

THE BOTTOM LINE

The Newsletter of the San Diego/Imperial Chapter
 Summer Edition - August 2010

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Message from the President

By: MARGIE DROBATSCHESKY
 President San Diego / Imperial Chapter

“Coming together” is the theme that I’ve chosen for this plan year 2010-2011. The past year has been a challenge for all of us, in our personal lives as well as professional. We hope this year will bring some new ideas to the Chapter, including increasing membership, improving our bottom line, having some fun and giving back to our Sponsors and you, our members. If you have any ideas or would like to be a volunteer, please let me know. Without you, our members, we will not be successful.

NEW LEADERS FY 2010 - 2011

OFFICERS

President – Margie Drobatschewsky
 President/Elect – Deb Hagen
 Secretary – Jim Sprague
 Membership – Pia Labos

DIRECTORS

Program – Cheryl Hendershott
 Program/Co-Chair – Rina Patel
 Newsletter – Martha Silliman
 Sponsorship – Alece Hon

Treasure – Shannon Vanderbelt

Other Chapter Leaders: Website – Bryan Webster, Certification – Tom Kumura, Region Exec – Dave Epstein, David McNulty-Founders Points.

I look forward to sharing our thoughts with you; the experiences that will help us **“come together”** as a Chapter to benefit our patients, employers, payors, and others who depend on an effective and efficient Health Care System.

Please let me know what we can do to help with the many challenges ahead with HealthCare Reform, Revenue Cycle Challenges, ICD-10 changes or any other topic that will make us **“come together”** in our Community.

Thank you for the honor of being your President.

In good health,

Margie

Mark Your Calendar

August 3, 2010
 HFMA Webinar

September 15, 2010
 Health Care Reform
 Full Day Event

October 2010
 Six Sigma Intro

September 23, 2010
 HFMA Webinar

January 23 - 26, 2011
 Region 11 Symposium



“...our country is counting on us to **STEP Up** and do what is right for healthcare...and this is why I chose **STEP Up** as the theme of my year as HFMA National Chair...”

Debora Kuchka-Craig, Chair’s Address at 2010 ANI



WELCOME NEW MEMBERS

By: PIA LABOS

Summer 2010 brings in some “fun in the sun”, and a new fiscal year for our San Diego-Imperial Chapter! We have a great line up of educational programs, webinars, and social events throughout the year. These opportunities are made available to help enhance and grow your professional skills or provide a forum for sharing your industry expertise. With an HFMA membership, you gain immediate access to the largest network of healthcare finance professionals. The resources are numerous including:

- ◆ Practical tools and ideas that increase performance
- ◆ Essential industry news and information
- ◆ A breadth of career-related tools, resources and relationships
- ◆ Practical solutions and breakthrough approaches from healthcare’s leading financial professionals

And don’t forget about our New Member Discount: NEW MEMBERS CAN SAVE \$100 OFF MEMBERSHIP DUES! Take advantage of the reduced new member dues by joining before October 2010. Online registration is available at www.hfma.org/join

Since our last newsletter, we have welcomed 12 new members! Remember.....new friends and colleagues can make a real difference in our lives, so please take a moment to say hello and introduce yourself to our newest members at our upcoming education and social events.

NEW MEMBERS APRIL 2010 – JULY 2010

Blaine Faulkner

COO and CFO
First Health Group Corp.

Louis J. Fayant

Managed Care Account Executive
Genoptix Medical Laboratory

Lisa Ferrari

Contract Manager
Palomar Pomerado Health System

Noel Flynn

COO
Peladon Software

Kena D. Galvan

Founder & Partner
Absolute Solutions International

Eugene Kim

Arielle Kinghorn

Erin K. Lafferty
Vice President, Finance
PatientSafe Solutions, Inc.

Heather R. Lattuada

Patient Financial Services Director
Oroville Hospital

Irv H. Lichtenwald

Chief Financial Officer
Medsphere System Corporation

Dan Mehl, CPA

Finance Manager
Scripps

Christopher L. Stallard

Financial Analyst
Scripps Health

On behalf of the HFMA San Diego-Imperial Chapter.... WELCOME TO ALL OF YOU!

MEMBERSHIP GOALS AND DETAILS

By: PIA LABOS

Our goal for this fiscal year is to increase our total membership from the prior year, so please take a moment and consider if there are any individuals in your organization who are not yet members. Please invite them to join our organization by letting them know about our **New Member Discount** and **Member-Get-A-Member Program**, as well as our Educational and Social Networking opportunities.

Also, when renewing your membership for the year, please check your profile on the HFMA website to ensure that we have your most current demographic information, including your email address and a phone number. We don't want you missing out on any of our events!

