

Key Indicators For Effective Home Care Management

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With all of the information that can be obtained through today's technology, are you monitoring the right indicators? There are many reports that can be generated from today's information systems. Knowing which ones to monitor is the key to making the correct decisions in today's ever-changing environment.

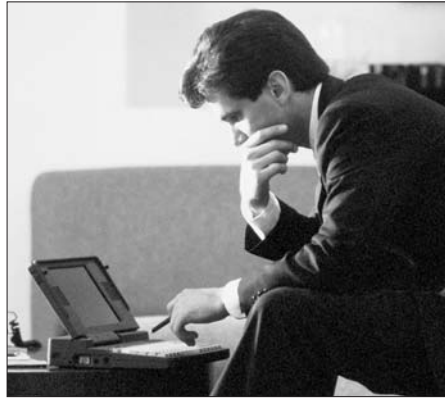
The main reason for monitoring indicators is to track the financial and operational progress of the agency during the course of the year. They help quantify and/or justify to owners, senior management, Board of Directors, and other key partners both positive and negative budget variances. Indicators can be established and monitored for every department within the organization.

Many of the key indicators are tied to multiple functional areas within your agency. Each functional department such as clinical, intake and/or financial has a direct and/or indirect bearing on each other. Some examples are as follows:

1. Incomplete or late clinical documentation will affect the billing department, which affects the financial performance of the organization (i.e. poor cash flow, unrecorded or incorrect revenue).
2. If no authorization is obtained during the intake process, insurance carriers will deny the services resulting in the agency writing off the revenue.

Expectations and/or standards should be established for every functional area based on realistic goals. Indicators should be used to compare actual results to what was expected. Each indicator should be reviewed in totality and, if applicable, on an individual employee basis.

All indicators should be consistently calculated and disseminated to staff. Indicators will assist management to predict current trends within the agency and to make any necessary changes. Without monitoring these indicators, agency administrators will not be able to respond quickly to changes in their markets.



What do the indicators mean? As previously mentioned many of the indicators are intertwined both financially and operationally. The following two examples illustrate how key indicators affect Medicare revenue and Medicare accounts receivable:

1. Medicare Revenue

When looking at or predicting Medicare revenue, an agency should look at a few key indicators.

Medicare Admissions – If admissions increase in a particular month the impact on Medicare revenue will be realized in subsequent months rather than the current month.

Medicare Discharges – If an agency recognizes all unrealized revenue when the patient is discharged, any large increase in discharged patients could spike the revenue in the current month. It should also be noted that the subsequent month could be adversely affected.

Total Medicare Revenue Days and Average Medicare Net Reimbursement Per Day – When verifying and/or estimating Medicare revenue during the month, an agency can take the average Medicare net reimbursement per day multiplied by the total Medicare revenue days. If the computed number varies significantly from the system-generated revenue, the agency should review and explain the variance.

Some answers could be:

1. There were a larger than normal number of discharges during that month.
2. The census could be overstated

because discharged information had not yet been processed.

3. A large number of admissions had not yet been processed in the billing system.

4. If it seems to be either reason two or three, both the OASIS and Documentation timeliness should be reviewed to see if there was an issue in handling in the documentation or entering the data.

Average Case Mix – If an agency is experiencing large increases or decreases in Medicare revenue the result could be a change in the average case mix. The first question that should be asked is “Is the change a result of an acuity level change in the patient population or is it a change in how the OASIS questions are being answered?”

2. Medicare Accounts Receivable

When analyzing an agency's accounts receivable, the following are some indicators that should be reviewed:

Days of Sales Outstanding (DSO) – DSO should be reviewed in total and by payer. This will enable the agency to focus in on specific issues that might be affecting only one or two payers. An example could be the increase in insurance payers DSO due to problems getting authorizations or inadequate follow-up.

% of Write-offs to Revenue – This indicator will help the agency properly accrue adequate reserves. If the percentage increases dramatically from one period to the next the agency needs to ask why. After the reason has been identified and changed, the reserves should be adjusted accordingly. It is important to monitor this on an ongoing basis because if changes need to be made on the front end there is a timing issue regarding when those changes will be reflected in the account receivable. It is important to remember to reserve for all accounts prior to the change, in addition to reserving for anything over 180 days. This may mean increasing the reserves on current accounts.

