

PERFORMANCE IMPROVEMENT CHECKLIST AND ACTION PLAN

A recent Stroudwater white paper, [Maritime Disasters and Distressed Hospitals: What Every Board Should Know About Assessing Risk](#), discussed the trajectory and risk factors that lead to disastrous outcomes for hospitals. This companion piece is meant to provide management teams and boards with a checklist of items and the outline of an action plan for affecting operational improvement and organizational risk reduction.

The following checklist has been developed as a guide to potential operational improvement initiatives that can help an organization steer clear of danger. Although not all of these options will be appropriate or available to your organization, several of these performance improvement opportunities should be found in every organization that must improve its operating performance to ensure its continued ability to serve its mission.

We have organized these initiatives into short-, medium- and longer-term categories. These categories are not meant as hard and fast rules but are intended to provide guidance to an organization grappling with performance improvement challenges.

If you have questions about next steps on your organization's performance improvement journey, please use us as a sounding board. If a brief consultation by our advisors and performance improvement experts at Stroudwater is of interest, please contact us. We would be happy to talk with you and provide insights gleaned from our national healthcare advisory and performance improvement practice.

Best regards,

Jeff Sommer
jsommer@stroudwater.com
(207) 221-8255

Ryan Sprinkle
rsprinkle@stroudwater.com
(770) 913-9046

www.stroudwater.com

Action Item	Risk Indicator	Checklist	Comments
Cash Flow Management	<ul style="list-style-type: none"> • Cash flow burn rate and trend from all sources and uses • Projected date of insolvency • Performance relative to any debt or bond covenant required thresholds 	<ul style="list-style-type: none"> <input type="checkbox"/> Project cash flow burn rate from all sources and uses <input type="checkbox"/> Update cash flow projection monthly <input type="checkbox"/> Quantify insolvency and bond/loan covenant violation dates <input type="checkbox"/> Quantify liquidity needs for alternative strategic options <input type="checkbox"/> Prioritize routine and non-routine capital expenditures based upon urgency and short-term ROI 	These metrics monitor or enhance the lifeblood of the organization—cash flow—and quantify timing and relative risk trendline.

Action Item	Risk Indicator	Checklist	Comments
Enhanced Revenue Cycle Performance	<ul style="list-style-type: none"> • Days in A/R trend by payor • Clean claim submission rate • Contractual allowance by payor and trends (i.e., number of accounts reimbursed at 100%, partially denied claims) • Late charge submission by department • Percent of bills denied by payor by patient status • Write-off percentage by payor by patient status • Gross revenue capture trend by department by month • Departmental charge submission performance (lag day report) 	<ul style="list-style-type: none"> • Revenue cycle enhancement <ul style="list-style-type: none"> <input type="checkbox"/> Comprehensive chargemaster review <input type="checkbox"/> Departmental revenue capture and reconciliation <input type="checkbox"/> Revenue cycle team development <input type="checkbox"/> Development and implementation of revenue cycle operational policies and procedures <input type="checkbox"/> Focus on customer service and quality within revenue cycle operations <input type="checkbox"/> Coding performance/ involvement in revenue cycle 	<p>Few investments have as positive an ROI or as immediate an impact as implementation of an enhanced revenue cycle function.</p> <p>We have found that the vast majority of organizations have significant room for performance improvement re: revenue cycle. The goal is to develop and implement a culture of ownership, accountability and expectation</p>

Action Item	Risk Indicator	Checklist	Comments
		<ul style="list-style-type: none"> <input type="checkbox"/> Payor contracting/pricing strategy <input type="checkbox"/> Point of service collections • Business office review – review policies and procedures to ensure operations are proactive, quality driven, and customer focused. <ul style="list-style-type: none"> <input type="checkbox"/> Account adjudication <input type="checkbox"/> Denial management <input type="checkbox"/> Provider education <input type="checkbox"/> Report production and trending analysis <input type="checkbox"/> Customer service 	throughout revenue cycle operations.