And again, for more information on the Member-Get-A-Member Program, contact the HFMA Member Services Center at (800) 252-4362, extension 2, or visit the HFMA website at <http://www.hfma.org/membership/rewards/>

Member-Get-A-Member Program Details:

- ◆ Recruit **one or two** new members who begin their membership between June 1, 2009, and April 30, 2010, or former* HFMA members who reactivate their membership between August 1, 2009, and April 30, 2010, and you will win your choice of an HFMA apparel item (approximate retail value of \$25) or a \$25 Visa® Fuel Card.** Fuel cards can be used at the gas station of your choice or anywhere Visa debit cards are accepted worldwide.
- ◆ Recruit **three or four** new and/or former* HFMA members and you will receive a \$100 Visa prepaid card good anywhere Visa debit cards are accepted worldwide. You will also be entered into a drawing among all those recruiting three or four to receive a \$1,000 cash prize.
- ◆ Recruit **five or more** new and/or former* members and you will receive a \$150 Visa prepaid card. You will also be entered into a drawing among all those recruiting five or more to receive a \$2,500 cash prize.



+ not a representation of actual apparel

Member-Get-A-Member Make a Difference Grand Prize:

For every new or former* member you recruit, you will receive one entry into the drawing for the Member-Get-A-Member Make A Difference Grand Prize worth \$5,000. You will receive \$3,000 in cash for yourself and a \$2,000 donation in your name to the charity organization of your choice.

You will receive one entry in the drawing for each new member or former* HFMA member you bring in (or bring back).

**Sponsors will receive credit in the Member-Get-A-Member campaign for former members who reinstate (reactivate) their memberships between August 1, 2009, and April 30, 2010. Sponsors will also continue to receive credit in the Member-Get-A-Member campaign for new members who join (or have joined) between June 1, 2009 and April 30, 2010.*

*** Cards are issued by Citibank, N.A. pursuant to a license from Visa U.S.A. Inc. and managed by Ecount, a Citi company.*



The HFMA Social Committee
will be planning a few
exciting events for
The 2010/2011 Season

SOCIAL EVENTS UPDATE



Our HFMA San Diego Chapter is kicking off another fantastic year of Social Events! Once again, we started off our year with the traditional “Day at the Races” at Il Palio’s Restaurant at the Del Mar Races on Friday July 23rd! We had another huge turnout this year. A BIG THANK YOU to everyone that purchased tickets!

We will also be having some wine tasting events, as well as new member lunches and happy hours this year! So please be sure to watch your email for additional information.

As always, please feel free to contact Pia Labos anytime to let her know of your Social Event ideas and suggestions at 760.804.9980 or Pia.Labos@na.firstsource.com.

Become a San Diego-Imperial HFMA Chapter facebook fan.
Search HFMA San Diego-Imperial Chapter and select to become a fan!

facebook



Thank you to the sponsors of this event!!!

HFMA members and guests attended the
San Diego-Imperial Chapter
Annual Day at the Del Mar Races.

It was a fun filled day of horse racing, food, drink,
raffles and networking with your colleagues and friends. All
in attendance had a wonderful time!

Thank you to the sponsors of this event!!!



UPCOMING EVENTS



MEETINGS



September 15, 2010 - Full Day Event (8:00am - 5:00pm)

Health Care Reform:

A day devoted to healthcare reform including speakers such as Chad Mulvaney, Jeanne Scott and a panel comprised of San Diego area leaders in healthcare. More details to come.

October 2010 - Full Day Event

Lean Six Sigma Executive Overview

A one-day overview of concepts, tools, and application. More details to come. Presented by Ric Van Der Linden.

WEBINARS

Tuesday, August 3, 2010 - 12:00pm to 1:30pm Pacific Time Zone

X12-5010 and ICD-10 - Revisiting the Future in a Time of Incentives and Healthcare Reform

Dan Rode will cover the impending changes that will impact healthcare receivables, reimbursement and budgeting including the HIPAA Transaction Upgrades, ICD-10-CM and ICD-10-PCS in light of the recent ARRA-HITECH Act and the Patient Protection Accountable Care Act.

Thursday, September 23, 2010 - 11:30am to 1:00pm Pacific Time Zone

“Is Your Hospital Prepared to Protect Revenue in an Emergency (and Beyond)?”

Information regarding how your hospital can plan for and protect your business and financial interests in an emergency so that your hospital can continue to deliver services and other techniques and approaches. Additionally, there will be a demonstration of a sample Emergency Response Plan for hospital finance staff.

MULTI-DAY MEETINGS

Sunday, September 19, 2010 - Tuesday, September 21, 2010 - See page 7 for details

20th Annual California Fall Conference - Hyatt Regency Long Beach, Long Beach, CA

Sunday, January 23, 2011 - Wednesday, January 26, 2011 - See page 8 for details

Save the Date: HFMA Region 11 Healthcare Symposium

Monday, March 21, 2011 - Friday, March 25, 2011

Medicare Boot Camp

Suggestions for educational sessions are always welcome. Please send a message to Cheryl Hendershott at cheryl.a.hendershott@kp.org with any suggestions or comments you may have.

THE 20TH ANNUAL CALIFORNIA FALL CONFERENCE IS FAST APPROACHING!

