

San Joaquin County Clinics (SJCC) Finance Committee  
Minutes of August 22, 2017 Meeting

San Joaquin General Hospital (SJGH)  
Health Care Services (HCS) Conference Room  
French Camp, CA

Present

Rod Place, Chair  
Delani Place, Board Member  
Monica Nino, SJ County Administrator  
Diana Surber, SJCC Interim CFO (WIPFLI/HFS)  
David Jomaoas, SJCC Executive Director  
Ron Kreutner, SJGH CFO  
Greg Diederich, HCS Director  
Margaret Szczepaniak, HCS Assistant Director  
Izidi Alcorn-Starks, SJGH Deputy Finance Director  
David Culberson, SJGH CEO  
La Verne Self, SJGH Deputy Finance Director  
Vanessa Anderson, HCS Management Analyst  
Robert Steele, SJGH Finance/Accounting

The meeting was called to order at 5:03 p.m.

June Financials

Diana Surber presented the following March financials report:

Summary

June's patient visits of 9,017 exceeded budget by 12.5%. Gross Patient Revenue of \$1.5 million was greater than budget by \$134,000 or 9.6%. Negative Net Patient Revenue of \$24.0 million was less than budget by \$26.0 million, primarily due to the unfavorable variance in contractual allowances of \$26.1 million, which is discussed below. Capitation Revenue of \$485,000 varied negatively from budget by only \$8,200 (1.7%). Total Expenses of \$1.4 million was less than budget by \$808,000 (36.4%). The resulting Net Loss of \$25.4 million exceeded the budgeted loss by \$25.2 million bringing the year to date Net Loss to \$32.6 million, exceeding the budgeted loss by \$32.0 million.

Explanations of major variances are explained below.

Revenue

As mentioned above, both visits and Gross Patient Revenue exceeded budget. Negative Net Patient Revenue of \$24.0 million was less than budget by \$26.0 million due to contractual allowances and other deductions from revenue exceeding budget by \$26.1 million.

The contractual allowance reserves include a negative adjustment of \$26.0 million to the Due To / Due From Settlement accounts related to the FQHC government programs. The interim CFO worked with

Finance staff to build an Access model to review the FQHC PPS rate setting and reconciliation settlements based on claim level data and accounting for the state's current audit procedures. The balances in the settlement accounts prior to the adjustment totaled to a \$15.0 million receivable. Based on the model, the actual balances as of June 30, 2017 are estimated as follows:

	(000's)
Due (to) / from — State for Managed Medi-Cal	(\$12,339)
Due (to) / from — State for Medi-Cal Fee for Service	1,258
Due (to) / from — Medicare	<u>49</u>
Due (to) / from — Government Programs	<u>(\$11,032)</u>

Therefore, the following adjustments were made to the Medi-Cal and Medicare settlement accounts:

	(000's)
Correct net revenue for capitation	(\$14,500)
Reverse Medicare settlement receivable	(400)
Book FY14-15 and FY15-16 productivity adjustment	(4,200)
Increase allowance for PPS rate setting audit adjustments	(4,500)
PPS reconciliation reserve	(3,700)
Medi-Cal FFS final rate setting	<u>1,300</u>
Net adjustments to settlements	<u>(\$26,000)</u>

The adjustments to the settlements were partially offset by a favorable adjustment to the current year contractual allowance reserves:

Adjustments to Contractual Allowance Reserves	1,200
Net income / (loss) — FQHC adjustments	<u>(\$24,800)</u>

The adjustments are described in more detail below.

Capitation Revenue - the Health Plan of San Joaquin historically has paid the hospital capitation revenue for physician care in the clinics, which was treated as supplemental or other revenue and was not treated as patient revenue. From July 2014 through December 2016, unfortunately, it was recorded in the same way and was not taken into consideration as a payment towards patient care in the SJCC, which it should have been. As a result, net revenue was overstated by roughly \$14.5 million over the two and one half years period.

FQHC Medicare - The settlement related to FQHC Medicare visits was recorded as a \$500,000 receivable prior to the adjustment. Since the implementation of Medicare PPS (July 1st 2015 for SJGH), Medicare FQHC visits are not cost settled and the only receivable due from the cost reports is reimbursement for vaccine cost, estimated at \$49,000 for the current year.

Productivity - The adjustment needed, for the impact of not meeting the productivity standards to be applied to the Medi-Cal rate setting cost reports, was identified in June 2016 but the adjusting journal entry was inadvertently not booked. The adjustment made in June 2017 includes a \$4.2 million adjustment related to not meeting the productivity standards for fiscal years 2015 and 2016.

PPS rate setting audit adjustments — Net revenue for Medi-Cal and Managed Medi-Cal FQHC visits have been accrued through May 2017 at 90% of the productivity adjusted rate setting cost reports filed with the state. Based on recent developments in the state's procedures to audit these rate setting reports, Wipfli recommends an allowance for audit adjustments of 20% rather than 10% when estimating the impact of the final PPS rates. This resulted in an estimated \$4.5 million increase in the contractual allowances for the three years of FQHC visits. The state has until August of 2019 to complete the rate setting audits.

