Maximizing Net Revenue through Real Time Payment Compliance

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System Overview

- Franklin, Tennessee based healthcare provider with 12 general acute-care and specialty facilities in six states, primarily in non-urban communities.

- Capella generated $747.6M in revenue from continuing operations, net of the provision for bad debts, for the year ended December 31, 2012.

Year Ended 2012

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed beds</td>
<td>1,574</td>
</tr>
<tr>
<td>Admissions</td>
<td>45,613</td>
</tr>
<tr>
<td>Adjusted admissions</td>
<td>96,987</td>
</tr>
<tr>
<td>Inpatient surgeries</td>
<td>9,961</td>
</tr>
<tr>
<td>Outpatient surgeries</td>
<td>23,027</td>
</tr>
<tr>
<td>Emergency room visits</td>
<td>237,749</td>
</tr>
</tbody>
</table>
Capella’s Story

- 8 hospitals served by a Parallon Shared Services Center
- Remainder of Capella facilities have their own Revenue Cycle
- Capella has seen a documented improvement in Net Revenue and analytics at the 8 hospitals whose revenue cycle operations have dedicated Payment Compliance and Denials Management infrastructure
The Challenge - getting paid what we’re due

- Industry experience shows that between 1 to 6% of net revenue is consistently underpaid or denied, depending on complexity of contracts and payor mix.

- Evidence shows 90% of denials are preventable and 67% are recoverable with the right processes.*

*Capturing Lost Revenues*, Health Care Advisory Board Cost and Operations Presentation, The Advisory Board
Areas of Opportunity

Rework / Cost / Lost Revenue
Different Provider Approaches

• Accept payment and identify what they can
• Primarily Denials focus
• Use Physician Advisory services
• Outsource “zero balance” reviews to vendors
• Identify and pursue “Low Hanging Fruit”
• Allow Payor-funded overpayment contractors to generate refunds
• Fully Comprehensive approach using People Processes and Technology
How we do it…

Payment Compliance/Denials Process

Contracting and Modeling

Discrepancy Capture

Payment Resolution & Appeals

Root Cause Analysis

Reporting/Feedback
How we do it…

- Model expected payment for majority of payors (95%+)
- SOX Controls in place to ensure appropriate testing of models
- Hospitals can net down receivables at time of claim submission
- Collection efforts based on cash value of accounts

Contract Modeling
How we do it…

- Systematically compare expected payment to actual reimbursement
- Captures both over and underpayment discrepancies
- Process takes paid claims out of traditional collector workflow
How we do it…

• Triage discrepancies to determine validity, within days of payment
• Assign reason and resolution codes to each discrepancy
• Specialized teams by function and payor for optimal effectiveness

Root Cause Analysis
How we do it…

• Pursue valid underpayments through various means with payers
• Resolve overpayments and credit balances via refunds
• Relationships with all major insurance plans, provide routine “packages” of scrubbed data
How we do it…

• Denials, full and partial, routed to specialized appeals team, clinical and clerical resources
• Multiple levels of appeals made when appropriate
• Assign reason, status and resolution codes to each denial
How we do it…

- Reporting allows feedback loop to Case Management, Patient Access, Finance, Contracting teams
- Teams trained to assist Hospital Finance with month end accrual processes
- Recovery and Overturned Denial results audited annually for accuracy

Reporting/Feedback
Getting Started is an INVESTMENT

**People**
Education, Resources, Multi-disciplinary teams

**Processes**
Segregate the work, Payer “pods”, Feedback loop, Thresholds

**Technology**
Workflow, Modeling, Reporting/Analytics
Information is Everything…

- Executive Level Dashboards
  - Desktop and Mobile
- Executive and Management Reporting
  - Displays predefined reports with up to 3 years of KPIs
- System generated reports from key tools
- Adhoc reporting via Business Objects
Discrepancy Reporting

• Payment Discrepancies by:
  – Discrepancy Type (over vs underpayment)
  – Major payor
  – Root cause/reason and status codes
  – Age of discrepancy
  – Trending, Collectability
• Discrepancy Inventory
• Discrepancy Rates
• New discrepancies
• Recoveries

100+ reason codes in Payment, Modeling, Appeals and Business Office groupings. Separate "resolution" and "root cause" codes
Denial Reporting

- Denials by:
  - Denial Type - Clinical vs Technical
  - Major Payor
  - Root Cause, Reason and Status
  - Age of Denials
  - Service Lines, Physicians
- New Denials
- Denial Inventory
- Overturned denials
- Final denial writeoffs

