

THE ASC JOURNAL

VOLUME 1, ISSUE 2

Trends in Ambulatory Surgery Center Development and Management



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Mission: Turnaround

**Appropriate Center
Operations**



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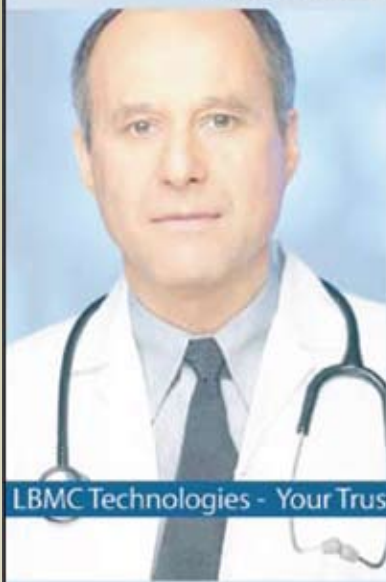
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INTERESTING TIMES

In this second volume of the ASC journal we focus on helpful information for ASC managers, owners and associates with a special emphasis for business office staff. To say these are interesting times is an enormous understatement. We are seeing unprecedented economic challenges to businesses and individuals; therefore our methodology for operating our ASC's will make a difference to assure success for the foreseeable future.

At HealthMark we have long predicted the challenges the industry would face with higher regulatory requirements, reimbursement audits, and patient deductibles. This prediction is now coming true, but in ways we wish were not. The economic challenges make it ever more critical to focus on high quality care while maintaining our industry advantages of being the most cost effective surgical healthcare providers for patients, Medicare and private insurers. We must put our best efforts into increasing the sense of awareness of the ASC advantages to the healthcare delivery system. Additionally, we should work diligently to overcome challenges to the merits of physician ownership. It is the responsibility of our industry to drive the point that ASC's are indeed a community asset and HealthMark Partners is proud to take the lead.

We have always believed the ASC industry would become abundantly more important to the cost effective delivery of surgical healthcare. ASC's remain the lowest cost provider for outpatient surgical procedures and can boast extremely strong clinical quality; yet this competitive advantage needs constant attention and validation. Cost management in tough economic times is essential to preserve our reputation of providing exceptionally high quality care and aggregating data to continue to prove those results. Accordingly, in this issue we focus on revenue cycle management and key attributes of turning around underperforming centers.

HealthMark launched its ASC management business in 1999 with an emphasis on turnaround management, which was a unique niche of that time. Now, there are many firms that list turnarounds as a focus, yet there are just a few whose experience and results are indeed good. Our history and success of managing underperforming surgery centers shall be paramount to great accomplishment during these challenging times, therefore please reach out to us if we can be of service.

We hope you find the materials within helpful to your ASC management needs. We sincerely thank those vendors who serve our industry well and believe in HealthMark enough to support the ASC Journal through advertisement. We wish you and your center the best for 2009.

Sincerely,
William G. Southwick
President and CEO

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by Anita Lambert-Gale and Doug Peter

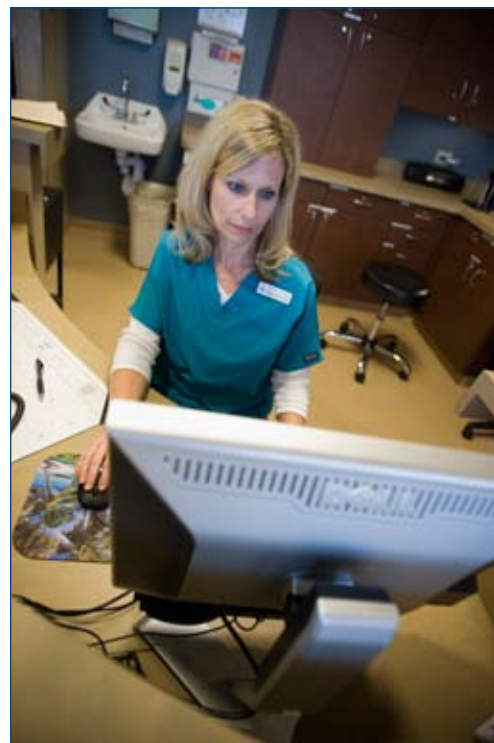
In coping with the mounting global economic pressures and its ultimate impact on the Ambulatory Surgery Center's (ASC's) expense line, there seems to be more time spent reacting to runaway expenses than analysis and growth of the bottom line. Perhaps it is time to take a deep breath and evaluate or even re-evaluate some obvious opportunities to recover or improve profitability in the center. There are five areas to consider in this process.

