



# Strategies for CFO Financial Communications to the Board

October 20, 2023 - Eric Lopata and Ben Schmitz, FORVIS

# Meet the Presenters



**Eric Lopata**  
**CPA, FHFMA**  
Director

[Eric.Lopata@forvis.com](mailto:Eric.Lopata@forvis.com)

816-221-6300



**Ben Schmitz**  
**CPA**  
Senior Manager

[Ben.Schmitz@forvis.com](mailto:Ben.Schmitz@forvis.com)

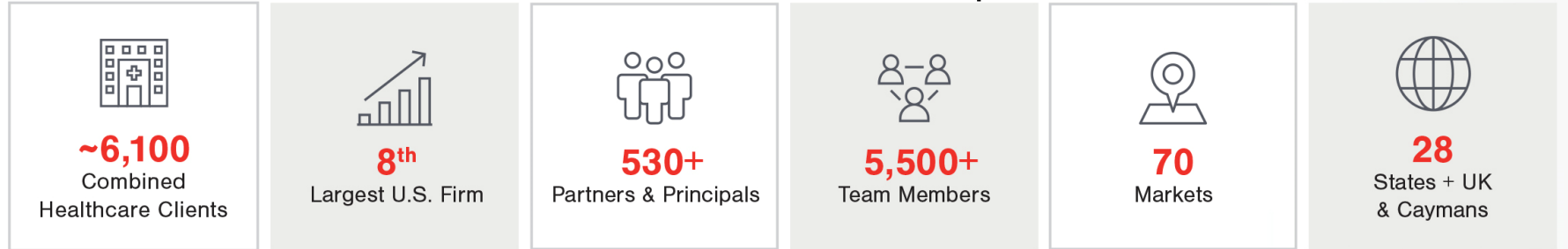
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# FORVIS OVERVIEW

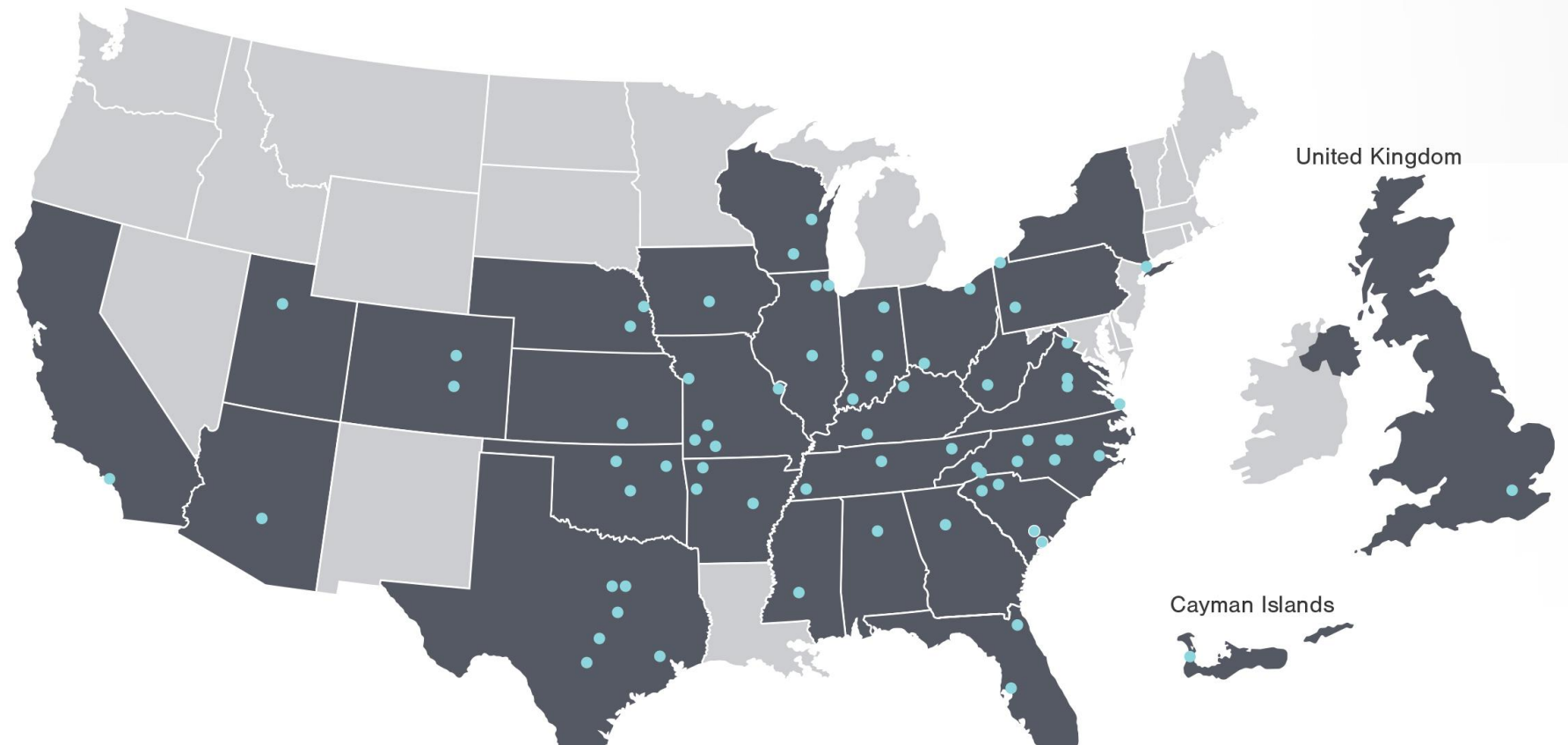
Forvis ranks  
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## A National Footprint