36 Unique denial code groupings

Medical Necessity
- IRF Medical Necessity
- Medical Necessity - Procedure/Service Denied
- MN-Delay in Service
- MN-Level of Care
- MN-Severity Illness
- MN IP vs OP
- No ABN - Procedure Denied
- Pre-Exist or Review
- PRO-MN
- PRO-QM
### Denial Reporting

#### Facility Trending - New Denials

<table>
<thead>
<tr>
<th>Facility</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>121,127</td>
<td>106,668</td>
<td>162,901</td>
<td>25,107</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>415,803</td>
</tr>
<tr>
<td></td>
<td>227,383</td>
<td>238,463</td>
<td>260,515</td>
<td>68,796</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>795,157</td>
</tr>
<tr>
<td>Totals</td>
<td>348,510</td>
<td>345,132</td>
<td>423,415</td>
<td>93,903</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,210,960</td>
</tr>
</tbody>
</table>

- Example “New Denials”
Denial Reporting

• Example “Overturned Denials”
### Who needs information?

<table>
<thead>
<tr>
<th>Payers</th>
<th>Contractors</th>
<th>Finance Teams</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Packages of issues</td>
<td>• Payor limitations</td>
<td>• Net Revenue Analytics</td>
</tr>
<tr>
<td>for resolution</td>
<td>• Collectability of Net Rev</td>
<td>• Accruals</td>
</tr>
<tr>
<td>• Trending,</td>
<td>• Modeling limitations</td>
<td>• Exposure/risks</td>
</tr>
<tr>
<td>scorecards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• IBNR</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clinical Teams</th>
<th>Patient Access</th>
<th>Rev Cycle Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Revenue Integrity</td>
<td>• Registration Errors</td>
<td>• Data is key</td>
</tr>
<tr>
<td>• Physician Advisors</td>
<td>• Process Improvement</td>
<td>• Set priorities and</td>
</tr>
<tr>
<td>• Case Management</td>
<td>• Denial prevention</td>
<td>determine resources</td>
</tr>
<tr>
<td>• Denial prevention</td>
<td></td>
<td>• Track opportunities and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>progress</td>
</tr>
</tbody>
</table>

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*hfma national institute 2013*
Denial Management Action Teams

• Capella Hospital and Parallon teams have monthly denial meetings to discuss denials

• Multi-disciplinary team includes Facility CFO, Parallon Denial team, Case Management, Patient Access and others as needed

• Focus on root causes, trends, and process improvement

• Start with the most material, preventable opportunities and refine over time

Focus on NEW denials and prevention
## DMAT Action Items

### Date:
February 13, 2013

### Time:
15:00 Central

### Place:

### Members Present:
Jane Doe, John Smith...

### Recorded by:

### Last Update:
02.13.13

<table>
<thead>
<tr>
<th>Item</th>
<th>Agenda Item</th>
<th>Discussion/Conclusion</th>
<th>Recommended Action</th>
<th>Follow-Up Target Date</th>
<th>Person(s) Assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Physician Advisor Appeal Process</td>
<td>Need to confirm process with Capella who is sending the documentation.</td>
<td>Appeals management needs to meet with Capella leadership to verify the process.</td>
<td>Prior to March DMAT</td>
<td>SSC/Capella Leadership</td>
</tr>
<tr>
<td>2</td>
<td>Spinal Fusion and total knee / hip replacement denials</td>
<td>Discussed high dollar denials related to spinal fusions and joint replacements for not showing 3 months of failed conservative treatment prior to performing the service.</td>
<td>Implement checklist of necessities for spinal fusions and total knee/hip replacements. Communicate the need to follow the checklist to the physician(s) performing the procedures. Meeting is scheduled to go over these requirements with the necessary physicians.</td>
<td></td>
<td>Jane Doe/John Smith</td>
</tr>
<tr>
<td>3</td>
<td>CHP WA</td>
<td>Identified claims are being sent electronic and need to go hard copy to ensure they are received by the correct payor.</td>
<td>Place edit in SSI to have the CHP WA lplans mailed hard copy.</td>
<td>Prior to March DMAT</td>
<td>Jane Doe/John Smith</td>
</tr>
<tr>
<td>4</td>
<td>Mismatch Authorization/ Radiology</td>
<td>Discussed the mismatch authorizations. Physicians request one procedure and once in radiology another procedure is done that was not authorized.</td>
<td>Follow up with Laura Smith to discuss how we can avoid these types of denials.</td>
<td>Prior to March DMAT</td>
<td>Jane Doe</td>
</tr>
</tbody>
</table>