Action Item	Risk Indicator	Checklist	Comments
Lean Staffing	<ul style="list-style-type: none"> • Staff time and use • Productivity benchmarking within peer cohort • FTEs per AOB trend • Staffing cost per AOB and admission • Cost per Discharge (acuity and wage adjusted) • Salaries and wages as % of total operating expenses • Paid vs. worked FTEs • Census variability and frequency distribution by unit 	<ul style="list-style-type: none"> <input type="checkbox"/> Examine productivity and staffing ratios compared to relevant benchmarks <input type="checkbox"/> Quantify and define opportunities for staffing efficiencies, including consolidation of units or alternative procedure scheduling <input type="checkbox"/> Implement flex staffing and cross training where clinically and operationally feasible <input type="checkbox"/> Monitor, evaluate/adjust staffing ratios and staffing mix in relation to average daily census and patient acuity patterns and trends <input type="checkbox"/> Targeted reductions in force (RIF) should be implemented if the need has been 	Staffing comprises between 50% and 60% of operating expense in most hospitals. Therefore, it cannot be ignored in most operational improvement situations, especially if the organization has suffered deterioration of service volume. Recruitment and retention of staff is a critical success factor, so initiatives should be targeted and not indiscriminate.

Action Item	Risk Indicator	Checklist	Comments
	<ul style="list-style-type: none"> Reliance on locums, provider staffing organizations, and temporary staff and contractual rates for those services 	<p>quantified and vetted. Serial RIFs should be avoided due to their impact on morale and organizational disruption.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Reduce locums and temporary staffing for expense and quality of care objectives <input type="checkbox"/> Track staffing efficiency post-RIF with departmental-specific productivity standards and realized cost savings 	<p>Reductions in force should be carefully executed to treat employees fairly and avoid organization-wide uncertainty and anxiety.</p>

Action Item	Risk Indicator	Checklist	Comments
Focused Financial and Operational Management	<ul style="list-style-type: none"> Operating cash flow & cash flow margin trends Operating revenue trend Operating expense trend Debt service coverage trend Days cash on hand trend Days in A/R trend Operating margin trend Supply expense per case FTEs per AOB trend Case mix index trend Payer mix trend Key volume trends (O/P and I/P) 	<ul style="list-style-type: none"> Expense management <ul style="list-style-type: none"> <input type="checkbox"/> Lean and flex staffing, especially for lower census organizations <input type="checkbox"/> Supply chain management <input type="checkbox"/> Benefits design and optimization <input type="checkbox"/> Prioritized routine and non-routine capital investments to focus on urgent and revenue generating activities 	<p>A dashboard that tracks these performance indicators is essential for effective management and monitoring of operational improvement efforts.</p> <p>Performance against dashboard indicators should ideally be disseminated to all department managers and should, whenever possible, include department specific breakouts against benchmarks. Update and disseminate monthly with follow-up management for departments and functional areas that are lagging.</p>

Action Item	Risk Indicator	Checklist	Comments
Benefit Design Optimization	<ul style="list-style-type: none"> • Benefits expense as % of NPSR trend • Benefits expense compared to benchmarks • Management of disability claims including time to return to work and overall claims experience • Self-insured medical claims costs • Spend on preventable hospitalizations and manageable conditions 	<ul style="list-style-type: none"> <input type="checkbox"/> Review sick leave and PTO vesting and accrual policies to reduce expense <input type="checkbox"/> Review 401k/403b match and vesting policies <input type="checkbox"/> Examine self-insured health benefit spend and health plan design to retain cases in-network, share costs of out-of-network care, and manage health risks and expense of insureds <input type="checkbox"/> Develop care coordination plan for high cost plan members 	Retention of key staff is a challenge for struggling organizations. While reducing benefit expense in the short-term will conserve cash, in the long-term it is critical to ensure that compensation including benefits is competitive. Small percentage reductions in average member claim cost can have as big or bigger impact as benefits structure redesign initiatives. Undertaking claims analysis for self-funded/ERISA plans is an important first step to realizing benefit design optimization and control of per beneficiary expenses.

Action Item	Risk Indicator	Checklist	Comments
Vendor Contracts and Supply Chain	<ul style="list-style-type: none"> • Analyze vendor contracts by cost with an emphasis on escalator clauses • For top 20 vendor contracts, define termination, renewal and key performance terms • Review inventories and peri-operative supplies to limit the number of items and seek improved purchasing terms 	<ul style="list-style-type: none"> <input type="checkbox"/> Renegotiate top 10 vendor contracts in first 45 days <input type="checkbox"/> Renegotiate next 10 vendor contracts in first 90 days <input type="checkbox"/> Review inventories and supplies to reduce items and enhance purchasing power <input type="checkbox"/> Work with clinical leadership in designing utilization changes to purchased services/medical supplies <input type="checkbox"/> Reduce costs in pharmacy purchases by focusing on the formulary, reviewing top drug purchases, and renegotiating with pharmacy vendors/suppliers 	A systematic approach using a third party experienced in negotiating contracts with major categories of vendors can greatly assist with these efforts.

