

ADAMS COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

East Adams Rural Hospital

903 S. Adams

Ritzville, WA 99169

Meeting of the Board of Commissioners

August 26, 2020

PRESENT:	John Kragt	Chair
	Stacey Plummer	Vice Chair
	Ross Heimbigner	Commissioner
	Eric Walker	Secretary/Commissioner
	Jerry Crossler	Commissioner
	Corey Fedie	CEO
	Kim Polanco	CFO
	Dr. Sackmann	Chief of Staff

ABSENT:

GUESTS:	Ritzville Journal	
	Kelly Wiggins	Interim Revenue Cycle Manager
	Joe Lodge	DZA Public Accountants

The meeting was called to order at 5:34 pm by John Kragt, Board Chair.

## INTRODUCTIONS

## ADDITIONS AND CORRECTIONS

## APPROVAL OF MINUTES

Stacey Plummer made a motion to approve the July 22, 2020 meeting minutes as presented. John Kragt seconded the motion. Motion passed unanimously.

## CONSENT AGENDA

Agenda is acknowledged and request made by Corey Fedie to alter the agenda allowing DZA to present first and then be dismissed for remainder of the meeting. Approved. John Kragt requested the first Agenda Item during the Executive Session be more specific – it was identified and agreed to be listed as i) Review of Legal Matter: Current HIPAA Protected Litigation. Board moved directly to New Business item DZA Auditors Presentation.

DZA Auditors Presentation:

Joe Lodge introduced himself as Senior Manager with DZA, Independent Auditing firm, performing the annual audit of EARH. The audit was primarily completed by a senior accountant, working with Gary Bostrom, prior CFO/CEO, and Carl Flannagan, Interim CEO, with Kim Polanco stepping in at the end to get it all completed.

Joe proceeded to review the Independent Auditors' Reports as presented, with the following highlights and discussion:

- This report provides a clean and unmodified opinion that the Financial Statements are presented fairly and accordance with accounting principles generally accepted in the USA and are free from material misstatement, whether due to fraud or error.
- An **Emphasis of Matter** paragraph describing COVID-19 (because it does affect where the hospital is currently) affect and funds received as a result of the pandemic is included.
- The **Statements of Net Position** is one measure of EARH financial health. EARH had a fairly large net loss that factors into the decrease in net position. “Current” assets and liabilities are defined as ‘one year or less’. DZA estimates that based on what we expect the final Medicare and Medicaid settlements and hospital collections to be, although not precise, but estimated based on their testing to be materially accurate.
- **Statement of Revenues, Expenses and Changes in Net Position** shows a 20% decrease, attributable mainly to untimely accounts written off during the year, not a notable decrease in patient volumes. Grants increased, specifically HRSA and excise tax refunds. Expenses increased proportionately with expectations of new hiring (salaries, wages and related expenses). The biggest driver of expenses are salaries which were 54% in 2018 and 59% in 2019. Overall 3% increase in expenses (normal) coupled with a 20% decrease in patient revenue results in the large loss.
- **Statement of Cash Flows** shows the same picture as Statement of Revenues, Expenses and Changes in Net Position, only in cash basis reporting.
- **Notes to Basic Financial Statements** provides brief descriptions, summary of accounting policies and the balance of the notes. Notable items included:
  - Note 1: regarding a new standard of leases effective CY2022 that could have a large impact on EARH. DZA will cover this with Kim Polanco.
  - Note 6: regarding Net Patient Service Revenue: Medicare shifted from 51% to 66% between 2018 and 2019 and all other payers combined shifted from 40% to 25% respectively. This was due to the adjustments and write-offs, not the payers themselves because these adjustments were posted to the commercial payer class.
  - Note 11: COVID-19 Pandemic affect on EARH, outlining grants and advance payments.
- **Statements of Revenues, Expenses, and Changes in Net Position (Five Year Comparative):** presents the overall trend of EARH – five year operating loss, four year negative change in net position. 2018 is quite a bit better than prior years but returned to the other direction in 2019 resulting in the largest loss in five years.
- **Net Patient Service Revenue Detail:** Note the Gross Patient Service Revenue did decrease by approximately 6% with a lot coming in the inpatient departments, but the bigger change is in the contractual adjustments increasing from one million in 2018 to 2.8 million in 2019. The following dialogue ensued:

John Kragt: “What do you attribute the jump in adjustments to?”

