How money falls through the cracks

WASTE AND INEFFICIENCY COMPOUND NATIVIDAD'S PROBLEMS

By ALEX FRIEDRICH
afriedrich@montereyherald.com

It's a classic Natividad tale: A neighbor with health insurance gets sick, goes to the hospital for an expensive procedure. The neighbor never gets billed, and neither does the insurance company.

It may sound strange in an era of tight-fisted insurance companies and relentless hospital bill collectors.

But a three-month Herald review of Natividad-related documents and interviews with hospital personnel, consultants and county Action Committee members shows decades of inefficiencies. They include understaffing, an outdated computer system, tangled bureaucracy and confused governance. The slew of problems has let millions of dollars in uncollected bills simply slip away.

The unmailed bills are just the most extreme example of inefficiencies at the county-owned hospital. Given the shortcomings of Natividad's financial systems, it is impossible to say how many were never processed, but Natividad's new chief financial officer, Tim Nguyen, acknowledged, "There are a number of them."

Just fixing the billing and collection process would save the county from $2 million to $3 million a year, added Chuck Jervis, the hospital's interim chief executive officer.

To be sure, waste and inefficiency are far from the only causes of Natividad's problems. Hospital staffers say chronic underfunding and competition for paying patients are also at the root of it. But the inefficiencies have robbed Natividad of both a reputation as a well-run hospital and of a financial cushion to help it survive hard times.

Here's a snapshot of some of the chronic problems that have handicapped the hospital:

Billing and collections

Typically, a patient visits a clinic seeking treatment. The patient provides personal, medical and insurance information and makes a co-payment as required by the insurer.

After an examination and diagnosis, the patient is referred for further treatment. In a case where surgery is required, clerks again review the patient information, including that from the insurance company. After surgery, the patient recovers in a hospital room and may receive some form of physical therapy before going home.

Hospital coding clerks review the treatments and services and assign each a code, which specifies the type of charge and cost.

After compiling the coded charges, the hospital bills the insurance company for the work of the doctors and for the hospital's services — the bed, nursing, food and so on.

The insurance company may dispute some of the charges and send the bill back. The hospital rechecks and resubmits the bill, and the dance goes on until the charges are settled.

The patient is then billed for costs the insurance company considers the patient's responsibility. Payment comes usually within 50-60 days.

But that isn't how it has worked at Natividad:

➤ Bad information collection

Too often, Nguyen explained, key patient information was missing. Clerks failed to take down a proper address or insurance details, prompting the insurance company in some instances to deny the claim. Even in the cases where the insurer would pay a portion of the bill, the hospital could not track down a patient because they had no address.

The hospital has had no real system to ensure that daytime clerks could process charges for patients who had visited the night before, said Steve Collins, head of the county Action Committee, which spent several weeks looking into the hospital's finances. Many after-hours patients were treated and released without ever filling out the financial paperwork.

"People would show up at 5:10 p.m. because they knew the business office was closed," Collins said.

➤ Doctors' missing paperwork

Busy doctors don't always fill out the required paperwork, Nguyen said. Some fail to record all the procedures they've performed.

They don't have to worry about the paperwork because Natividad doctors are on staff and get a straight salary regardless of how many procedures they record.

At most other hospitals, it's different. Most don't actually employ physicians. They merely act as work stations where private doctors perform some of their services. So after a surgery, the surgeon and anesthesiologist each bill the patient or insurance company directly. The hospital bills for the services it has provided.

Though some doctors have resisted the idea, Collins said, "we need to start to operate like most other hospitals and let physicians perform their own fee services."

➤ No co-pays

A $10 co-payment here or there doesn't seem like much, but it adds up. But, Collins said, some physicians at Natividad feel that some patients can't afford even small co-payments, so they don't collect.

"If someone comes in to have a baby, they should at least be able to pay $25," said Collins.

➤ Incorrect coding

Coding is so complicated that community colleges offer courses in it. If a clerk accidentally codes an expensive operation as a basic procedure, the hospital loses out. In industry terms, it has failed to "capture" enough revenue from the procedure. Nationwide, the estimate is that 5 percent of hospital bills miss some of the charges. Natividad documents indicate that one out of four bills contained errors.