By Jim Moynihan, FHFMA, Fall Conference Co-Chair

Save the Dates (Sept 19-21) and register by August 6th for the best rates! <http://www.hfma-cafallconf.org>

This year's Fall Conference, jointly sponsored by the Northern California and Southern California HFMA chapters, returns to Southern California and the beautiful Hyatt Regency Long Beach!

The California Fall Conference is one of the most successful and long standing educational traditions of the HFMA. Our objectives for this conference are three-fold.

First: to provide keynote speakers who will both entertain and inspire AND provide insights about healthcare trends and regulation both nationally and in California.

Second: to provide our attendees with top quality educational programming in three distinct disciplines within healthcare: Finance, Patient Financial Services and Managed Care Contracting.

Third: To provide a forum where our vendor sponsors can mingle with users and prospective users of their services in a social setting designed for effective networking.

This year's keynote speaker will be **J. Mario Molina**, President and CEO, Molina Healthcare Inc.. Since 1980 Molina Healthcare has been a leader in providing quality healthcare to those who depend on government assistance. Molina Healthcare provides healthcare assistance to approximately 1.4 million members in nine states. Over the last 25 years, Dr. Molina has served in various capacities at Molina Healthcare, Inc. From 1991 to 1994, he served as the Medical Director working with providers and clinics while overseeing medical and risk management issues. In 1994, he became Vice President responsible for provider contracting, member services, marketing and quality assurance. Dr. Molina was elected Chairman of the Board and assumed the chief executive role at Molina Healthcare in 1996.

Dr. Molina's presentation is entitled "Beyond Health Insurance Reform - What Comes Next?"

Back by popular demand our panel of health care experts will tackle the issue of healthcare reform in a panel presentation entitled: "Yikes! ObamaCare Has Passed, What Do We Do Now?" Our panel consists of **Richard Figueroa**, Deputy Cabinet Secretary Office of Governor Arnold Schwarzenegger, **Don Crane**, CEO, California Association of Physician Groups, **Duane Dauner**, CEO, California Hospital Association, **Patrick Johnston**, CEO, California Association of Health Plans, and **Dustin Corcoran**, CEO, California Medical Association. Another general session will include a California regulatory update from the **Cindy Ehnes**, Director of the Department of Managed Care.

One new general session for 2010 will be a CEO panel with four distinguished Hospital CEO's from Northern and Southern California. The panel is composed of **Richard Afable**, MD, MPH, President and CEO, Hoag Memorial Hospital Presbyterian, **Thomas Priselac**, President and CEO, Cedars-Sinai Health System, **Marcy Feit**, President and CEO, ValleyCare Health System, and **Robert Issai**, President and CEO, Daughters of Charity Health System

The final general session speaker is **Jeanne Scott** who brings her inimitable blend of wit and political insight to the conference.

The winning formula of MANY breakout sessions (18 in all) will provide our attendees with tools to be used back at the office. The breakout sessions are divided into three tracks; Patient Financial Services, Finance and Managed Care. All our courses are designed to enable our attendees to return to their health systems with ideas and tools that can be implemented to complete our work better and faster!

So get online and point your browser to <http://www.hfma-cafallconf.org> for more details and registration forms. Rates go up August 6th and Early Bird discounts will no longer be available. See you in Long Beach!



Save the Date
HFMA Region 11
Healthcare Symposium
< CAESARS PALACE >

Las Vegas, Nevada, January 23–26, 2011

Join us next year to connect, exchange, and grow at the HFMA Region 11 Symposium—the second largest healthcare financial management association professional development event dedicated to education and networking.

Healthcare experts from all over the country will gather to:

- Discuss the most pressing issues in the field. ■ Learn about new and pending legislation.
 - Network with others working in the healthcare industry.
 - Explore cutting-edge products and services in the exhibit hall.

Keynote speakers:



Donna Shalala



Ron Galloway



Joseph Grenny

You won't want to miss this chance to further your professional growth. The convention will take place at Caesars Palace, conveniently located in Las Vegas, Nevada.

Registration will open in mid-October 2010.
hfmaregion11symposium.org

UPDATE ON CALIFORNIA HOSPITAL ASSOCIATION ACTIVITY



By: STEVE BLAKE
Trustee for California HFMA Chapters

On May 7, 2010 the CHA Board of Trustees met for an update on California Hospital Association Activity. As always, numerous topics were covered, most significantly:

- National health care reform
- CMS review of the California Provider Fee application
- Section 1115 Medi-Cal Waiver
- “Meaningful use” criteria for IT

National health care reform:

Enactment of the Patient Protection and Affordable Care Act (PPACA) this March sets the stage for a series of changes to health care regulation over the next decade. This defines the landscape for CHA’s federal advocacy for years to come and its leadership role to help hospitals and caregivers adapt to new delivery system approaches and payment structures. CHA will take a proactive role with a series of legislative proposals and active contribution to federal rulemaking. The association will provide member hospitals with the tools needed to improve patient care and plan for the future.

