Managed Transitions Case Study

Client Description:

Our client is a 100 Bed Community hospital in the Southern, US. Upon completion of an inpatient bed tower construction project, the incremental debt and operating expenses of this expansion resulted in significant financial underperformance despite a 20% growth in volume resulting from the closure of a neighboring hospital.

Trustees negotiated a contract with a proximate, large multi-entity Health System to manage the facility. Of note, this is the first foray into managing a non-owned entity for the health system. The Hospital was located in a strategic market and had a pending CON for building a satellite facility in a proximate community. The service areas of the current and planned facilities were valuable to the health system managing entity and this consideration provided sufficient impetus to sign the agreement to manage the hospital. The board recognized that a reversal in financial performance was required to be successful in obtaining CON approval and financing for the satellite facility.

In addition, opportunities to improve the quality of care existed. Physician leadership development, engagement, and clinical staff development were critical to this effort.

Precipitating Event:

A new CEO, hired by the management company (and approved by the hospital board) to turn around this struggling hospital, ran into significant resistance from the board of trustees after seeking to implement executive team personnel changes (CFO and CNO, creation of CMO position).

Managed Transitions performed the following transition management services:

Financial:

1. Financial Services Assessment (4 weeks)
2. Financial improvement plan development and implementation
    a. (Interim engagement deliverables)
3. Placement of an Interim CFO.
4. Board Education.
5. CEO Coaching.
6. Restructuring of finance division.
7. Staff development and knowledge transfer.
8. Leadership transition to permanent CFO after 7 month stabilization period.

Clinical:

1. Preparation for JCAHO unannounced survey became a burning platform to drive a significant clinical quality improvement effort.
2. CNO and CMO were new to the organization. CMO was new to role. Although not specifically contracted for, coaching assistance provided to facilitate individual executive and team success regarding achievement of the project goals.

Issues:

Corporate Governance:

1. Role of the trustee
2. Adequacy of financial reporting to the board
3. Duty regarding monitoring corporate compliance efforts
4. Tools to hold an executive team accountable to performance
5. Role of management vs. trustee

Leadership:

1. Hospital strategic plan not developed
2. IT strategic plan not developed
3. Financial and clinical scorecard not developed
4. HR scorecard not developed
5. Board self evaluation process not developed
6. Physician profiling system linked to credentialing process not developed
7. Physician credentialing process infrastructure insufficient
8. Corporate compliance infrastructure insufficient

Financial:

1. Revenue cycle infrastructure improvement required
    a. APC's not properly implemented
    b. ABN notices not provided
    c. NCCI coding edits poorly implemented
    d. DSH revenue incorrectly reported
    e. Missed deadline for implementation of HIPPA requirements
    f. Regular and daily absence of effort to properly notify, pre-certify, and recertify care rendered to managed care patients leading to high rate of denials
    g. Medical records not coded on a timely basis
    h. IT platform to support revenue cycle not fully implemented.

2. Organization lacked rigor of business planning, ROI analysis and performance monitoring
3. Cash management, cash planning lacking
4. Multi-year capital plan lacking
5. External benchmarks not utilized to evaluate relative performance of hospital
6. Disaster planning insufficient, especially regarding information technology infrastructure
7. Non-core assets (medical office buildings) underperforming
8. Internal controls lacking (not identified by internal auditor)
9. Managed Care contracting process poor, significant rate increase opportunities
10. Labor productivity system lacking and hospital overstaffed vs. peer group (75th percentile)
11. Strengthening of balance sheet required.
    a. short term focus:
        i. controlling cash
        ii. limiting capital expenses
        iii. enhancing collections
12. AR reserve understatement $2 million
13. Financial policy and procedures lacking
14. Basic operations controls not implemented:
    a. Supply chain management program not developed
    b. Internal audit program not developed
    c. Monthly operating review and variance reporting not performed

Clinical:

1. Clinical resource management program not implemented
2. Labor staffing process lacking
3. Clinical protocols not reference able or universally accepted
4. Physician credentials reference data not available to clinicians

Impact:

Our first order of business was to present the current situation to the board in a way that they could understand and accept. Recognizing the values of the community, and that long-standing relationship(s) with the former senior executive team were established and valued; the delivery of the report required recognition of the contributions of the former executive team and the board to the hospitals success to date. The board was able to understand the importance of initiating an action plan to resolve the deficiencies noted. The need for a new executive team became accepted in the context of implementation of this action plan.

The CEO was coached to spend significant effort developing his relationship to individuals on the board and to other key community leaders and physicians. In this context listening and educating was key to

keeping support for the variety of initiatives underway. In addition, a formal board education initiative was developed and initiated.

Managed Transitions placed an experienced interim CFO in role. An action plan for the interim engagement was derived from the assessment. Board education, and employee mentoring and skill development were key to supporting this client. Managed Transitions personnel became members of the team. Change management strategies and team building tools were utilized to enhance the successful integration of this new team into a culture that is guarded and resistant to outsiders.

During the course of a seven-month engagement, significant infrastructure was introduced, financial and clinical improvements were implemented. Once the environment stabilized, a national search firm recruited a permanent CFO, and Managed Transitions initiated an orderly leadership transition to the new CFO.

Clinical program efforts resulted in significant engagement of the physician community, and improvements in care delivery, efficiency and outcomes. A very positive JCAHO survey result provided a boost to the efforts of the team and fueled the optimism of the stakeholder group (physicians, board, and employees) regarding the action plan, and the requisite effort associated with its implementation and the associated continual improvement effort.