# Agenda

- Key Functions of a CFO
- Roles & Responsibilities of a Board of Directors
- Strategy for Communications
- Summarizing Financials & Operations

# Key Functions of a CFO

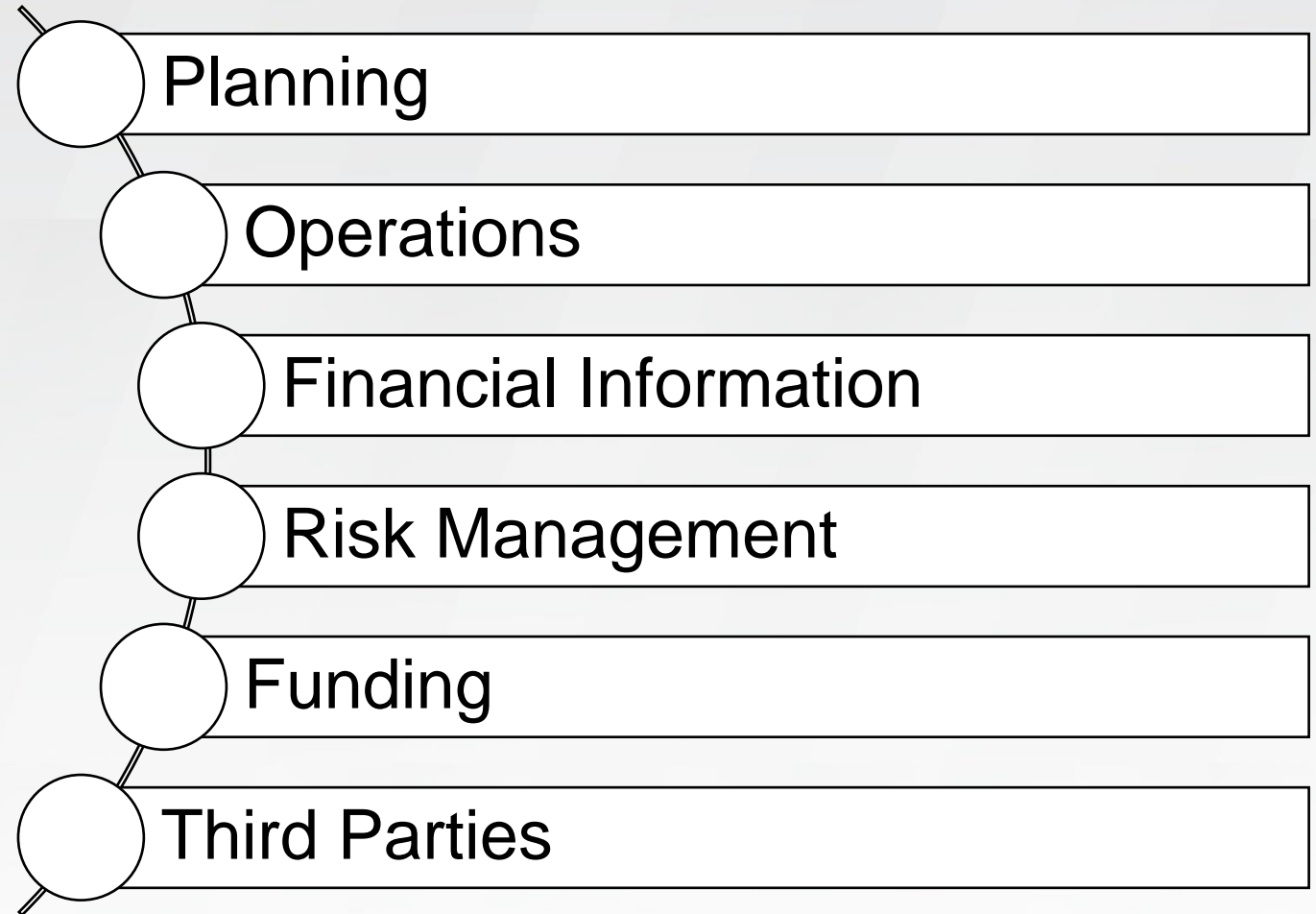
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# CFO Job Description Components