PPS reconciliations — The estimated additional reserve needed for the PPS reconciliation reports for fiscal years 2015 (filed with the state), 2016 (in process) and 2017 (due in November 2017) is \$3.6 million to allow for uncollected wrap accounts, allocated capitation payments, the possible inclusion of health plan incentive payments and settlement payments made. See Supplemental Schedule 2 following these comments for detail of the reserves by category and year.

Medi-Cal final rate setting — The receivable for the Medi-Cal fee for service FQHC visits upon final rate setting is \$1.3 million.

In June there was a significant write-off of \$426,000 for locum tenens (LT) who were filling in for physician vacancies. CMS allows for paying and billing for locum tenens when they are filling in for physicians absent due to illness or vacations, etc., under the provider's number. However, the LT's were filling in for vacancies where the physician position was vacant. In those situations, billing for the LT's is not allowed. Also, an Accounts Receivable (AR) adjustment of (\$433,000) was made to reconcile the general ledger (GL) balance with the eCW AR report. Capitation revenue of \$485,000 was minimally less than budget by 1.7%.

### Expenses

Salaries & Benefits in total of \$844,000 was less than budget by \$406,000 (32.5%). Salaries of \$559,000 were better than budget by \$320,000 or 36.4%. Benefits of \$285,000 were also favorable to budget by \$87,000 or 23.3%. This was primarily due to the provider vacancies which exist in the clinics listed below. Included in salaries were June Physician Incentives, which totaled \$37,600 — Children's Health Services (\$15,000), Family Medicine Clinic (\$5,300), Primary Medicine Clinic (\$9,600), Healthy Beginnings-California Street (\$2,500), and Healthy Beginnings-French Camp (\$5,200).

Vacancies exist in the following Clinics which are currently being filled by Locums: Children's Health Service = 2.0 FTE, Family Practice Clinic California Street = 1.0 FTE, Primary Medicine Clinic = 2.0 FTE, Healthy Beginning French Camp = 2.0 FTE and SJCC Hazelton = 2.0 FTE, for a total of 9.0 Locum FTE's.

Professional Fees/Registry of \$116,000 exceeded budget by \$106,000 (1051.9%) primarily due to provider vacancies in all of the clinics except Family Medicine and Healthy Beginning California Street. The 9.0 FTE locums used in the month of June accounted for \$190,000. The total Locum cost was incurred for the following: Children Health Services \$61,000, Family Practice California Street Clinic \$28,000, Primary Medicine Clinic (\$44,000), Healthy Beginnings California Street (\$34,000), Healthy Beginnings French Camp \$12,000 and SJCC Hazelton (\$7,000). The credit balances in Primary Medicine Clinic, Healthy Beginnings California Street, and SJCC Hazelton are due to reversal of over accruals identified during year end account reconciliation process. In addition there was \$99,000 of charges for the Interim CFO and Revenue Cycle Consulting Services for services rendered February - June. There were no Locum invoices for Healthy Beginnings California Street in May.

Supplies of \$91,000 exceeded budget by \$5,000 (5.8%). This was primarily due to pharmaceutical expense utilized during the month in the clinics. FMC, HB-CA, and SJCC-Hazelton, in total, exceeded budget by \$47,800; CHS, FPCC, PMC and HB-FC, in total, had a favorable variance of \$19,000. There was also a credit in HB-FC Other Medical Supplies of \$10,200 for returned material.

Purchased Services totaled to a credit of \$44,000, less than budget by \$312,000 (116.4%). Negative balances totaled \$285,000: Children Health Services (\$12,000), Family Practice Clinic California Street (\$72,000), Primary Medicine Clinic (\$112,000), and FQ Admin (\$88,000). These were due to reversal of over accruals identified during year end account reconciliation process. The \$285,000 negative balances were offset by positive balances in Healthy Beginnings California Street (\$34,000), Family Medicine Clinic (\$4,000), Healthy Beginnings French Camp (\$12,000), and SJCC Hazelton (\$191,000).

Depreciation of \$11,700 exceeded budget by \$2,700 (29.4%). This is a result of an audit of fixed assets that was performed in March by the accounting department that resulted in a true up of properly calculating depreciation expense. This variance will continue through the fiscal year end.

Other Expense of \$7,900 was less than budget by \$7,700 (49.4%) primarily due to outside training and travel not utilized during the year as budgeted.

### Accounts Receivable

June's Gross Accounts Receivables (AR) of \$2.0 million was \$1,000 less than May and \$608,000 less than April's AR of \$2.6 million. Average days of revenue in AR is at 41.1, which is down from 41.5 May and down from 54.8 in April. WRAP accounts receivable is \$1.9 million.

The meeting was adjourned at 7:00 p.m.