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Having A Great Summer?

By The Way When Will Your Budget Be Done?

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Summer is nearing an end and for many in the home care industry the budget chimes are ringing. Organizations, whether they be a home care agency or hospice, who maintain their records on a calendar year basis are faced with budget completion dates scheduled for mid to late fourth quarter. The process itself should be a team effort and the responsibility must be borne by all involved not just one individual or department. It can be a stressful and time consuming activity requiring full commitment of all involved.

The budget process usually starts several months before the end of the fiscal year. An initial meeting should be held and attended by the executive management of the organization. At the meeting, management should outline the type of budget to be prepared, the approach taken, the data needed to develop the volume assumptions and most important, the organization's goals and objectives. They also should discuss any capital requirements and fund-raising activities to be undertaken in the coming year. The finance department then can prepare these budgets with input from senior management and/or participants to the budget process.

Many organizations follow their previous year's type of budget either by requirement or comfort level. You should be aware that there are different types of budgeting that can be considered, (i.e. flexible, fixed, zero based, activity based and static budgeting). Two widely used by home care providers are flexible budgeting and zero-based budgeting. Flexible budgeting is based on volume levels from which the revenues and expenses can be determined. Zero-based budgeting, on the other hand, focuses on the expenses requiring justification for every dollar spent on each expense line item. In recent years we have seen a hybridization of the two, where providers determine their revenues and service delivery costs based on volume and then apply a zero based concept to the non-service delivery costs. This type of budgeting has become popular amongst providers looking to significantly reduce costs.

We have found that organizations tend to use one of three approaches. The **top-down approach** expedites the process, however it can generate problems within the organization due to a lack of ownership of the budget process. This approach often manifests a mindset where the budget is ignored with the attitude that it is "theirs" and not "mine". This approach can be found in small organizations such as a sole proprietor, family owned or governmental providers.

The second, the **bottom-up approach** is when each department on the organization chart is responsible for preparing the department's budget in response to volume estimates, history or departmental goals. This approach follows a similar approach used in hospitals. In preparing the department budget the focus is solely on departmental expenses whereas the volume estimates are prepared senior management.

The third approach utilizes a **budget committee approach**, consisting of senior management from the departments within the organization. Together the team shares in identifying the organization's goals and objectives. We have seen this approach used frequently and successfully.

Data is crucial to the development of the budget. At the initial meeting, the type of data needed and the source(s) from which it can be obtained should be identified. Several key indicators may be readily available if the organization has been generating the information during the year, (i.e. patient admissions, patient discharges, average daily census, staff productivity, financial statements). Others may have to be generated solely for budget preparation purposes, (i.e. vendor rates, third party payer reimbursement rates, etc.). The timeliness of obtaining this data is important and plays heavily when developing budget time-lines. The data required should be obtained and made available prior to the first meeting with the budget participants.

In developing the organization goals and objectives, senior management must assess the current health of the organization by reviewing the current financial position, how the organization matched up to performance measures established for the current year, and what the current key

indicators show. Senior management must also review trend analyses to determine the peaks and valleys of the business, and the organizations processes and resources. After reviewing the information, the goals and objectives developed should reflect the development of an internal benchmarking system that is realistic and achievable. The budget is a representation of management's credibility and should be created in sufficient detail to allow management to evaluate how well the organization is performing.

A second meeting should be held with the budget participants. This meeting should identify the organization's key goals and objectives; establish a time line; and build the key assumptions. Key assumptions include:

- Estimating volume
- Defining employee productivity
- Estimating expected wage increases
- Identifying other spending limitations needing to be addressed

Basically, the meeting should provide sufficient information for the budget participants to start developing the raw data. The raw data, upon completion, should be given to the finance department to run a budget.