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# CFO Job Description



## Planning

- Assist in guiding organization's future direction
- Direct implementation of strategic business and financial budgeting plans



## Operations

- Manage accounting, human resources, investor relations, legal, tax and treasury decisions
- Assist decision making



## Financial Information

- Oversee issuance of financial information and report financial results
- Performance compared to budget
- Accurate financials

# CFO Job Description



## Risk Management

- Monitor and mitigate organization's risk profile
- Handle legal issues and insurance coverage
- Monitor financial internal controls



## Funding

- Monitor cash balances and cash forecasts
- Debt financing



## Third Parties

- Maintain financial relationships with rating agency, bankers and investment brokers





# Priorities of a Healthcare CFO

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## Identify & Manage Cost Reductions

- Tools in place to identify?

## Become More Agile

- Adapt to changes in business
- Budgeting & Forecasting

## Understand Impact of Clinical Outcomes in Financial Performance

- Connection of clinical measures & financials

# Question

**Which of the following is the highest priority for your organization?**

- A** / Managing Cash Flow
- B** / Identifying Cost Reductions
- C** / Understanding how clinical operations impact financials
- D** / Physician & provider management

# Roles & Responsibilities of the Board of Directors

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# Roles & Responsibilities of Board of Directors

## Establish Vision, Mission & Values

- Guide & set the pace for its current operations & future development

## Set Strategy & Structure

- Determine the business strategy & plans
- Ensure the organizational structure is appropriate to implement the strategies

## Delegation to Management

- Delegate, monitor & evaluate implementation of strategies by management

# Primary Duties of Board of Directors

## Establish Longevity

- Provide continuity for the organization
- Long-term planning

## Governance

- Govern the organization by broad policies & objectives by continually review its work
- Evaluate results to plan/budget

## Accountability

- Account to the public for the services of the organization
- Provide for fiscal accountability, approve the budget & formulate policies

# Duty of the CFO – to the CEO? Or to The Board?



## Dual Reporting Responsibility

- Potential Conflict?
- CFO has responsibility of complete & transparent reporting to the Board

## What if CEO & CFO Disagree?

- Must agree on a protocol for reporting to the board

# Strategy for Communication

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# Gain an Understanding

When you look at your Board, what is the largest challenge they face in understanding your organization?

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# Question

**When was the last time you changed your basic financial reporting to your Board?**

- A** / Within the last 6 months
- B** / Within the last 6-12 months
- C** / Within 1-3 years
- D** / Greater than 3 years

# Gain an Understanding

- How do you turn these challenges into opportunities?
  - Survey for their interests
  - Education on topics
  - Use of operational metrics & key performance indicators (KPI's)
- “Goldilocks Dilemma”
  - Too much
  - Too little
  - Just right

# Strategy

- Know your Board – plan and develop a strategy to reach your audience
- Be clear and concise
  - Use graphs and comparisons
  - Develop the context for them
  - How does this fit in our strategy?
- Transparency is key for Board confidence
  - “Bad news is not like fine wine, it does not get better with age”

# Strategy

- Gain credibility
  - Consistent historical data
  - Use clean and well-designed deliverables
  - Should support the strategy

*“Above all, success in business requires two things: a winning competitive strategy, and superb organizational execution. Distrust is the enemy of both. I submit that while high trust won’t necessarily rescue a poor strategy, low trust will almost always derail a good one.”*