Joe: “We had the same question speaking to Carl and Kim and surmised primarily attributed to a clean up of older accounts – seeing the high peak of A/R days, it is understandable when unworked accounts become untimely for reimbursement and are written off.”

Kim concurred and John continued, “We had a presentation two months ago stating we’ll be taking a massive write off in 2020 as well, for accounts from 2016 to 2019. All this old stuff backs up because we’re cleaning up a mess – it’s going to be bad in 2019 and bad in 2020.”

Corey concurred adding: “We’ll continue to give updates as we clean up those old accounts, it’s so diverse in how we can handle this in clean up of old, and specific accounts, fire sale, etc – it’s going to be a little dynamic through the end of the year and hopefully see great progress by the end of the year.”

Kim stated she would like to “clarify by stating that we shouldn’t have this happen again as new processes are in place to prevent a rerun of the high write offs.”

Joe responded, “As I’ve talked to Corey and Kim, I do know having worked with Gary for several years, while he was very capable, it was a challenge for him as both CEO and CFO and I’m encouraged as I look at these numbers, I’m optimistic that Kim will be able to help turn this around.”

- **Auditors’ Report on Internal Control Over Financial Reporting/Compliance/Other Matters** is intended to make the report more transparent regarding the impact of material adjustments, for which we present two findings, which were repeat from prior years and related to accounts not being reviewed monthly:
  - Balance of GL Accounts should be reconciled to the reports
  - Manual Journal Entries – one of the riskiest areas of any organization as you never want one person posting journal entries, for fraud concerns and error potential. Many were just reversals of errors posted, some were not posted correctly on the hospital side. We recommend that a second person reviews these adjustments – after providing education to reviewer for quality process
- **GRAPHS:** Financial Indicator comparisons of Washington, Critical Access and Rural Hospitals of varying revenue positions. Comments specific to EARH include:
  - **TOTAL MARGIN** goal of 3-6%: EARH is -19%, quite concerning that it was that much lower and has been for the last 3 years
  - **OPERATING MARGIN** goal net even: comparison hospitals are 0-2% EARH -33% for 2019 – goes to large amount of w/o that lowered net patient revenue that results in this loss
  - **DAYS CASH ON HAND** goal of 90 days: EARH is well above the 90 days for three years running. One of the highlights for EARH is liquidity – how much cash you have on hand, how many days we could survive and pay bills if cash flow declines.
  - **CURRENT RATIO** goal of 2:1 ratio: this indicator compares current assets (1 year) to current liabilities to fill the most urgent needs. EARH has more than adequate ratio compared to most hospitals in that range.
  - **CAPITAL EQUIPMENT EXPENSE TO ANNUAL DEPRECIATION** goal 100%:  
This indicator should fluctuate annually, but overtime it should be at 100% so that as the equipment is older and needs replace we are able to do so. Steadily decreasing and currently sitting at 0% indicates it is time to do an inventory and see how equipment is fairing. Perhaps your equipment is lasting longer than expected, so you can survive longer. However, we recommend you identify a service area where you can treat, or be ready to treat COVID-19 patients. If you can tie it in, now would be a good time to replace some of that equip with those grant funds. Next years audit will analyze how the COVID funds were used, without double dipping. This is a big concern for auditors, and we can avoid issues with the reconciliation by using the funds for capital purchases.
  - **LONG-TERM DEBT TO NET POSITION** is an indicator of debt capacity. The lower the ratio the more capable EARH is of getting additional financing, we want this net position going up to put EARH in a better position for financing in the future
  - **DAYS IN A/R** are one of the biggest areas of concern, tying directly to the other significant issues in the report. The hospital should be in the 40 to 60 day range. Peers are within recommended ratios while EARH has been consistently more than double that. This is a key area to focus on.
  - **CONTRACTUAL ADJUSTMENT PERCENTAGE** is another area of concern, although ok if it comes back to a baseline. The large increase in 2019 relates again to the chart with the large write offs in the “other payer” category. We recommend continuing to

look into monthly billing and collections practices so we aren't missing something vital among the large increase in contractual write offs, need to figure out what is going on among the large increase.