➤ Lack of follow-through

Insurance companies often dispute bills, frequently over what might seem a trivial

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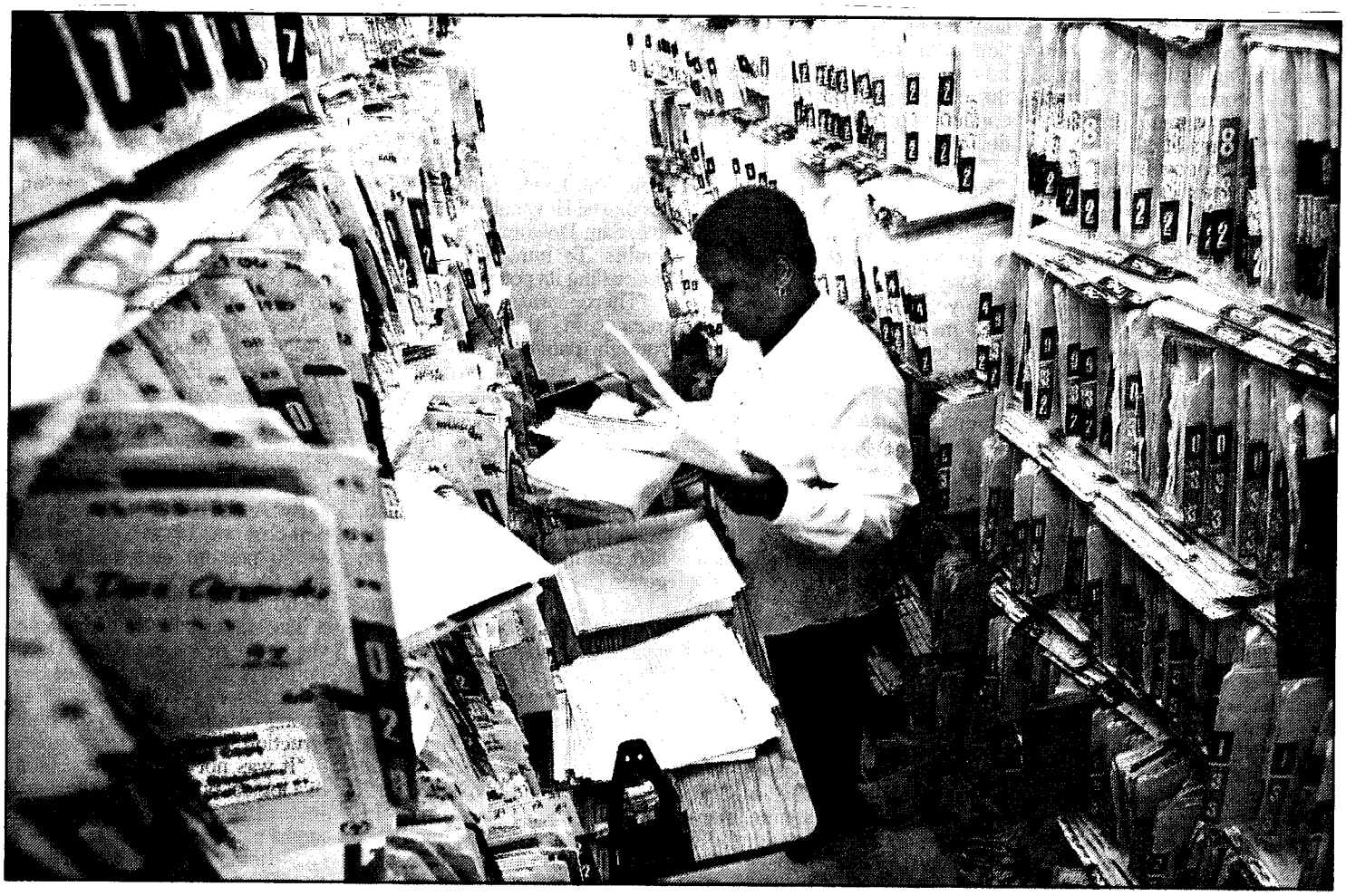
Linda Smidt does filing in Natividad's accounting department.



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Natividad has been chronically understaffed in a number of departments. Here, office assistant Valerie Curry files incoming lab work on patients.

question. Natividad has no mechanism to fight disputed bills, Collins said. It has simply allowed them to collect dust.

The delays have sometimes been so great, that by the time the hospital had gotten around to sending the bills to the state Medi-Cal program, they'd missed the billing deadline.