– STEPHEN R COVEY

The Speed of Trust

# Other Strategic Communications



Outside of financial results, consider communicating:

Succession  
plans and  
talent in the  
business  
office

Metrics that  
support the  
strategy of  
the  
organization

Results from  
strategy

Industry  
changes that  
will impact  
your  
organization

Internal risk  
assessment

Identification  
of trends –  
volume,  
collections,  
cash

- Similar Organization
- State Data
- National Data

Accounting  
Standard  
Updates

# Expectations Into Action

- Over the years, we've seen a wide range of approaches
  - 4 graphs
  - 60 pages
- Neither of these extremes addresses one of the primary problems between Boards and CFOs

**Surprising the Board is not a good thing**

# Expectations Into Action

- Evaluation of your Board needs
- Planning communications to meet the needs
- Ask for feedback
- Experiment with the data
- If your reporting hasn't changed in the past 2-3 years – is the information relevant?

***“Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it’s worth it in the end because once you get there, you can move mountains.”***

***-Steve Jobs***

# Summarizing Financials & Operations

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# Transparency

- What is appropriate for Management analysis isn't always appropriate for the Board
- Track simple measures that are relevant to strategy or risks
- COMPARATIVELY
- Are budgets really well thought out plans to compare to?
  - The world is variable
  - Patients are randomly sick (impacts volumes and contractuals)

	January	February	March	April	May	June	July	August	September	October	November	December	Average	Budget
Metric														
1	50.00	51.00	50.00	52.00	53.00	50.00	48.00	49.00	51.00	54.00	55.00	56.00	51.58	49.90
2	1,100.00	950.00	920.00	989.00	850.00	799.00	875.00	988.00	825.00	950.00	860.00	1,010.00	926.33	1,000.00
3	1.10	1.15	1.35	1.42	1.11	1.16	1.20	1.30	1.22	1.19	1.04	1.05	1.19	1.75
4	135.00	140.00	138.00	142.00	150.00	151.00	131.00	129.00	135.00	145.00	150.00	125.00	139.25	120.00
5	15.20	16.20	16.40	14.40	15.90	17.00	16.90	18.10	18.40	19.00	18.25	19.10	17.07	18.00
6	1.00	0.99	1.01	0.98	1.04	0.99	1.01	0.99	1.06	0.97	1.00	0.97	1.00	1.00
7	1,507.48	1,608.12	1,701.25	1,498.75	1,560.28	1,675.20	1,601.98	1,558.71	1,532.64	1,490.01	1,725.60	1,700.21	1,596.69	1,500.00
8	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
9	(1.40)	(1.50)	(2.00)	(2.50)	(0.05)	(0.75)	(1.20)	(0.90)	(0.25)	(2.25)	(0.84)	(0.05)	(1.14)	0.25
10	(5.00)	(4.98)	1.00	(2.00)	(4.25)	(3.78)	(1.25)	(3.17)	(4.25)	0.05	1.20	2.00	(2.04)	0.50

Fiscal Year End	6/30/2016	6/30/2017	6/30/2018
Days in Accounts Receivable	56	63	70
Days Cash on Hand - All Sources	152	137	79
Total Margin %	(6.52)	(7.01)	(7.69)
Operating Margin %	(7.54)	(8.58)	(7.03)
EBIDA to Revenues %	2.61	1.21	(0.61)
EBIDA to Assets %	2.66	1.43	(0.93)
Facility Salary per FTE	49,735	52,031	61,178

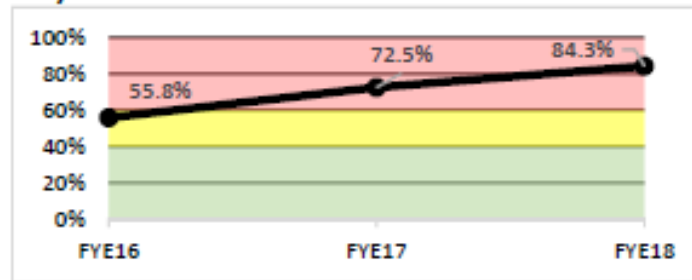
All ratios are based on Medicare cost report classifications and calculations which may be different than amounts calculated from GAAP financial statements.

All benchmarks are reported according to the percentile rank within the peer group. They are color coded based on preferred performance compared to peers.