- **Bad Debt and Charity Care** is in the range expected. Most of the bad debts are coming from patient balances. This suggests a very low percentage of uninsured patients.
- **Full Time Equivalent (FTE) Employees** remain pretty flat, very stable over the last 3 years. It was higher with the nursing home in 2015-6, but stable currently.
- **Salary & Benefit per FTE** increased over time comparable to the new hires, nothing concerning.
- **Net Patient Revenue per FTE** experienced a large decrease where each FTE is bringing in less revenue – always want to see the Net Patient Revenue far exceeding the Salary and Benefit to cover the expenses. We recommend you keep a close eye on this trend, keep it above that 150% benchmark as it is where you'll need to be to keep the cash flows up and improve the overall net position of the hospital.

There were no questions posed at conclusion of the presentation of the graphs.

In summary, DZE auditors present a letter to the Board of Commissioners where they allude to or describe difficulties in preparing the audit. Joe expressed there were no major difficulties or disagreements with management and the process worked very well with everyone involved. The management letter addressed two items specifically: How to improve the allowance for doubtful or uncollectible accounts and How to deal with credit balances – overpayments and errors in posting – both of which were previously reviewed.

Joe opened the floor to **QUESTIONS / THOUGHTS/ CONCERNS:**

- John: with this audit we're looking at, I think it's a good check up, "do you feel like after talking with Corey & Kim that we have this train on the right track, or do we have a long way to go"  
Joe: "I certainly hope so, I know it's going to take a lot of time for Kim to get her arms around how things are being done and how to improve, I'm very optimistic of what she'll be able to do"

Joe was thanked and dismissed. The meeting rejoined the agenda.

## **MEDICAL STAFF REPORT**

Dr. Sackmann referred to the Quality Improvement (QI) focus at EARH the last couple of weeks. The ER is picking up higher level of services, it's been a busy ER from the severity of the patients, if not the numbers, the trend is probably going to continue with flu season coming up and natural concerns with COVID. The QI exercise was very good regarding trends and treatments with COVID as Adams County is picking up. We have more positive cases being treated at home; nothing new of treatments – but he urged that if you think you have symptoms, contact your provider; Dan has testing in hand, Dan & Corey have come up with great options for accessibility for people in our area and out of our area, EARH has been quite accommodating; results still take time and patience and he gave a "shout out" to Corey and Dan for making it happen. **QUESTIONS:** Stacey asked if you're seeing more severe complications of ER visits with older people? Dr. Sackmann replied, "Middle aged to older, "YES" (COVID) Our test is good, but not perfect. Actual positive results are "very good" however, if the test is negative, it doesn't preclude that you are negative if you have symptoms. If they have a negative test, we still need to chase the other symptoms. Some result as negative initially, and positive later. Trust the testing, but trust, verify and follow up. We have people in our community diagnosed and undiagnosed, I would estimate there are a good double that we have not tested or that tested negative." Eric asked "what seems to be the prevailing attitude in the community regarding masking and social distancing?" Dr. Sackmann, "I see a

growing compliance with wearing a mask – I do see it's getting better and we as professionals have to do our best to encourage others. It makes a difference. For 95% the disease is a challenge and will be overcome – the 5% are incredibly at risk. I see a growing trend toward wearing the mask, I think you'll see the mask usage explode during flu season. I ask you all to help with encouragement at a personal and professional level within the community.”