The best-run hospitals collect payment within 50 to 60 days. Hospital documents show that Natividad's average has hovered around 70 days and has hit 133 days at times. Each day that a bill sat more than 65 days, it cost the hospital an estimated $800,000 in delayed payments, according to a hospital report that reviewed the collection process in May 2002.

Leaving that much in uncollected revenue hurts cash flow. It affects a business' ability to pay its own bills, forces it to pay interest on loans and cuts down on interest it could have earned by banking the money.

Understaffing and turnover

Hospital administrators say inadequate funding from the county has caused understaffing and expensive turnover.

Relatively poor compensation has made it difficult for Natividad to recruit and retain qualified employees. That's especially true for hard-to-fill positions in nursing and radiology. Other area hospitals pay as much as 20 percent more for similar jobs.

Natividad has had to turn to expensive propositions to meet patients' needs: overtime and hiring temporary workers, who may cost 2½ to three times as much as a regular employee.

The hospital also has had a hard time keeping qualified employees in clerical positions. The turnover hurt an already overworked department, leading to more billing mistakes.

Hospital administrators were telling the county " 'We're getting killed here,' but the administration was telling them, 'We've got no money for more staff,' " said Dr. Don Pompan, a Natividad orthopedic surgeon.

Turnover in senior positions also hurt. For more than a year, Natividad couldn't find a business department manager. David Small, the previous CEO, lasted two years. The chief financial officer, Nguyen, has been on the job since March.

Sometimes, Collins said, it has been hard to find anyone to answer basic questions about hospital operations.

Lack of computerization

In a business that requires flexibility and speed to respond to changing market forces, Natividad has been a slug. Facing an increasingly complex web of government funding regulations, clerks and managers have had to do a lot of financial procedures and analysis by hand. That is slow and expensive.

Small said that when he arrived he had no computerized accounting of his employees.

"We didn't know how many positions we had," Small said. "It had to be hand counted. We had to call around. It's stupid."

Many businesses know on any given day where they stand with the budget. Not Natividad.

It couldn't tell whether a problem was a minor annoyance or a major, long-term problem, Small said. And it was too slow to exploit opportunities.

"You've got to know where you are and how to make a correction — now," Small said. "Six weeks later, and it's almost too late."

Lack of solid financial reporting systems has been an obstacle to auditors and others trying to unravel Natividad's problems.

"We had a very difficult time getting relevant information from the past," said Collins, an accountant. "It struck me as odd."

Nguyen summed up the problem this way: "You can not manage what you cannot measure."

Accountability

Lab manager Pat Wainwright's 1979 observation about Natividad's lack of accountability — employees coming and going as they pleased, allowing students to run the department during lunch — wasn't confined to the lab. Natividad managers and doctors say the hospital remained inefficient partly because of a lack of accountability.

Nguyen, the chief financial officer, came from private industry and was used to managers functioning like chief executives of their own departments. They were subject to monthly budget reports.

"If you exceeded budget by more than 3 percent, you had a talk with the CEO," he recalls.

Not so at Natividad. "I don't think they were required to stick to the budget," he said.

While expenditures are now supposed to go through him for approval, Nguyen said some department heads are still signing contracts without his knowledge.

Governance

With Natividad now headed by an interim chief executive, Chuck Jervis, the question naturally arises: Who's in charge?

Is it Jervis or is it the hospital's board of trustees? Or is it the county Board of Supervisors? Or, perhaps, County Administrative Officer Sally Reed?

It's unclear to outside consultants. Even county and hospital officials aren't sure.

"Governance is a mess," Collins said.

Ideally, the elected Board of Supervisors sets the county's broad health-care policy, approves major expenses and new services and approves the yearly budget. Hospital trustees work with the hospital CEO on drafting budgets, approving most expenses and instituting new procedures and plans under the supervisors' guidelines.

But many decisions made by the board of trustees have often gone back to the Board of Supervisors for approval. Chief Administrative Officer Reed has ruffled trustees' feathers as well by essentially vetoing requests to raise salaries.

The uncertain hierarchy prompted previous CEO Small to complain that he had to serve too many masters, each with different priorities.

Supervisor Lou Calcagno agreed: "We have entangled it in bureaucracy — beyond what's normal."

Alex Friedrich can be reached at 648-1172.