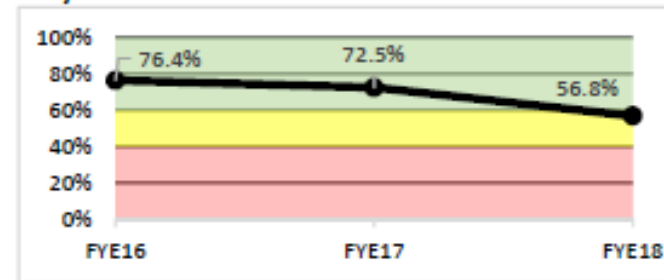
#### Comparison to peer group

- Positive
- Neutral
- Negative

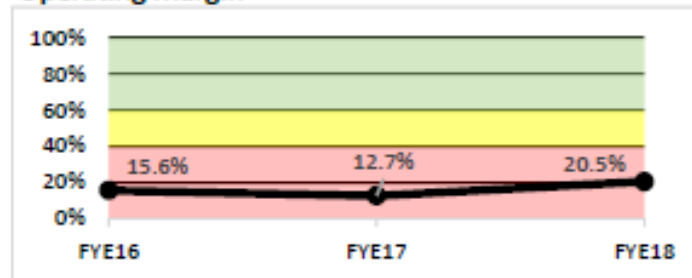
#### Days in Accounts Receivable



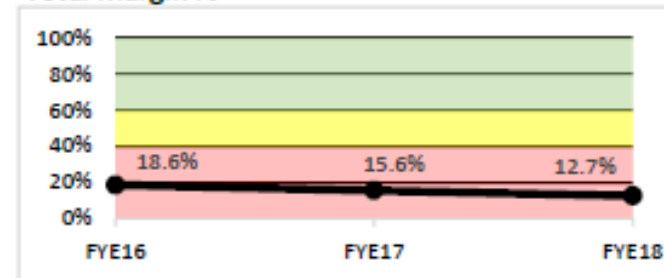
#### Days Cash on Hand - All Sources



#### Operating Margin



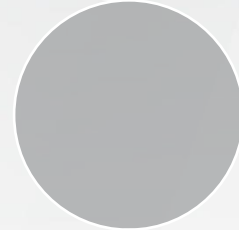
#### Total Margin %



# Focus for Board



**Year to date vs. prior year to date is a good focus**



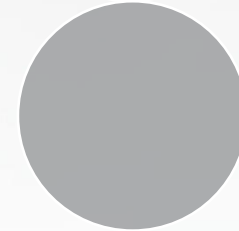
**The amount of effort we have seen analyzing monthly results is:**

Staggering, Confusing, Not Meaningful



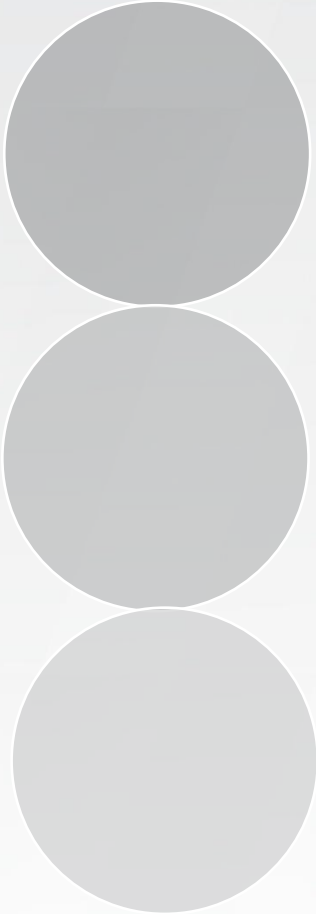
**Break out service lines or other one-time events for clarity:**

340B, Grants/Contributions/Funding, Non-operations items (pensions, investment values)



**Use charts & graphics to compare versus tables**

# Focus for Board



## **What are the “Drivers”?**

Funding programs that are somewhat disconnected from volumes

Isolate program revenues and direct expenses:

On face of income statement or in following supplemental schedule

One net line on income statement works if back by detail

## **Frequently asked Questions:**

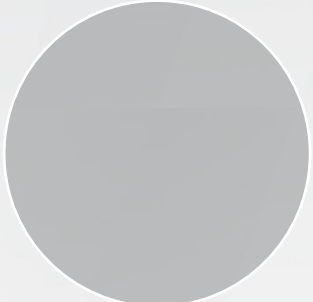
How are we doing?