CEO Duane Dauner presented a “Flowchart – Evolution of Health Reform” outlining the major provisions and timeline for PPACA, as well as a white paper “California – A Laboratory for the Future”. CHA is committed to developing options for California that could shape the direction of PPACA in the state and preserve the best aspects of a private health care system within an aligned incentive-based

payment system. Key watershed events include:

- Long term policy on Geographic Variation [2011 -2012]. This is an issue that, handled irresponsibly, could have penalized California providers billions of revenue annually.
- Creation of Accountable Care Organizations (ACO) [2012]. CHA to take a lead role in formation of the ACO network.
- Cuts to Medicare and Medicaid DSH payments proposed [2014]
- Initiation of state Exchanges [2014] and universal expansion [2017]

With so many changes on the horizon CHA’s development of a “roadmap” is a critical step to dealing with the challenges and developing new opportunities.

CMS review of the California Provider Fee application

California’s application is in final stages of response to CMS inquiries and approval is projected by the end of May. The mechanics of the funds flow should take from 30-90 days thereafter. It appears likely at this stage that, under AB 1383, funds will be exchanged (provider fee and enhanced reimbursements) for the 7 quarters ended 12/31/10, each quarter processed over a monthly interval until current. New legislation [AB 1653] has been introduced to extend this following the expected extension of enhanced federal matching for an additional 6 months through 6/30/11. Most providers have executed CHFT pledge agreements that provide relief for those who’s fees exceed revenue and over 95% of the expected pledge commitment. CHA Trustees are committed to closing the gap for 100% participation.

(Continued on page 10 - column 1)

BECOMING HFMA CERTIFIED



By: TOM KUMURA, FHFMA
Certification Committee Chair

The benefits of HFMA certification range from professional recognition of your unique experiences and talents in the healthcare industry to a competitive advantage for career enhancement. Certified members tends to earn higher salary and more likely to be hired and promoted that their non-certified peers.

HFMA's certification programs lead to the designation of Certified Healthcare Financial Professional (CHFP) and the Fellow of the Healthcare Financial Management Association (FHFMA).

Certification requirements include:

- HFMA membership for two or more years.
- Two or more years of healthcare financial experience.
- Take and pass the HFMA Core Certification Exam and one of the specialty exams (Accounting and Finance, Patient Financial Services, Financial Management of Physician Practices, or Managed Care);
- 60 semester hours of college coursework from accredited institution or 60 professional development contract hours
- Obtain references from a current elected HFMA chapter officer and your CEO or immediate supervisor. (If you are self-employed, you may request a second HFMA chapter officer for a reference).
- Submission of conforming certification application with one-time fee of \$75 within 12 months of successfully completing the first exam.

All active HFMA members are eligible to take the certification exams, even if you don't have two years of membership and/or healthcare experience.

There are several reasons why members do not pursue certification. The primary excuse is the lack of time to study.

On Saturday, September 18, the San Diego and Imperial Chapter of HFMA will be offering a Core Coaching Session. It will be at Scripps La Jolla (9888 Genesee, La Jolla CA 92037, in the Schaezel Building) starting at 8:30 am and will end at 4:30 pm. This is the same course that was taught at the 2010 ANI. The biggest difference is that it will not cost \$495 but only \$150. The price not only includes lunch but provides a \$75 rebate upon successful passing of the Core Exam. (The rebate will be paid to the company/person who paid for the coaching session.)

The Chapter has several study guides (Core and Accounting and Finance Specialty) that members can borrow. Beginning in 2011, a new study guide will be used for testing during the 2011 and 2012 period.

If you started studying with the current study guide, why not challenge the exam this year. The worst thing that would happen is not to pass but you are allowed to re-take the exam 90 days later.

As a goal, our chapter has targeted to have eight (8) exams taken. To date, we have had two members Alece Hon and Mayflor Obispo, take an exam. (They both passed the Accounting and Financial Specialty exams.)

Certification is not easy. It will take hard work. But the rewards are numerous and will give one a solid foundation to add to.

UPDATE ON CHA ACTIVITY (CONTINUED FROM PAGE 8)

BECOMING HFMA CERTIFIED (CONTINUED FROM PAGE 9)

Section 1115 Medi-Cal Waiver [cit C. D. Dauner 4/28/10]

“The Department of Health Care Services (DHCS) is working on a new Medi-Cal demonstration project waiver to: expand coverage to the uninsured; improve coordination of health care to seniors and persons with disabilities; and obtain new federal financing to strengthen the state’s safety-net hospitals. DHCS issued a concept paper that builds upon the existing delivery system while providing the foundation for implementing health care reform over the next 36 months. CHA supports the waiver concept and is working with DHCS to ensure that all safety-net hospitals received increased funding....The existing waiver expires on August 31, 2010....”

