

## Financial Roadblocks in Hospital-Based Post-Acute Agencies

While common sense would suggest that larger agencies with bigger resources would have the most helpful financial statements and reports, often the opposite is true. Everyone, and especially healthcare, has felt the growing problem of 'data bloat' over the past decades. Financial reporting certainly plays a large part.

Our team at Blackmor, CPA and our partners at Advanced Hospice Management, are fortunate to have served in various financial and billing roles for hospices of all sizes, program types and ownership structures. Today, however, we want to focus on some of the common accounting, RCM and financial reporting pitfalls for larger hospices, especially those owned by hospitals or 'rolled up' into a larger entity framework.

### Level of Reporting Detail

Some of our most challenging financial reporting frameworks have been working with post-acute providers that utilize a large corporate 'roll-up' chart of accounts within a larger hospital accounting system. This unfortunately can result when a hospice's share of the overall hospital revenue is so minor that the needs of the hospice fall nearly to the bottom of the hospital's priority list. Because of this, one of the first questions we ask when we look at an agency's financial reports is: do we have *the right amount* of detail to assess how this agency performs?

This is **much** more than a question around the taxonomy of the chart of accounts. It involves a strategic conversation around reporting needs, which translate into dimensions like programs, locations, and departments while considering the *natural* account classifications. The *natural* accounts are the detailed lines on the income statement and balance sheet, while dimensions like programs, locations, and disciplines/departments occur in one of two places: 1) in the other account segments of a traditional chart of accounts, or 2) within another table entirely in a multi-dimensional accounting system.

Hospices and palliative care agencies, especially those running multiple programs across many locations or state lines, need the ability to view their financial statements across these multiple dimensions of the data *in as few reports as possible*. Unfortunately, this can present a challenge within a hospital accounting system. When a hospital or large roll-up entity pushes down a chart of accounts, it can either lack the necessary detail or be configured incorrectly relative to the hospice program.

While key areas like labor may lack important details, they simultaneously manage to be inordinately complex in other ways because of the hospital's GL structure. All of this creates a tremendous data problem when translating into a hospice-formatted income statement. For this reason, account groups and classifications must support the corporate 'high-level' roll-up groupings for the hospital management team without losing the important drill-down details that the hospice's leadership needs.

Ensuring that adjustment reason codes are well defined and understood by both the hospital, and at agency level, is also key. It is important that these codes are translated by the agency's EMR and posted accurately. Consistency in payment and adjustment posting is key to maintaining detailed, accurate reporting.

### Economy of Reports

Why do we say, '*In as few reports as possible?*' One of the biggest sources of friction we feel when walking into almost any agency is the large volume of reports generated by their financial systems. The goal is to communicate and present the data accurately and intuitively, but traditional reporting

processes accomplish this with a myriad of confusing reports: high-level board statements, mid-level detail for the executive team, detailed departmental reports for managers, year-over-year, YTD, actual to budget, etc.

Without creating a reporting *model* around the data structures, financial reports multiply over time both in complexity and number. While this is a whole separate discussion, agencies should ask themselves if the “juice is worth the squeeze” when they look at the full tally of financial reports. Some may be unnecessary or redundant. Better yet, there are often solutions just beyond the reach of many traditional accounting systems that can integrate confusing data sets into proper relational data tables to provide all the dimensions needed in an economy of report views.

### Net Patient Revenue Presentation

Getting to the meat of the financials, one of the first major problems we encounter when analyzing a hospital-based hospice’s financials is the lack of an industry-normalized presentation of revenue. GAAP revenue recognition standards may dictate the timing and classification revenues, community support and mark-to-market gains/losses, but they have no say on internal managerial reporting needs.

Arguably the most common presentation issue we see is including pass-through billing as top-line revenue items. This will overstate a hospice’s revenue from the standpoint of what an agency bills and expects to *keep*. It will lack comparability to other agencies and programs that don’t have a ‘pass-through’ type of billing arrangement.

Internal financial reporting should also define what constitutes revenue vs. ‘below-the-line’ sources of other income. With pushed-down charts of accounts we have seen revenue presentations that include support and investments in top-line revenue, creating a fluctuating mix of revenue and non-revenue items like grants, fundraising income, and investment gains/losses.

These revenue presentations conceal the true nature of the business’ operations with respect to comparing agency revenue against its core operating costs. Often the only solutions available rely on manual and error-prone manipulations of the financial numbers in a plug-and-chug spreadsheet process. Moreover, these two major classification issues with revenue prevent an especially critical component of financial reporting...

### Common Size Analysis & Industry Benchmarking

Once the top-line revenue has been normalized to present only net patient revenues, an organization can present expenses across time as a percentage of revenue and benchmark against other agencies. In larger hospices and hospital-based programs, the chart of accounts and resulting reports get muddled, preventing easy common-size analysis and benchmarking. This is something we call ‘table stakes’ to gain any perspective of an agency’s operations relative to other internal programs and external agencies’ staffing models, direct patient costs and G&A areas of expense.

### Huge Overhead & Expensive Services

Speaking of industry benchmarking, we often see hospital-based hospices have areas of expense that fall outside of industry norms, and when drilling down we find many of these expenses have some association with the parent structure. Agencies may receive an overhead allocation that puts things like facility expense, indirect labor, and other G&A areas well over the industry median.

Agencies may also find goods and services provided by the hospital such as dietary and food, DME, supplies, and pharmaceuticals running north of the median. Why purchase from an internal vendor

above the prevailing market price? With the correct reporting framework and industry numbers, negotiations can happen to arrive at a more appropriate levels of pricing or allocation.

Financial reporting should reduce, not add to the noise. Within our movement, post-acute healthcare continues to consolidate, acquire, merge, and collaborate. As it is with hospital-owned hospice agencies, growing complexities will create more and more challenges around financial reporting. While these were just some of the 'high-level' issues we run into, solving these growing problems early prevents scaling complexity and bloat down the road.

#### About Blackmor, CPA

The team at Blackmor, CPA serves as either an extension of the finance team or as the CFO for hospices throughout the country. Because of our depth and breadth of EMR, accounting, banking, donor and payroll systems, we understand most of the major systems that run hospice organizations. We're a team of accounting folks, but we focus on efficient alignment of systems and processes to turn *data* into *information*.

#### About Advanced Hospice Management

Advanced Hospice Management is a team of hospice specific billing experts who manage the revenue cycle of hospices across the country. Solely focused on hospice and palliative care billing and collections, our goal is to get our clients paid quickly and accurately. We then apply those payments in your EMR using consistent processes, resulting in accurate revenue reporting.