What should our bottom line be?

What should we be asking about?

## **Cash flow needs for financing requirements**

# Focus for Board

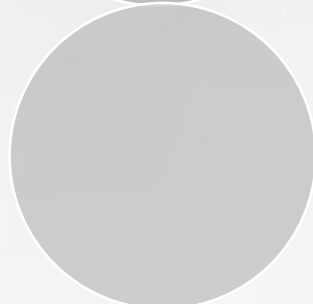


## **Often Overlooked:**

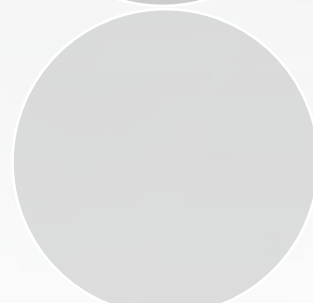
Use of operational data to bolster understanding (Mechanics of allowances, business office information)

Use of meaningful (& condensed) peer data

Use of meaningful (& condensed) stats



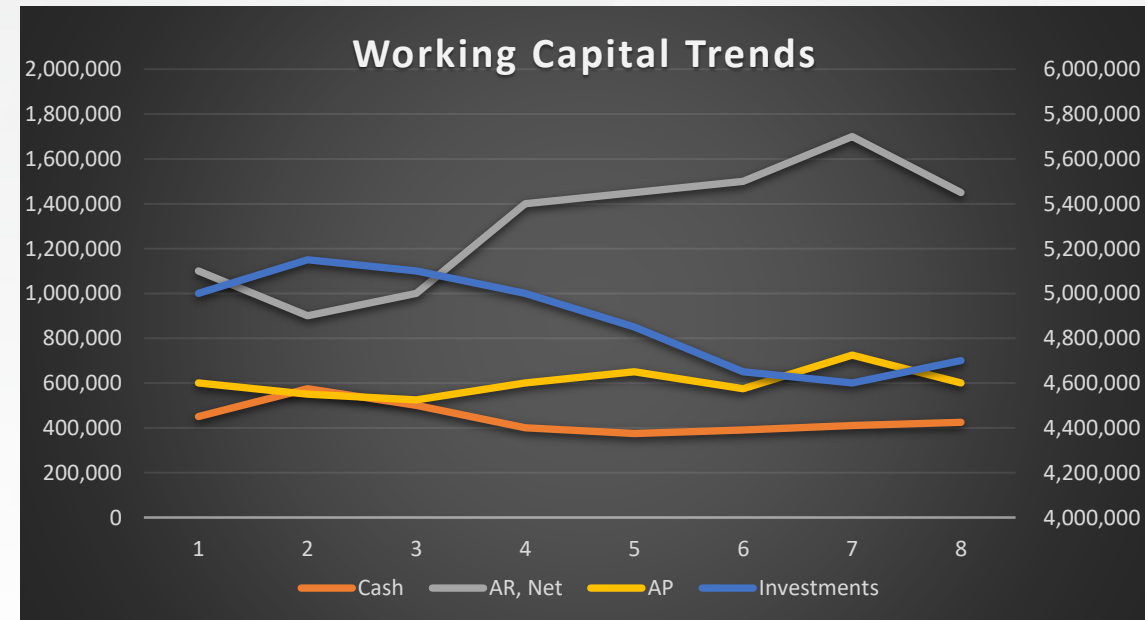
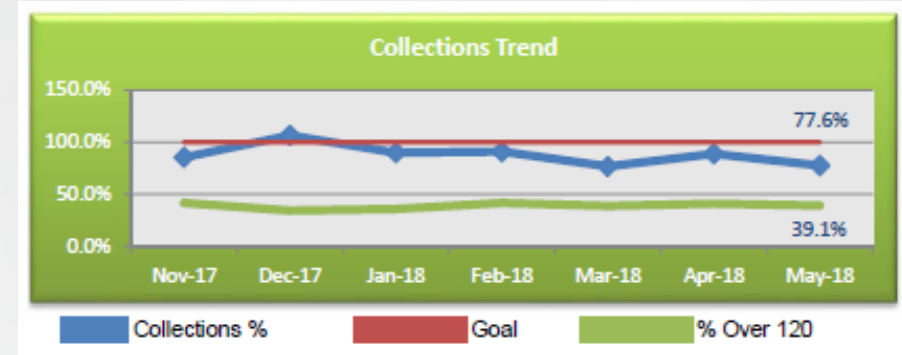
## **Relate non-financial data to the financials**



**What do you use as a gut check and would the Board benefit from that information?**

# Board Disconnects

- Divergence of Cash and Accrual
- Hospital reporting “Good Bottom Line” but also report they are tight on cash
- Frequently caused by business office problems
  - Delays in billing
  - Poor write-offs
  - Inadequate allowances
- Cash flow-
  - 3 month moving average of cash vs. net revenues
  - Net days in accounts receivable
  - Accounts payable fluctuations?