### **CEO Report**

**See attached**

- Welcome to Kim, excellent add to the team with compliments from multiple staff that she is on board. --
- Reminder regarding finances, Medicare reimbursements will change the picture as the Advance Payments will soon be retracted as reimbursement for current payments.
- We're holding a BBQ tomorrow to celebrate our staff – we welcome you to stop by as we practice social distancing with segregated areas for food and activities as well as recognizing employees with years of service for 5 year increments. Carl was with us for only a few months and enjoyed us so much that he donated \$1,000 specifically for staff at the BBQ.
- We continue the search for a physician. I spoke to one today and am very excited at the prospect as she is up and coming in her career, excited for professional development, likes rural lifestyle, this is central to her family and should be a great fit if it works for both parties.

### **CFO Report**

**See attached**

- Third week on the job, happy and appreciative to be here. This is a good group, a lot of teamwork and collaboration and critical thinking which is very helpful to get through the issues we spoke of earlier. ----
- Showing positive income with 337 days cash on hand. We typically see 150 days but looks a bit better right now because of Medicare advance payments but we expect it to decrease.
- COVID has affected a couple of months, specifically April and May and it is reflected in our numbers
- Regarding questions to the auditors about the financial future, I'm up to the challenge and confident we won't have the same findings in next year's report.
- The Payroll Protection Plan funds are fully used. We can't apply for forgiveness yet – but as soon as it's available we'll apply.
- In summary, July was a quick close and I'm looking forward to providing more thorough reports and indicators for August.

QUESTIONS/COMMENTS: John stated, “I want to say I appreciate you coming on board and I love the financial overview. If you would put some of those indicators in the report that would be awesome – what would they be?” Kim replied, “Days in A/R, current ratio, capital spending and investments, cash on hand, net patient service revenue to salaries and benefits with a focus on being at 150% or higher, deductions for contractual adjustments, as well as estimated uncollectible are all going to be helpful in monitoring financial stability.” John responded, “That has slayed me for last 2 years – if you could teach us how that magic number comes up every month!?” Kim: “I'd like to see contractual adjustments staying consistent with timeliness in the coding and getting claims out the door. Once we have timely billing we'll see more consistency. It's hard to trust the numbers with large fluctuations.”

Discussion continued regarding the cash proceeds from the sale of the Care Center. Kim and Corey both spoke of the Finance Committee recommendation to place 100% of the proceeds in Reserves, replenishing the \$250K withdrawn at the first of the year plus the extra. Stacie Plummer stated she supported this.

Eric Walker posed a question at this time which segued the conversation to the **Business Office News** attachment, and update and questions:

Eric Walker inquired about a standard estimated percent for the likelihood of collecting patient AR. Kelly Wiggins stated “There are indicators. If a bill is not collected by 90 days of the first receipt of statement it has a 50% potential of not being collected. This increases 50% each month from that time. If a service is provided on January 1st then patient should get a bill by Feb 10th. If we delay when we get the bill out working on the details to ensure the claim is accurate and it goes out 6 months after the date of service, then we’ve already reduced likelihood of collecting on the claim. Also, we need to collect what is due upfront such as copayments, then the patient won’t get a balance bill. We need to follow our policies around credit, financial applications, hardship, and payment plans which is 10% per month for 10 months, otherwise payment in full within 30 days, and follow up if we haven’t heard from the patient. If we don’t stand by the policy then we further reduce our ability to collect. Some in the community don’t expect us to do anything about the bill because we haven’t been consistent in the past. Now we are following policy and will send the account to collections at a specific point based on policy.”

John Kragt requested confirmation that EARH is receiving payment now for some of these old accounts. Kelly confirmed many of the Fire Sale letters have gone out with the remainder going in September and there have been some responses. She referred to a conversation with an angry patient paying very little but after hearing what Kelly had to say is going to pay her bill. We need to get the message out and recognized in the community that we’re starting the clock over, we have payment plans, patients can apply for financial assistance if their situation changes.