“Meaningful use” criteria for IT

Rules proposed, pursuant to the American Recovery and Reinvestment Act (ARRA), will institute an incentive payment system to reward the development of electronic medical information systems. Recently, Cal eConnect was named as the state-designated entity responsible for development of statewide health information exchange (HIE) and is in the process of forming its board of public and private directors. This statewide exchange will provide a baseline for the evolving definitions and criteria for “meaningful use” definitions and certification of systems for electronic health records (EHR). CHA is working with CMS and the Office of the National Health Coordinator for Health Information (ONC) to encourage workable and flexible regulatory definitions that still meet the stated objectives.

More detail on these and other activities can be found on the CHA Website @: calhospital.org.

The HFMA certification exams can be scheduled with a chapter Proctor. The Core exam and one (or more) specialty exam may be taken on the same day or on separate dates. One exam is not a prerequisite to any other exam; they can be taken in any order. The exam fee is \$125 each and if you are a member of the San Diego-Imperial Chapter, it will be reimbursed upon your successful passing.

The Core exam contains 166 questions, of which 150 are scored, and the candidate is allowed up to four (4) hours to complete it;

The Specialty exam contains 83 questions, of which 75 are scored, the candidate is allowed up to two (2) hours to complete it;

The Core and Specialty exams must be successfully completed within two years of passing the first exam. To prepare for the exam, you can purchase the corresponding self-study courses available on the HFMA website. To borrow one of the Chapter’s study guide or if you have any question regarding certification, please contact me at Tomkumura@aol.com.

Rather than doing the minimum for your career, certification becomes a worthy goal that enhances your credibility. How much do you value your career and what better investment can you make today than to invest in yourself so that you can meet the challenges in the future.

Certified CHFP and FHFMA Members

- | | |
|-----------------------------|-----------------------------|
| Laurence Abramson, FHFMA | Reid Hollyfield, FHFMA |
| Denise Awrey, CHFP | Stephen Kalsman, FHFMA, CPA |
| Jeff Coolican, CHFP | Thomas Kumura, FHFMA |
| Kari Cornicelli, FHFMA, CPA | Randolph Siwabessy, CHFP |
| Mendy-Sue Drew, FHFMA | Lisa Thakur, FHFMA, CPA |
| Gene Fantano, FHFMA | Xiang Wu, CHFP |
| Kelly Feuillet, CHFP | |

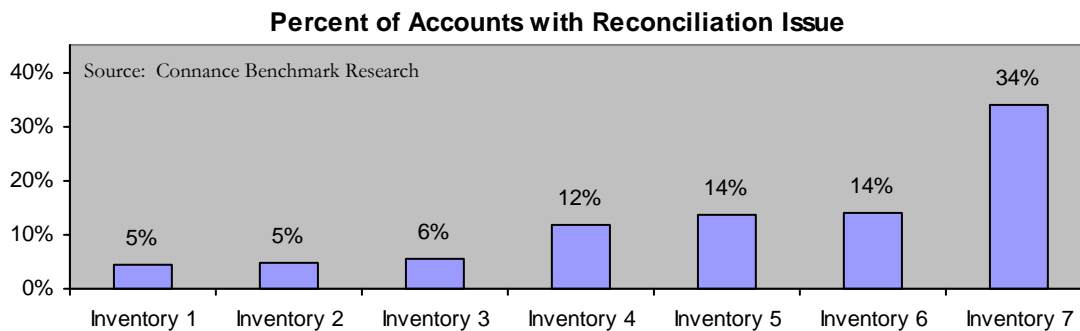
WHAT'S HIDING IN YOUR VENDOR INVENTORIES?

Today, most hospital business offices rely on third party vendors, such as collection agencies, extended business office partners and eligibility firms, to augment their internal collection efforts. Every day, accounts and financial updates flow back and forth between a hospital and its vendors. Despite everyone's best intentions, the current operating routines and processes often result in inconsistencies between the inventory records of a hospital and its vendors.

Always thought to be a relatively minor issue, recent research suggests the inventory reconciliation problem is significant, pervasive and critical. Reconciliation issues between providers and their vendors can lead simply to lost cash and high operating costs or go so far as to create regulatory issues and major public relations problems.

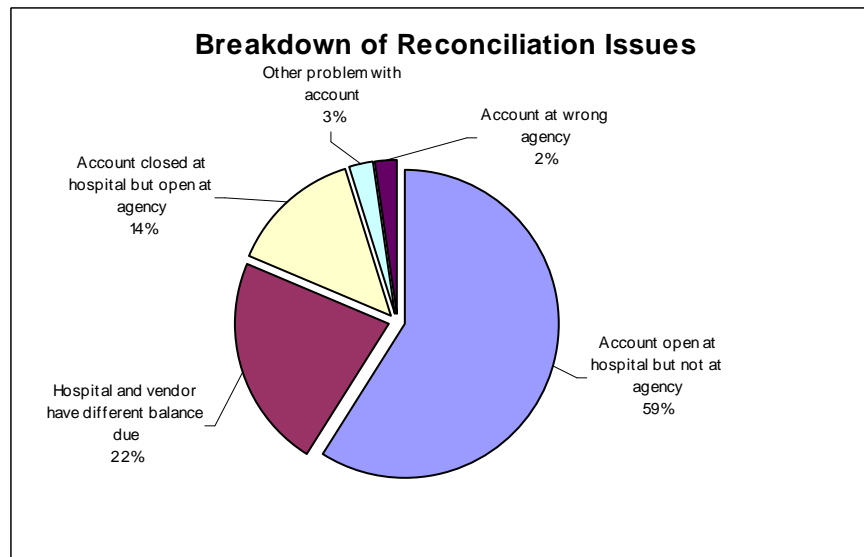
The Magnitude of Inventory Reconciliation Issues Can Be Significant

Based on findings from inventory reconciliation initiatives at multiple providers around the United States, between 5% and 34% of inventory held at vendors had reconciliation issues with the providers' records.