# Board Disconnects

- Allowances for bad debt, contractually and 3<sup>rd</sup> party settlements
  - How are these determined?
  - How does it impact the financials?
- Balance sheet or income statement approach?

## Statement of Operations

	1	2	3	4	5
Gross PSR	100%	100%	100%	100%	100%
Contractuals	34%	33%	30%	31%	30%
Charity	2%	1%	2%	1%	2%
Bad Debts	4%	5%	1%	2%	3%
Other Deducts	2%	3%	2%	1%	1%
Total Deducts	42%	42%	35%	35%	36%
Net PSR	58%	58%	65%	65%	64%

## Balance Sheet

Gross AR	100%	100%	100%	100%	100%
Allowances	48%	48%	41%	41%	42%
Net AR	52%	52%	59%	59%	58%



## Balance Sheet

Gross AR	100%	100%	100%	100%	100%
Allowances	48%	48%	41%	41%	42%
Net AR	52%	52%	59%	59%	58%

## Accounts Receivable Aging

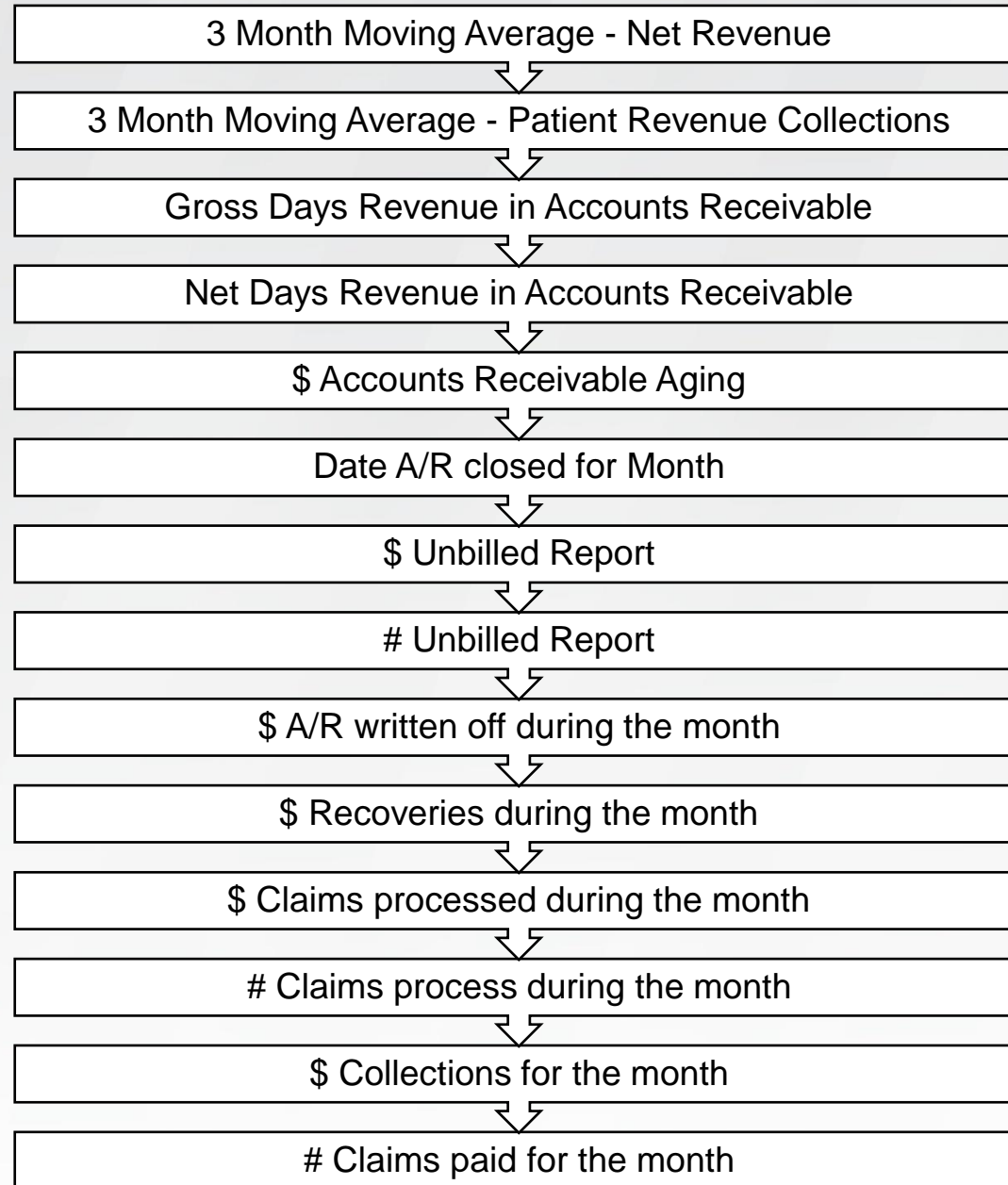
0-90	150,000	175,000	250,000	250,000	225,000
91-150	100,000	100,000	125,000	175,000	175,000
151-365	75,000	75,000	100,000	150,000	200,000
366+	150,000	150,000	175,000	210,000	250,000
Total	475,000	500,000	650,000	785,000	850,000
Allowances	(228,000)	(240,000)	(266,500)	(321,850)	(357,000)
Net AR	247,000	260,000	383,500	463,150	493,000