Action Item	Risk Indicator	Checklist	Comments
Provider Practice Operations Improvement	<ul style="list-style-type: none"> • Work RVUs per provider • Provider panel size • Performance and compensation relative to MGMA percentiles • Performance of existing providers (>2 years tenure) • Performance trend of new providers (<2 years tenure) • Time for appointment for existing patient • Time for appointment for new patient • Provider and practice performance relative to quality-based metrics • Staffing ratios per provider 	<ul style="list-style-type: none"> <input type="checkbox"/> Examine performance by provider and identify and address root causes of under-performers <input type="checkbox"/> Examine clinic hours held by providers to ensure that they are meeting terms of contract <input type="checkbox"/> Examine variability in productivity and throughput by provider and practice and reduce variation by improving performance of chronic underperformers <input type="checkbox"/> Review provider contracts and incorporate performance standards, including productivity, clinical outcomes, and patient satisfaction expectations <input type="checkbox"/> Review and refine office scheduling and staffing patterns to improve access, throughput and productivity according to organizational standards and not individual provider preference <input type="checkbox"/> Enhance point of service collections <input type="checkbox"/> Review practice revenue cycle performance <input type="checkbox"/> Pursue new relationships with other independent providers/provider groups to fill gaps in clinical service offerings 	<p>Reduced provider productivity has a cascading effect as it erodes practice performance, creates patient access issues and reduces referrals for ancillaries and hospital services necessary to support the enterprise.</p>

Action Item	Risk Indicator	Checklist	Comments
Post-Acute Care (PAC) Operations	<ul style="list-style-type: none"> • Hospital Readmission Rates • ER utilization rates • PAC average LOS • PAC clinical quality metrics • Patient/family satisfaction data 	<ul style="list-style-type: none"> <input type="checkbox"/> Review and update the organization’s PAC Strategic Plan <input type="checkbox"/> Analyze current PAC utilization by provider type (IRF, SNF, HH, LTAC) and by provider across hospital’s delivery system/service area(s) <input type="checkbox"/> Identify high and low performing PAC providers in system/service area using metrics like readmit rates, quality scores, and patient satisfaction, and correlate findings with PAC utilization patterns <input type="checkbox"/> Assess impact of PAC performance on hospital’s financial results <input type="checkbox"/> If PAC operations are owned and operated by hospital system, determine whether these assets are “core” assets and vital functions of the enterprise or non-core and could potentially be monetized to raise cash <input type="checkbox"/> Develop collaborative partnerships with high volume/high value PAC providers in your service area(s) 	<p>PAC represents a significant component of total medical expense. A 2013 IOM report found that 73% of variation in healthcare costs is attributable to PAC operations. Poor performing PAC providers may be driving high readmit rates, impacting hospital readmission penalties.</p> <p>PAC often represents a significant component of total episodes of care costs in bundled payment models and other value-based reimbursement arrangements. Collaborative arrangements create opportunities to improve quality of care across the care continuum and to reduce avoidable medical expense. Strengthening PAC operations or determining whether PAC assets represent core or non-core system assets are necessary decision points when faced with heightened financial distress.</p>

Action Item	Risk Indicator	Checklist	Comments
Improvement of Organizational Value Indicators	<ul style="list-style-type: none"> • Medicare cost position trend • Attributed covered lives trend • Quality scores trends, including performance under Value-Based Purchasing Program, Readmission Reduction Program, and Hospital-Acquired Condition Reduction Program, and associated incentive (penalty) payments under each • Quantify performance managing chronic conditions for self-insured population and replicate for area employers and payers as appropriate 	<ul style="list-style-type: none"> <input type="checkbox"/> Perform a focused audit of quality performance to assess impact on revenue <input type="checkbox"/> Develop and implement focused quality improvement program to address performance that lowers payments/incurs penalties (e.g., MACRA/MIPS) <input type="checkbox"/> Maintain attributed lives by retaining and rewarding high quality, productive providers while counseling or separating from low quality and low productivity providers <input type="checkbox"/> Develop set of best practices for care management/care coordination for self-insured population and track performance relative to best practice 	<p>Focusing on cost reduction strategies while continuing to enhance care quality will allow the organization to realize both short-term returns with a lower cost structure and longer-term returns with better reimbursement under quality-based payment methodologies.</p>