The average reconciliation error rate across this sample of providers was 13%. However, even in situations where the provider had only a single vendor, the reconciliation error rate was high.

Reconciliation issues broke down into five categories:



Source: Connance Benchmark Research

WHAT'S HIDING IN YOUR VENDOR INVENTORIES? (CONTINUED)

Vendors also appear to demonstrate different performance on account and inventory reconciliation activities. As the research indicated, some vendors seemed to systematically operate at lower than 90% accuracy while others were close to 98% accurate.

How do Inventory Reconciliation Problems Happen?

For each account, countless financial events such as payments, adjustments, reversals, etc. occur every day both in the hospital business office and in vendor operations. All these events need to be dutifully credited, debited and noted in both provider and vendor inventory records in exactly the same way.

For instance, an event as simple as a patient going to the hospital to pay a past-due bill previously sent to a collection agency creates a string of follow-on events in the hospital's patient accounting system that need to be connected to and mirrored in the collection agency's inventory records. That same check, subsequently failing to clear at the patient's bank, will lead to another series of reversal transactions that need to be mirrored yet again. If the reversal occurs in the next month, it means that all the unwinding activity will be part of a different monthly close effort. As these examples demonstrate, there are multiple opportunities for reconciliation issues to percolate in even the simplest, most common events.

By having the ability to access and benchmark thousands of account placements and recalls every day between providers and vendors around the United States, some trends have emerged. These include:

1. Accounts are closed in the patient accounting system, but not recalled from the vendor;
2. Accounts are closed by the vendor, but not updated as such in the patient accounting system;
3. Accounts on payment plan appear at the vendor, but are not documented as such in the provider's records;
4. Vendor is continuing collection efforts on accounts on hold for review at the provider; and,
5. 'Missing transactions' or transactions that are recorded in the patient accounting system, but are not sent to the vendor, and vice versa.

Over time, the small numbers of account problems compound and mature into the 5% to 34% inventory reconciliation issues noted earlier.

Possible Negative Outcomes from Reconciliation Issues

Not only are the number of accounts involved significant, but these reconciliation problems lead directly to problematic outcomes. Some of the more concerning problems include:

WHAT'S HIDING IN YOUR VENDOR INVENTORIES? (CONTINUED)

Reconciliation Issue	Possible Ramifications
Account open at hospital, but not at agency	<ul style="list-style-type: none"> ▪ No work is being done on the account so no money is being collected. ▪ Patient may incorrectly be told that their financial obligations are complete.
Hospital and vendor have different balance due	<ul style="list-style-type: none"> ▪ Vendor is either pursuing too much or too little money, both of which are problematic. Too much exposes the hospital to legal and public relations issues. Too little leaks cash. ▪ Unexplained changes to the balance due undermine patient confidence in the accuracy of the bill now and in the future. This breakdown delays patient payment as the patient is expecting the billed amount to change. ▪ Creates unproductive administrative costs at both the vendor and
Account closed at hospital, but open at vendor	<ul style="list-style-type: none"> ▪ Vendor is requesting payment on an account that has been resolved or otherwise closed. ▪ In the event that the account has been written off to charity or taken as bad debt on a cost report, significant legal and compliance issues are created. ▪ Patient goodwill and community relations put at risk. ▪ Vendor is incurring costs to collect.
Account at wrong vendor	<ul style="list-style-type: none"> ▪ Collection efforts may be inappropriate for the type of account. Different agencies are often contracted to operate under different policies, processes, and commission rates. ▪ Patient satisfaction risked by exposure to more aggressive collection tactics than warranted.
Account at two vendors	<ul style="list-style-type: none"> ▪ Patient is pursued by more than one vendor, creating frustration with the provider and potentially excess payment. ▪ Hospital potentially paying commissions to both vendors. ▪ Extra collection costs incurred by vendors.

In almost every situation, reconciliation issues are elevating operating costs, distracting management attention and reducing cash recovery. It also creates the opportunity to undermine patient satisfaction, generate negative PR in the local community, and put the provider at risk with regulators, CMS and other oversight organizations.

WHAT'S HIDING IN YOUR VENDOR INVENTORIES? (CONTINUED)

What Can a Provider Do to Address Inventory Reconciliation Issues?