The time line is very important in keeping the budget process moving until finalization. The time line should single out the objectives of the process and their due dates. Process objectives include:

- Multiple runs of the budget
- Reviews and adjustments
- Capital budgeting
- Cash forecasts
- Packaging final budget including assumptions
- Presentation, if necessary.

It is rare to finalize a first run budget, therefore one should anticipate at least two runs in the time line. Past experiences with the process should enable you to determine a realistic time line.

After each run, the budget should be reviewed by senior management and then distributed to the participants. Subsequent follow-up meetings with the participants should be held to review the results and if necessary, discuss any changes required.

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Are You Considering Selling?

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In our last issue we looked at acquisitions from a buyer's perspective. In this issue we will discuss acquisitions from the seller's perspective.

You may have been approached by an unsolicited buyer or perhaps the time is right for you to sell. Whatever the reason, there is a structured approach to follow. Let us look at some of the more important points for the seller to consider:

- Decide whether to sell stock or assets and at what price
- Obtain expert consulting, legal and tax advice
- Be prepared to tell your company's story in writing, fairly and concisely
- Listen to what the buyer has to say and stress your common interests
- If you are accepting buyer's stock or long term notes, have you done your due diligence on the buyer?

What to sell and at what price

Decide early what you want to sell and at what price. There are significant issues to consider in deciding whether to sell certain net assets or outstanding stock. Typically what is beneficial to the seller will not be to the buyer. The more important items are the tax implications and liability risk.

Once the decision is made on what is being sold, the next step is at what price.

Consider having an independent appraisal done to establish a value before it is offered to the open market for sale or to investors. This will at least give you confidence that you are getting the very best deal you can. Also for non profit entities, an independent business valuation is necessary to satisfy the States Attorney General's Office and other possible state requirements.

Tell your story

This can be accomplished in various, ways such as preparing a confidential offering or information memorandum. This memorandum should include information about the company, its history, its operations, management and financial performance. What you're trying most to communicate are the essential facts about your company and where it's going.

One of the more important elements is the company's historical and current financial statements. These financial statements may need to be normalized to produce the real economic results of operations. Normalization is merely a series of adjustments to earnings and equity that help reveal the true value of the business.

Common Interests

Decide if you want to stay involved under an employment contract and for how long. Consider the possibility of an

earn-out situation. Most buyers want involved owners and management for a period of time. What is the role you would want to play under the new ownership? Basically if you are continuing with employment, make sure you are in sync with the buyer's business philosophies and expectations.

Buyer's Due Diligence

If you are accepting equity or debt as part of the purchase price, you should be asking questions and doing some research on the buyer. If the buyer is a public company, the information is easily obtained. If the buyer is a private entity, information can still be obtained from their financial data, credit history and other investigative procedures.

Remember..... if you are not receiving all cash for the price, you are accepting some level of risk from the buyer.

Overview:

Businesses are bought and sold every day. For both parties, the decision to buy or sell may be the biggest move of their business careers. For the seller, it represents the culmination of years of hard work and associated risk. Always remember that you, the seller, must require the buyer to maintain confidentiality throughout the process. Confidentiality relates not only to your business records and intellectual property but also with your workforce. Not every deal is guaranteed, but by following the proper procedures and keeping an open mind you can negotiation a successful deal.

Continued from Page 1 Key Indicators

Outstanding Physician Orders – Because agencies can not bill without signed physician orders, any increase in outstanding orders will result in an increase in DSO. Agencies should monitor both outstanding 485s and interim orders.

As agencies enter into their budgeting

season, these key indicators will play an integral part in forecasting. When establishing the budget based on key indicators, the agency should compare budgeted indicators to actual outcomes. Establishing these and other indicators will enable the agency to establish a flexible budget. When determining which indicators should be used for budgeting purposes, it is important to have

buy-in from all functional areas. Expectations should be clearly outlined and results distributed to each functional department on a regular basis. It is extremely beneficial to post the actual vs. budgeted results so all staff members know on an ongoing basis where they stand and corrective action can be taken if negative variances are reflected.