# Business Operations & Basic Accounting

- Probably more CFOs have departed due to problems in estimates and business office than anything else
- Business office back-logs affect timely information and cash
- Source of “double down” allowance problems
- Accounting personnel failing to timely perform their routine duties is another problem spot
- So why not a business office report card?
  - For self protection?
  - As a Board report?

# Key Business Office Reportable Items

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	Key Metric	Best Practice - 90th Percentile	Best Practice - Median
Financial Management	Average Daily Gross Revenue	Site Specific	Site Specific
	Net Days in Accounts Receivable (A/R)	<34.2 Days	<40.6 Days
	Cash Collection as a Percentage of Net Patient Service Revenue	≥102.9%	≥99.4%
	Days Cash on Hand	150 Days	
	Charity Care	<1.4%	<4.9%
	Bad Debts	<0.2%	<0.8%
	Uncompensated Care	<2.2%	<5.1%
	Cost to Collect	<1.5%	<2.8%
Patient Access	Pre-Registration	≥98%	≥94%
	Insurance Verification Rate	≥98%	≥94%
	Service Authorization Rate - IP & OBS	≥98%	≥94%
	Service Authorization Rate - OP	≥98%	≥94%
	Conversion Rate of Uninsured Patient to Payer Source	≥20%	≥15%
	Point-of-Service (POS) Cash Collections	≥51.5%	≥21.3%

	Key Metric	Best Practice - 90th Percentile	Best Practice - Median
Pre-Billing & Claims	Days in Total Discharge Not Final Billed (DNFB)	<2.9 Days	<4.7 Days
	Days in Final Billed Not Submitted to Payer (FBNS)	0 Days	<0.2 Days
	Days in Total Discharge Not Submitted to Payer (DNSP)	<3.2 Days	<5.1 Days
	UB04 (837i) Clean Claim Rate	≥85%	
	Late Charges as a Percentage of Total Charges	≤2%	
Accounts Resolution	Aged A/R as a Percentage of Total Billed A/R (90 days & greater)	≤14%	≤19.8%
	Denial Rate (Zero Pay & Partial Pay)	≤4%	
	Denial Write-Offs as a Percentage of Net Patient Service	≤2%	≤3%
	Overtaken Denial Rate (Appeals Success Rate)	≥60%	≥40%
	Net Days in Credit Balance	<1.5 Days	<2 Days

# Question

**Which of the following would be beneficial in your financial reports to the Board?**

- A** / KPI's – Key Performance Indicators
- B** / Charts & Graphs
- C** / Comparative Data
- D** / Operational Data linked to financials

# Summary

Gain an understanding of your Board

Plan so you can avoid bad situations

Educate your Board members

Be transparent, concise and visual

Use KPI's or other metrics to support strategy

Focus on quality, not quantity

Make sure your financials are consistent

# Questions?

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