Avoid vague actions and deadlines like “re-educate” and “ongoing”.
Valuable feedback to Contracting

**Qualitative**
- Vague or problematic language
- Resolution challenges
- Interpretation Issues
- What payors can model

**Quantitative**
- Collectability of modeled net rev
- Underpayments unresolved
- Denial/appeal opportunities
- Hospital specific vs system-wide issues
Capella’s Results

2012-$5,794,200 Total Incremental Net Rev
• $2,222,656 Underpayment Recoveries
• $3,571,544 Overturned Denials

2011-$5,952,190 Total Incremental Net Rev
• $2,335,347 Underpayment Recoveries
• $3,616,843 Overturned Denials
The Trends/Results

Parallon Business Solutions - Nashville SSC
Capella Division
Denial Trending by New Account Amount
December 2012 YTD

<table>
<thead>
<tr>
<th>New Accounts Amt</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JAN/FEB</td>
<td>MAR/APR</td>
</tr>
<tr>
<td>Medical Necessity</td>
<td>215,244</td>
<td>317,419</td>
</tr>
<tr>
<td>No Auth</td>
<td>375,709</td>
<td>312,264</td>
</tr>
<tr>
<td>Other</td>
<td>117,961</td>
<td>250,337</td>
</tr>
<tr>
<td></td>
<td>712,936</td>
<td>1,059,770</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MAY/JUN</th>
<th>JUL/AUG</th>
<th>SEP/OCT</th>
<th>NOV/DEC</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Necessity</td>
<td>188,110</td>
<td>327,476</td>
<td>261,888</td>
<td>340,903</td>
<td>3,427,068</td>
</tr>
<tr>
<td>No Auth</td>
<td>412,783</td>
<td>339,893</td>
<td>362,745</td>
<td>265,786</td>
<td>4,342,601</td>
</tr>
<tr>
<td>Other</td>
<td>133,483</td>
<td>252,743</td>
<td>189,573</td>
<td>239,759</td>
<td>3,404,227</td>
</tr>
</tbody>
</table>

- Reduction in “No Auth” denials by $789k

Parallon Business Solutions - Nashville SSC
Capella Division
Denial Trending by Ending Balance Amount
December 2012 YTD

<table>
<thead>
<tr>
<th>Ending Balance Amt</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JAN/FEB</td>
<td>MAR/APR</td>
</tr>
<tr>
<td>PRO</td>
<td>40,595</td>
<td>159,302</td>
</tr>
<tr>
<td>Medical Necessity</td>
<td>290,258</td>
<td>330,545</td>
</tr>
<tr>
<td>IRF</td>
<td>37,870</td>
<td>14,777</td>
</tr>
<tr>
<td></td>
<td>368,723</td>
<td>452,543</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MAY/JUN</th>
<th>JUL/AUG</th>
<th>SEP/OCT</th>
<th>NOV/DEC</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRO</td>
<td>199,352</td>
<td>681,484</td>
<td>514,970</td>
<td>564,612</td>
<td>660,693</td>
</tr>
<tr>
<td>Medical Necessity</td>
<td>416,770</td>
<td>614,605</td>
<td>574,408</td>
<td>667,612</td>
<td>622,792</td>
</tr>
<tr>
<td>IRF</td>
<td>14,727</td>
<td>14,727</td>
<td>14,727</td>
<td>28,464</td>
<td>40,394</td>
</tr>
</tbody>
</table>

- ADRs are a new challenge on our radar

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Value of Real Time Efforts

- A/R Valuation accuracy/Net Down and more current info on trends
- Reduced cost
- Prevention based on current activities
- Avoid timely filing issues
- Credibility and accountability with payers
- Stop issues before they get big (even fee schedule updates)
- Avoid takebacks on overpayments
- Relevance to constituents
Getting Started

• Start somewhere
• Evaluate your own opportunity and the ROI
• You can’t pursue what you don’t know you’re missing

“Take a method and try it. If it fails, admit it frankly, and try another. But by all means, try something.”

-Franklin D. Roosevelt
Contacts

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Shannon Dauchot
shannon.dauchot@parallon.net