Nurture complimentary growth

The first area is increasing the top line (revenues). Assess the center's capacity to increase case volume. Invite existing

“Salaries and wages are often the largest expense of the center and usually the last one to manage effectively because of their sensitivity.”

medical staff and prospective surgeons in the area to increase the number of cases they perform at the center. If there are few candidates based on the existing capacity, then new service lines should be considered based on the underserved outpatient specialties. Each new service line can be evaluated based on the types of cases, reimbursement, associated variable costs, and equipment costs.



Review payor contracting

Review your contracts regularly. Medicare has added procedures and increased reimbursement for many cases. Recalibrate old policies for increases in the more intensive cases that were previously discouraged because of costs. For managed care contracts that pay a percentage of Medicare make sure you are receiving the increases. It is vital to know the cost of the high volume procedures, more intensive procedures, and new procedures that you would like to perform.

Evaluate staffing

Salaries and wages are often the largest expense of the center and usually the last one to manage effectively because of their sensitivity. As a manager, it is imperative that labor costs be measured and controlled. There are many industry standards that can be used as benchmarks. Determine the intensity of labor required to meet licensure and surgeon expectations

with the center's current case load. Part-time employees and cross training are the most obvious areas to stretch the labor dollars.

Determine supply costs

Analyze the cost of the top 25 items purchased. Be sure you are paying the contract price provided by your Group Purchasing Organization and that the materials manager is ordering the correct items on contract. Re-evaluate reusable versus disposable products and reprocessing. Maintain proper inventory for reduced cash outflow. This is another area where industry standards will help ascertain the degree of concern or compliance.

Smooth business office performance

Another area that has a major impact on cash and the smooth running of the ASC engine is accounts receivables. There is no substitute for timely billing and collection of accounts. Application of industry standards for days in accounts receivable, percent of accounts greater than 90 days, collection goals, and bad debts as a percent of net revenues will serve as compliance indicators in this area.

In summary, there are always opportunities to improve operational aspects of the center. It is a matter of continual process refinement. If you have looked into these areas before, you should look at them again because things change. Certainly the economic picture has changed, and that likely dictates management responses to maintain and improve the center's financial viability.



by Anita Lambert-Gale

The days of being a novelty and “if you build it, they will come” are long gone. In today's market, there are pressures and factors affecting the survival of some Ambulatory Surgery Centers (ASCs). Whether it is increased payor pressure on rates, the high cost of supplies, staffing challenges, or other demands, many ASCs have fallen short of their expectations and have underperformed. In extreme cases, they are struggling to stay open.

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Given all this, it's no surprise that one third of ASCs underperform. Why? Several factors explain this troubling statistic, including:

- Lack of experienced managers and employees
- Misguided expectation on reimbursement
- Under-capitalization
- Location and related costs
- Over building
- Financial structure, including debt servicing
- Cost controls/inventory
- Leadership

Typically, several things point to the need for a turnaround effort. From a top-level view, several issues recur. Some of the most common include trouble with collections and cash flow, high staff turnover, high salaries, and benefits per case. These

issues are often compounded by decreased case volume per room, unanticipated decrease in reimbursement, and unusually high supplies and implants cost per case. Ultimately, the operating margin per case for the ASC as a whole is suffering.

Case Study

Here is an example of a multispecialty, medium-size older center with poor flow design, in a hospital-dominated market. Physicians in this market were fragmented. Before acquisition of this facility, performance was poor:

- Average net loss of \$50,000 per month
- Limited physician participation (many ASCs in the market had failed, and there was a “sinking ship” feeling prevalent)
- High debt burden
- High managed care with poor contracting in place

“Have seasoned management and seasoned staff, have a plan, monitor your plan and business, and you're on your way to building a successful facility.”