Many hospital business offices only perform spot checks or “rough reconciliations” due to the volume of activity, inaccessible account data and limitations with patient accounting system. Many hospitals also use time consuming, manually intensive account matching, thinking they can solve their reconciliation problems with human intervention. While better than doing nothing, they are insufficient.

The scale and scope of the previously mentioned research plus the trend to use more outsourcers in business office processes suggest providers and their vendors need to enhance key routines:

1. **Check placement files for misplaced accounts and identify root causes of problems.** Despite their best efforts, hospitals do occasionally send a handful of accounts to a vendor that either should not have been sent to a vendor or were already sent to a vendor. When this happens, it is critical that the accounts are identified, inventory records are corrected, and the underlying reasons for the account being incorrectly placed are identified and corrected.
2. **Reconcile balances for all accounts in placement and recall files.** It is not sufficient to simply confirm receipt of the placement file and total number of accounts. Individual account balances need to be verified as well, preferably by cross checking account-level financial transactions.
3. **Reconcile full inventory at each vendor, at least monthly.** Given the compounding effect of problems over time, full reconciliation at least monthly is necessary. In many situations, weekly reconciliation of the entire inventory may be appropriate.
4. **Update policies and procedures and monitor adherence.** A number of inventory issues are created as a result of inadvertent customer service activity, such as incorrectly moving or closing an account or applying an incorrect transaction code. A good practice is to review policies and procedures at least once per year to check that they are up to date, cover all reasonable situations and are understood by employees in the business office and at vendors. The provider also needs to monitor adherence to these policies and procedures.
5. **Ensure comprehensive and common reporting.** Numerous hospitals unknowingly rely on incomplete information or reports generated using different variable definitions. Having accurate reports that are common across vendors to track inventory reconciliation is central to having clean, accurate account inventories.

Long term, cost effective approaches generally are technology enabled, automating the exception identification process.

Ultimately, whenever a provider corrects existing inventory reconciliation issues and prevents new ones from occurring, they are improving the patient experience, reducing operating costs and compliance risks, and enabling their vendors to be more effective. It is a true win-win-win experience.

About the Author

Steven Levin is CEO and co-founder of Connance. Contact him at slevin@connance.com or visit www.connance.com

RECONCILING GROWTH WITH CAPITAL: TAXABLE DEBT FOR NONPROFIT AND MUNICIPAL HOSPITALS

By Mike Lincoln and Steven W. Kennedy

Most nonprofit health systems rely on six sources of capital to fund and grow their businesses: operating margin, external debt, sale of assets, investment income, joint ventures and philanthropy. Over the past two years, however, every one of these sources has come under pressure from an unprecedented convergence of capital market, economic and regulatory forces. Further, some ratings agencies, in evaluating a hospital's financial strength and access to capital, have begun to differentiate between "wealth" and true balance sheet liquidity, driving many providers to re-double their efforts to improve days cash on hand and cash-to-debt ratios. Herein lies the challenge – executing a long-term growth strategy while maintaining liquidity and balance sheet strength.

One of the most efficient methods of accessing capital, tax-exempt bonds, can sometimes cause a dip in a hospital's liquidity because of the up-front closing requirements associated with these issuances. Historically, though, issuing tax-exempt bonds provided municipal issuers such a considerable interest rate savings that any escrow funds and other closing requirements were nearly irrelevant compared to interest rates savings, and taxable bonds and other taxable debt options – which generally have fewer demands on liquidity at closing – received much less notice from nonprofit health care borrowers.

But taxable debt is currently much less expensive than it has been in years gone by when compared to tax-exempt financing. The narrowing of this gap, along with the availability of new taxable funding options, has contributed to a considerable increase in taxable municipal issuances and greater awareness among nonprofit hospitals of taxable financing options.

Taxable Debt Issuance: Build America Bonds and FHA

One of the most significant contributors to the increase in taxable municipal issuances has been the Build America Bond program, which reimburses public borrowers (e.g. city-owned hospitals) for 35 percent of the interest expense of "new money" debt. Borrowers have been enticed to issue Build America Bonds because of the structure's relatively low cost of capital and often less-onerous funding reserve requirements. The Build America Bonds program accesses the large taxable investor market and is an attractive municipal issuance alternative for investors accustomed to purchasing taxable fixed-income securities of all types. This increase in investor awareness and demand has in turn helped to keep interest rates down for borrowers, even before the 35 percent subsidy. The ability to issue Build America Bonds expires at the current subsidy level after 2010, though it likely will be extended with a lower subsidy.

The Federal Housing Administration's mortgage insurance program for hospitals, FHA Section 242, is another efficient way to issue taxable debt. With fixed rates, a term and amortization of up to 25 years, and a low, flat fee for FHA's highly rated mortgage insurance, the program has been appealing both to stand-alone, lower-rated credits and to large hospital systems, which can employ the non-recourse debt to carve out from the system's credit profile facilities that the markets may view as higher-risk.