Examples of key indicators that should be monitored on a daily, weekly, monthly and/or quarterly basis:

Key Indicator	(Frequency)	Daily	Weekly	Monthly	Quarterly
Admissions by Payer		X	X	X	
Discharges by Payer		X	X	X	
Admissions Pending			X	X	
Average Daily Census		X	X	X	
Total NTUC Cases			X	X	
Total Medicare Revenue Days				X	
Staff Productivity			X	X	X
Documentation Compliance			X	X	X
OASIS Compliance			X	X	X
Outstanding Physician Orders			X	X	X
Cash Collection by Payer		X	X	X	
Revenue by Payer				X	X
% of Write-offs to Revenue					X
Total Monthly Billing				X	X
Total Monthly Unbilled				X	X
Days in Sales Outstanding (DSO)				X	X
Average Case Mix				X	X
Avg. Medicare Reimb. Per Day (Net)				X	X
# of Visits Per Medicare Episode				X	X
# of Visits Per Admission all Payers				X	X

Announcement!

Simione Consultants, LLC is delighted to announce that Robin Seidman has returned to Simione as a full-time employee effective August 1. Robin had previously been with Simione Consultants, LLC from April 1995 through August 2000. During her previous previous employment with us, she developed our Compliance Program and worked

very closely with many attorneys and clients on compliance related issues.

During Robin's time away she successfully became a Certified Legal Nurse Consultant. Additionally she spent time managing a hospice program gaining further expertise in this area of home care consulting. Another area she worked in while away was the home infusion industry adding knowledge and skills in that arena. Now she can bring all of this addi-

tional expertise to Simione Consultants, LLC clients.

Robin will be working out of our Westboro, MA office and can be reached at 800/653-4043 or rseidman@simioneconsultants.com.

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When Will Your Budget Be Done?

At the end of the process it is important for all participants to be in agreement with the final budget especially if they are to be held accountable to operating within the budget.

Once the budget is finalized, it needs to be incorporated into financial reporting. The least sophisticated method would be straight line based on days or months. A more sophisticated one would follow the organization's volume trend history which accounts for the lows and highs incurred during the year. Organizations that are start-ups, or experiencing continuous growth either internally or by acquisition, should consider applying a buildup factor by week or month. The same applies to those whose volumes are decreasing.

To become a successful tool, budgets must be compared to actual results. Variance analyses should be a requirement and it is the job of management to evaluate variances from the budget to determine if a problem exists and to determine what corrective actions needs to be taken. The need for budgets and

related variance analyses has become increasingly important in the home health care industry with the implementation of PPS and the elimination of the safety net created by cost based reimbursement.

The budget process may seem like a monumental task, but outlining the steps and creating a time line can expedite and ease the process. Some organizations appoint a moderator, either an outside expert or someone from within the organization. The moderator moves the process along by keeping everyone committed and focused on the objectives. An external moderator from outside of the organization typically would be an independent consultant familiar with the organization and its senior management team. The use of an external moderator provides a benefit because in addition to keeping the process moving, he or she provides an independent objective assessment of the budgeting process, the key assumptions and the final budget. This can be an enhancement for the organization.

Presentation Schedule

Home Care Alliance of Maine

Augusta, ME – 9/25/2003

Outcomes and the Survey Process

Laura Gramenelles

National Association for Home Care

Orlando, FL – 10/11-10/15/2003

Revenue Recognition

Bill Simione, Jr

Ken McNutly - VNA Boston

Advanced Budgeting

Bill Simione, Jr

Ken McNutly - VNA Boston

A Comprehensive Guide to

Setting Up a Hospice

Robert Simione – Robin Seidman

It Takes a Village: An Integrated

Perspective on HIPAA Compliance

Laura Gramenelles

Jeannette Schreiber - Wiggins and Dana

Susan Adams - VNA of South Central CT

Dave Molusis - Extended Care

Solutions Group

Shake Hands & Come Out

Negotiating

Sheldon Berman

How to Manage Patient Care

Episodes Through an

Appropriate Staffing Model

Betty Gordon

How to Reduce Home Care Cost

Ron Barrera

Cathy Follmer - Mercy Home Care

THE SIMIONE ADVISOR

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