Kelly stated by the first week of September all Fire Sale letters will be sent out. She stated the auditors’ report regarding bad debt is low, and although this is the industry average we know its low because we haven’t been working the accounts over the years as they should have been. The bad debt rate is going to increase in the next two months with these letters going out and with cleaning up those accounts. 10% of these will probably be paid and 90% of the accounts which is about \$900,000 will be sent to collections. Our plans are to get off the roller coaster and work the balances as they should be worked and not see the big adjustments, see collections increase and then level out and better serve our customers.

Kelly described staffing issues with some turnover and positive results with new staff. A contract Biller is working the old accounts, Samaritan is ensuring coding is complete and accurate, and claims are being submitted much more timely. She noted the fee schedule as one of the more significant processes being worked on right now. EARH is in the middle of analyzing the charge master, comparing fees to critical access hospitals in Washington and nationwide as well as to transport hospitals. EARH is looking at each of these components over the next month which will be a large benefit for the community.

John Kragt questioned where Kelly thinks EARH’s charge master should land for which she replied there have been management discussions and mid-average is the starting point at this time.

Eric Walker asked for confirmation of the expectation of an increase in hospital usage once these various changes are made, specifically mentioning the change in net average of revenue. Kelly responded that an increase is absolutely expected and that affordability and collectability play a part in the success in collections as well. EARH needs to collect the patient responsibility upfront and not have to write it off. John Kragt stated the charge master is going to be a huge game changer to help the community. Board members agreed we need to communicate with the community what the changes are that have taken place once this is done.

Corey Fedie commented on plans to serve the community better and get to break even or better.

## **WARRANTS & VOUCHERS: EARH**

Eric Walker presented the following warrants for approval:

Stating declaration of approval of accounts payable warrants in the amount of \$496,410.71 291 and an additional \$299,835.63 for payroll direct deposits and \$100,208.04 for payroll tax deposits. Motion to approve made by Stacey Plummer, motion seconded by Eric Walker. Motion approved by roll call of four “yes” and one “abstain” due to electronic connectivity issues.

**OLD BUSINESS:** None discussed

## **NEW BUSINESS:**

- **Property Sale Proceeds:** John Kragt requested Corey prepare a resolution to place the proceeds of the sale of the Care Center into Reserve Funds to be presented at the next Board Meeting.

**Medical Staff Bylaw Approval:** New legal counsel reviewed the bylaws, med staff reviewed and issued revisions, counsel approved, and is now presented to the board for final approval. Dr. Sackmann stated Medical Staff endorses the Bylaws as they are currently brought up to date by counsel. John Kragt mentioned he had talked to the legal counsel, Sandy Johnson, and he will support and asked for a motion. Stacey Plummer so moved and Ross Heimbinger voiced a second. Motion approved by roll call of four “yes” and one “abstain” due to electronic connectivity issues.

**New development subsequent to Agenda release:** USBank is temporarily closing their walk-in office. We’ve received inquiries from Umpqua and Columbia regarding providing service. Sarah at USBank assures me they can accommodate us. However, our daily deposit needs need a local branch. John Kragt states that as a local hospital we need a local bank and asked Corey to put out a request for proposal to be prepared. Stacey Plummer and Ross concurred. Corey states he will work it through with Kim and the other staff to cover our needs in the interim and prepare the RFP. John mentioned no motion was needed.

**PUBLIC COMMENT: NONE**

## **EXECUTIVE SESSION**

The Board went into an executive session from 7:35pm to 8:10pm for the Review of Legal Matter: Current HIPAA Protected Litigation and Credentialing. There was no discussion on the legal matter and Dr. Noble was Credentialing for a subsequent term upon motion by Eric Walker, second to the motion by Stacey Plummer. Motion passed with four votes, and one member abstaining.

### **Post Executive Session:**

The Board met at 8:20 for Review of Performance of Public Employee resulting in the Board scheduling a special meeting in approximately 2 weeks to finalize the public employee contract. Ross Heimbinger presented a motion to adjourn which was seconded by Stacey Plummer with all in favor, the motion passes with four votes and one abstaining. Meeting adjourned at 8:14 pm.