Action Item	Risk Indicator	Checklist	Comments
Contracting/Pricing Strategy	<ul style="list-style-type: none"> • Price differential between the hospitals HOPD rates and 1500 fee schedule rates for common outpatient services and diagnostics • Volume and payer mix trends for elective outpatient services and diagnostics • Presence of competitive urgent care locations and cash-based health care service 	<ul style="list-style-type: none"> <input type="checkbox"/> Develop a retail strategy that does not rely upon HOPD rates for outpatient services and diagnostics <input type="checkbox"/> Define a strategy for navigating the transition from existing HOPD rates to a 1500 fee schedule at off-campus sites <input type="checkbox"/> Develop a price list of common elective procedures and services for those HDHP insureds that inquire. The price list should be based upon contribution margin above variable costs <input type="checkbox"/> Identify opportunities for expanding organization's patient catchment through utilization of convenience care model and cash-based services 	<p>The hospital should have a retail pricing strategy that transitions from HOPD rates to a lower set of reimbursements. Proactively developing a retail pricing strategy will prepare hospitals for this eventual transition and ensure that those services can be offered above cost.</p> <p>The growing presence of urgent care and the convenience care model is capitalizing on increased patient responsibility for healthcare service cost. Emulating this model as appropriate allows hospitals to meet patient/consumer demand and bring these patient/consumers within the hospital's catchment zone.</p>

Action Item	Risk Indicator	Checklist	Comments
Asset Rationalization	<ul style="list-style-type: none"> Moderate to high leverage (LTD to total capitalization >40%) Significant owned MOB or post-acute assets; “banked” holdings of land or real estate of potential future use Explore opportunities to consolidate operations across campuses or practice locations 	<ul style="list-style-type: none"> <input type="checkbox"/> Is the organization “house poor?” as defined by significant leverage, significant fixed assets and thin liquidity? <input type="checkbox"/> Does the organization have non-core assets (medical office buildings, post-acute care assets) that could be monetized to raise cash? 	Every organization should periodically assess its portfolio of assets to determine if these resources can be reallocated to better address mission and market position factors.

Action Item	Risk Indicator	Checklist	Comments
Service Rationalization	<ul style="list-style-type: none"> Evaluate service offerings to identify non-core services that have negative contribution margins and can be eliminated or curtailed without compromising clinical and operating performance of core services 	<ul style="list-style-type: none"> <input type="checkbox"/> Contribution margin by service and service line <input type="checkbox"/> Planned or projected cash and capital investment requirements of services and service lines <input type="checkbox"/> Competitive and utilization trends and vulnerabilities of services and service lines 	While painful, it is important to review and evaluate the services provided to eliminate services that jeopardize the viability of the organization based upon their contribution and overall organizational constraints.

Action Item	Risk Indicator	Checklist	Comments
Market Position	<ul style="list-style-type: none"> • Market share trend • Payer mix trend • Provider alignment, recruitment and turnover • Capital reinvestment rate and cash flow performance • Competitor encroachment into historical service area through ambulatory care, provider-based clinics, and other presences 	<ul style="list-style-type: none"> <input type="checkbox"/> Quantify market share by payor class with specific emphasis on commercial payor trends <input type="checkbox"/> Track patient satisfaction <input type="checkbox"/> Track employee engagement <input type="checkbox"/> Develop and execute plans to restore organizational volume and utilization to prior years' "high-water" mark levels <input type="checkbox"/> Assess organization's ability to make high priority investments and respond to high risk competitive threats 	<p>Most healthcare markets will become more competitive as new entrants and long-standing competitors seek to capture growing slices of the revenue pie to remain viable.</p> <p>Commercially insured patients are the financial lifeblood of an organization. Leakage of these patients can significantly impact the organization's financial viability.</p>