To get the facility back on track, we began with replacing non-performing partners with new ones and encouraging the existing supportive client base. We worked on contracting. We targeted the cases the center could best support. We had

to consider culture in choosing physicians who would compliment the partnership. We needed to make a change in leadership at the center to move the staff to the next level.

After the change in leadership we focused on operating the center effectively by looking at:

- Supply costs
- Staffing efficiently
- Scheduling efficiency
- Monitoring staff effectiveness (turnover times, benchmarking expenses)

During this we communicated continuously with the physician partnership, which helped maintain momentum (it is also important to communicate positively with the facility's staff).

The facility's performance has improved greatly since the acquisition, as evidenced by the following:

- Physician ownership has tripled to subsequent majority
- Average net income of \$75,000/month
- Total debt <1/4 annual EBITDA
- Improved managed care contracting
- Happy partners

The reputation for quality has been noticed by payers who, in some cases, have approached us and begun directing patients to the facility. Improved performance has also afforded them high quality staff.

Have seasoned management and seasoned staff, have a plan, monitor your plan and business, and you're on your way to building a successful facility.



APPROPRIATE CENTER OPERATIONS

Tips for avoiding business office pitfalls

by Opal Tobitt and Doug Peter

Many pitfalls and economic issues facing business offices today have exaggerated the need to manage the revenue cycle more efficiently. From increased managed care penetration to tightening budgets, business offices have to mitigate the loss of revenue and manage the collection process appropriately. Procedures can be established to help deal with these pitfalls, from scheduling through collections to help manage an ambulatory surgery center (ASC) or centralized business office (CBO).

The first step toward efficiency starts with scheduling. "The Scheduler" has to accommodate internal and external customers. Maintaining communication with outside office schedulers is critical to understanding the dynamics for each office. The scheduler and nurse manager in every office should communicate regularly and should review cases and schedules appropriately on a weekly basis. These two also must be a safety valve for understanding what high-cost supplies may be requested, and ensure these supplies are covered by insurance. The materials manager should update supply costs for accurate pricing and use consignment supplies when available to reduce up-front costs.

Insurance precertification should be consistent and well-documented for accurate follow-up. Insurance companies requiring pre-certification should be called prior to the date of surgery. Patient should be provided with an estimate of their deductible, coinsurance and/or copay. It is important, fair and appropriate to make patients aware they are receiving an estimate of cost depending on what procedures are performed, and it is not a guarantee of benefits.

Registration is the first point of contact and can make a lasting impression with patients and their families. One inappropriate gesture can cause a negative impact for the entire center. Registration's primary responsibility is to ensure patients and their families have a great experience

through every step at the ASC and that the patient and/or families would recommend the ASC to their friends and family. During registration, the receptionist asks patients how they plan to pay their estimated costs. An appropriate question would be "How will you make your payment today"? or "How would you like to take care of this today?" This will elicit a response from the patient.

Accurate coding and billing are critical to success, and can mitigate the need for rebilling, underpayment and lengthy accounts receivable (A/R) days. Using certified coders in our CBO proves invaluable. Our certified coders have a great network that is used as a communication tool and has been found to be very helpful.

In a small business office, the financial outcome generally resides in the hands of one or two employees.

Coding is complex and ever-changing. It is completed in accordance with the medical records, payer contracts, as well as, federal and state insurance codes. Facilities not using a CBO should seek a consultant to provide coding and billing audits on a regular basis to ensure accuracy and consistency. During the billing process, check your charges against the payer matrix to ensure correct contractual adjustments are taken at the time of billing to avoid overstated revenue. Incorrect or missing contract information can have a costly impact on your center's financial picture. Up-front collections, contractual write-offs, and other amounts can be miscalculated if not entered correctly and routinely. Using electronic billing, electronic fund transfers, electronic remittance advice can significantly reduce the days in A/R.