Perhaps most compelling is the combination of Build America Bonds with FHA Section 242 mortgage insurance, which can reduce a hospital's net fixed cost of capital to substantially below market rates (currently below 5 percent fixed for non-investment-grade hospitals).

Traditional debt, whether enhanced or unenhanced, can also be evaluated in terms of whether a taxable or tax-exempt issuance would be more cost-effective for the hospital – or whether issuing multiple bond or note series, some taxable and some tax-exempt, could provide additional flexibility and cost savings.



RECONCILING GROWTH WITH CAPITAL: TAXABLE DEBT FOR NONPROFIT AND MUNICIPAL HOSPITALS (CONTINUED)

By Mike Lincoln and Steven W. Kennedy

Another taxable option to consider, particularly for hospitals that need to get a project up and running immediately without damaging their days cash on hand ratio, is a Credit Tenant Lease. A CTL is a form of developer-provided external debt. In this structure, a hospital with a construction project – a medical office building, acute care facility or clinic, for example – would seek a developer to finance and build the project. The hospital would then make regular payments to the landlord. As an absolute-net lease, the hospital is responsible for any operating expenses, taxes, maintenance costs and capital expenditures. If the CTL is carried to term, the hospital would own the facility at the end of the lease. CTLs are typically structured to fully amortize over the term of the lease.

CTLs are useful as a “speed to market” option, often requiring only 90 days to complete the transaction. The lease generally has a term of 15 to 25 years. The CTL can also be structured with prepayment options at hospital-chosen points in the future. For example, a CTL prepayment date could be timed to be coterminous with the completion of a tax-exempt bond issuance, the call date on the “retail” series of a recent public financing, closing of a philanthropic campaign, or a decision to reallocate cash from the balance sheet following the sale of non-core assets. The CTL can be tailored to the operating objectives for a health care provider's real estate assets, including acute care facilities, medical office buildings, and ambulatory clinics.

CTLs are almost always considered on-credit and generally on-balance-sheet by rating agencies and accounting firms. Qualifying health care providers must currently have an investment-grade credit rating of BBB+/Baa1 or higher for optimal execution. The opportunity cost of most delayed initiatives can be measured as foregone revenue and net income, lost investment income, project cost escalation, and preemptive competitive pressure. The intrinsic value of utilizing a CTL often results from a health care provider having the ability to execute on its strategic initiatives at the optimal moment. One potentially ideal use could be for a hospital or system that saw an opportunity to build a high-end clinic to capture market share, but was between bond issuances and did not want to spend cash and diminish its liquidity ratios because of debt covenants or planned future debt issuances.

The intrinsic value of utilizing a CTL often results from a health care provider having the ability to execute on its strategic initiatives at

Over the long term, CTLs will be more expensive than debt financing via bonds or notes or an insured mortgage: The all-in coupon rate for an A-rated hospital currently ranges from 6.25 percent to 6.5 percent (7.8 percent to 7.95 percent lease constant) utilizing a 20-year CTL, compared to 5.5 percent for a straight A-rated, unenhanced, taxable bond issuance (and considerably less for a Build America Bond transaction after the rate subsidy). Since upfront transaction costs are low, CTLs may be an ideal source of interim financing to get a project off the ground. And since they use a third party's money to finance the building, the hospital can maintain its liquidity.

These taxable debt options can play important roles in diversifying health care funding sources, enhancing financial flexibility, managing the timing of accessing capital markets, and/or eliminating the opportunity cost of deferring projects. With more financing structures available in 2010 via the American Recovery and Reinvestment Act, and with the spread between taxable and tax-exempt debt much narrower than in the past, hospitals that are revisiting deferred projects and moving forward on their plans will do well to ensure they are exploring every possible option.

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FINANCE UPDATE

HFMA - San Diego Imperial Chapter Financial Performance Nine Months Ending February 28, 2010



Balance Sheet

	June 30, 2010	May 31, 2010
Assets	\$126,114	\$134,697
Liabilities and Fund Balances	\$126,114	\$134,697

Income Statement

	<u>YTD 06/30/10 Act</u>	<u>YTD 06/30/10 Bud</u>	<u>Variance</u>
Revenue	\$1,423	\$2,800	(\$1,377)
Expenses	<u>\$8,483</u>	<u>\$11,742</u>	<u>(\$3,259)</u>
Net Income	<u><u>(\$7,060)</u></u>	<u><u>(\$8,942)</u></u>	<u><u>\$1,882</u></u>

For more information go to our website at www.hfmasandiego.org

From the Desk...



The newsletter is only as good as the contributors and readers make it. We are looking forward to a year filled with new learning experiences brought to you through the various means of educational formats and social events that are available to members of our chapter. "Coming together" as our new Chapter President says, includes participating through attendance at educational events, volunteering to write an article for the newsletter, sharing your HFMA experience with your colleagues or guiding someone to membership in HFMA. The best part is everyone can do something. Please send comments, recommendations and article ideas and submissions to us at msilliman@eligibilityplus.com. We look forward to hearing from you, as we "come together."

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