC=85)	1,190	1,190	1,190	1,190	1,190	1,190	
Hours more than (less than) scheduled	1190	35.70	1190	214.20	(130.90)	226.10	368.90
Average Hrly Rate	\$ 30.52	\$ 27.21	\$ 27.21	\$ 25.26	\$ 19.77	\$ 12.85	
Wages more (less) than scheduled	400	1,000	300	5,400	(2,600)	2,900	
Wages & Benefits more (less) than	\$ 500	\$ 1,300	\$ 400	\$ 6,900	\$ (3,300)	\$ 3,700	
Annualized Amount (rounded)	\$ 13,000	\$ 33,900	\$ 10,400	\$ 179,900	\$ (86,000)	\$ 96,500	\$ 247,700

23

23



24

Financial Ratio Trifecta

Monitoring trends in the following ratios and projecting a 3-5 year vision for these ratios is a foundation for a financially stable nursing home.

The following pages reflect a nursing home with several years of distressing financial performance but which is now in recovery mode.

Monitoring the following three ratios and having a financial plan for these ratios into the future can provide an early warning system to fend off financial distress.

Financial Ratio Trifecta

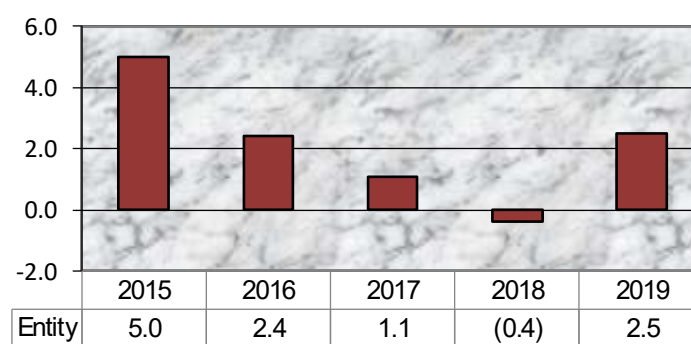
- Debt service coverage ratio
- Days cash and investments on hand
- Days net revenue in accounts receivable

For entities in distress, we also recommend monitoring days expense in accounts payable.

25

25

Debt Service Coverage Ratio



Higher is
Better



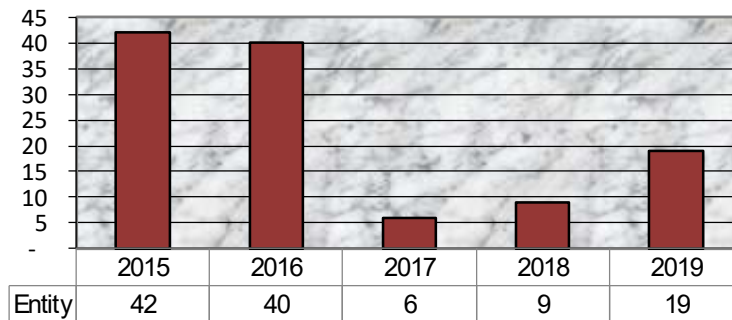
The debt service coverage ratio measures the ability to meet principal and interest payments due. While covenants for debt service coverage can be as low as 1.10, that is not a safe level for organizations on a long term basis.

26

26

Days Cash and Investments on Hand

Days cash and investments on hand is an indicator that reflects the Organization's ability to pay for current operating costs. Facility levels vary depending on short- and long-term profitability.



Higher is
Better

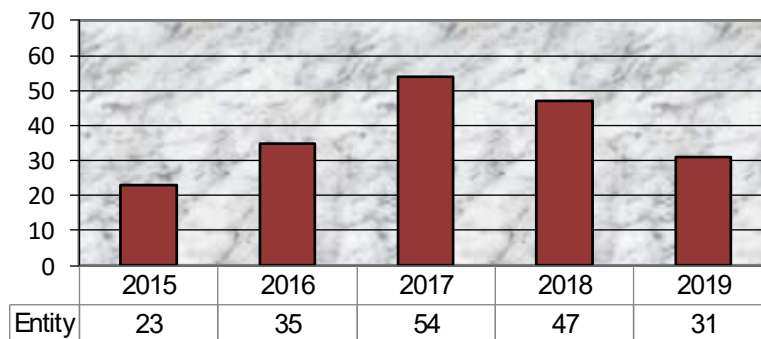


27

27

Days Net Revenue in Accounts Receivable

Days net revenue in accounts receivable is a key ratio to monitor since the industry is experiencing challenges due to denied claims, increasing coinsurance amounts, and increasing third-party payor plans.



Lower is
Better

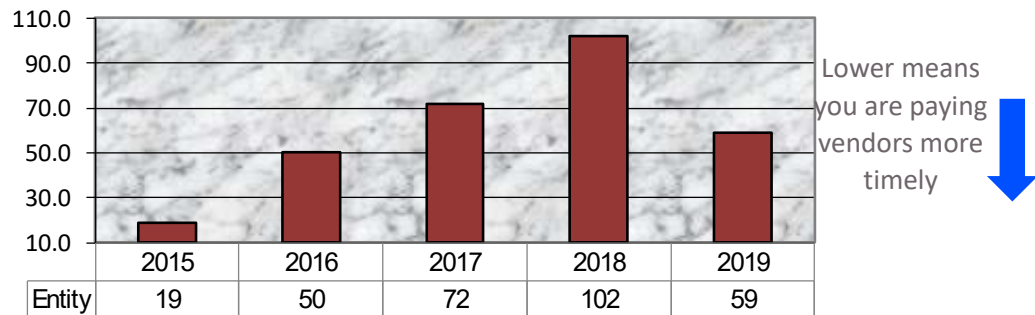


28

28

“Bonus” Ratio - Days Expense in Accounts Payable

Nursing homes in financial distress often rely on vendors to “finance” operations. While this may be necessary in the short term, it is not a sustainable strategy.



29

Ratio Definitions

Debt Service Coverage Ratio

[Net Income + Depreciation + Amortization + Unrealized gains on investments + Gain on sale of property and equipment]
divided by
[Principal Payments + Interest Payments]

Days Cash & Investments on Hand

[Cash and Cash Equivalents + Unrestricted Investments] divided by [Total expenses – Depreciation Expense – Amortization Expense]

Days Net Revenue in Accounts Receivable

Patient Accounts Receivable divided by Net Patient Service Revenue

Days Expense in Accounts Payable

Accounts Payable divided by [Total expenses – Wage Expense - Depreciation Expense – Amortization Expense]

30

30



31

Thank You

[Contact Information](#)

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32