Your collection process should be methodical and handled by qualified individuals. Claim rejections should be worked daily, as well as, any correspondence from a payer. After electronic billing files are loaded and transmitted, edit reports should follow within 24-48 hours showing accepted or failed claim status. Billing errors not corrected during the electronic process will have a devastating effect on the A/R. Patient statements should be sent consistently on a scheduled basis. Collection calls should be timely and consistently as well. Proper tracking and reporting for follow-up activity is critical, as A/R problems tend to worsen exponentially.

Outsourcing as an additional collection effort has proven results. It is not the same as turning an account over to a collection agency, this is a much softer approach, and takes less time than using your own business office staff. HMP uses this program after 60 days of no activity from the patient, and it is an integral part of our successful CBO operations. Monitoring collections and being consistent with outsourcing older accounts allows collectors to focus on current A/R.

To avoid pitfalls, use a central business office staff with professionals experienced in coding, billing and the collection process. HMP CBO employees are cross-trained, eliminating the worry of costly turnover, sick or vacation time. In a small business office, the financial outcome generally resides in the hands of one or two employees. This can create significant problems, including bringing the entire operation to a halt.

Our Health Mark Partners Central Business Office is located within the corporate office with direct oversight from Health Mark Partners leadership. The CBO is efficient and follows standardized procedures. The focus is to counter difficult market forces. The reality is that each center that uses the CBO gets the benefit of lessons learned from centers across the country and intelligence mining from a group of experienced professionals.



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Q: Do Special Disability Provisions Apply to Employees in Healthcare Facilities?

A: Recently, the Equal Employment Opportunity Commission issued "Questions and Answers about Health Care Workers and the Americans with Disabilities Act." Revealing a significant bias against healthcare employers, the EEOC's Q&A Fact Sheet takes an aggressive stance interpreting the ADA's reasonable accommodations requirements and signals intent to increase enforcement efforts in the healthcare industry.

While much of the Q&A is consistent with prior EEOC Enforcement Guidance, there are several areas where the EEOC provides new treatment:

Job Descriptions and Essential Functions

Recognizing that a job description prepared before advertising or interviewing for a job position will be considered as evidence of essential job functions, the EEOC Q&A notes that "lifting" may not be "essential" to a registered nurse position if it is nearly always accomplished with the assistance of others.

Practical Tip:

Review job descriptions to ensure that they describe accurately the essential functions of the job. If lifting is performed only occasionally and with the help of others, be wary of disqualifying an individual with lifting restrictions.

Reasonable Accommodations

The majority of the Q&A focuses on accommodations, using a number of examples of what is and what is not reasonable. Notably, the EEOC takes the position that a healthcare employer may be required to purchase a "portable mechanical lifting device" as an accommodation to an employee with lifting restrictions. The EEOC concludes that purchasing such a device and the costs of associated training would not pose an "undue hardship" on the facility.

Practical Tip:

Before denying a requested accommodation as unreasonable or unduly burdensome, engage in an interactive, good-faith discussion with the employee by exploring the costs of the requested accommodation, the effects on patient care and safety, the interruptions in business and whether other less-costly or less-intrusive accommodations are reasonable alternatives.

Direct Threat to Safety

In its Q&A, the EEOC recognizes the "unique safety questions and concerns" that can arise in the healthcare workplace from the disability of an applicant or employee. It notes, however, that supervisors in the healthcare industry often rely upon their own experience and knowledge as medical professionals in determining whether a direct threat exists or whether to grant or deny an accommodation.

Practical Tip:

When determining whether a direct threat exists or a requested accommodation should be granted, healthcare employers should obtain and assess medical documentation from the employee's own healthcare provider. Employers should avoid making decisions based upon the supervisor's perceptions that the employee should follow a different treatment regimen or does not need a requested accommodation.

The EEOC's Q&A Fact Sheets and Enforcement Guidance do not have the force of law. The EEOC, however, will view them as the law and we can expect to see an increase in the number of "reasonable cause" determinations. Employers should consider taking the issuance of the new Q&A Fact Sheet as an opportunity to review ADA procedures. Compliance with the ADA is a complex process and there is no doubt that the EEOC, the Department of Labor and various unions are treating healthcare employers with more scrutiny than ever before. Taking the time now to review procedures and to understand what is being prescribed for the healthcare industry will save healthcare employers time and money in the future.

- Mark Peters, Partner
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