***University Medical Center of Southern Nevada***
***Governing Board Audit and Finance Committee Meeting***
*September 11, **2014***

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UMC Conference Room I/J
Trauma Building, 5th Floor
800 Rose Street
Las Vegas, Clark County, Nevada
Thursday, September 11, 2014
3:00 p.m.

The University Medical Center Governing Board Audit and Finance Committee met in Conference Room I/J, UMC Trauma Building, 5th Floor, Las Vegas, Clark County, Nevada, on Thursday, September 11, 2014, at the hour of 3:00 p.m. The meeting was called to order at the hour of 3:06 p.m. by Chair Eileen Raney and the following members were present, which constituted a quorum of the members thereof:

## CALL TO ORDER

Board Members:

Present:
Eileen Raney, Chair
Jeff Ellis
Harry Hagerty
Robyn Caspersen (non-voting member)

Absent:
Michael Saltman (Excused)

Others Present:
Stephanie Merrill, Chief Financial Officer
Mason VanHouweling, Chief Operating Officer
John Liston, Director, Purchasing and Contracts
Yolanda King, Clark County Chief Financial Officer
Lisa Logsdon, Deputy District Attorney
Cindy Dwyer, Board Secretary

Chair Raney introduced Robyn Caspersen, a non-voting community representative recently appointed to the Audit and Finance Committee. Ms. Caspersen is a retired audit partner, with 25 years' experience in public accounting.

## SECTION 1. OPENING CEREMONIES

### ITEM NO. 1 PUBLIC COMMENT

Chair Raney asked if there were any persons present in the audience wishing to be heard on any item on this agenda.

Speaker(s): None

**ITEM NO. 2 Approval of minutes of the regular meeting of the UMC Governing Board Audit and Finance Committee meeting on July 17, 2014. [For possible action]**

FINAL ACTION: A motion was made by Harry Hagerty that the minutes be approved as recommended. Motion carried by unanimous vote.

**ITEM NO. 3 Approval of Agenda [For possible action]**

DISCUSSION: None

FINAL ACTION: A motion was made by Jeff Ellis that the agenda be approved as recommended. Motion carried by unanimous vote.

**SECTION 2. BUSINESS ITEMS**

**ITEM NO. 4 Review the results of the Two Midnight Medicare Rule internal audit; and direct staff accordingly. [For possible action]**

DOCUMENTS SUBMITTED: Audit Report – Two Midnight Medicare Rule

DISCUSSION: Rani Gill, UMC/Clark County Audit, provided an overview of the audit on compliance with Medicare's Two Midnight Rule, which places increased standards for documentation to support Medicare reimbursement for hospital inpatient stays. The Rule requires the attending physician's signature on the physician certification and the inpatient order, and the physician must document the estimated time the patient is to stay in the hospital.

During the audit, 20 Medicare inpatient medical records were reviewed. Ms. Gill reported that ten (50%) of those inpatient records did not include sufficient documentation to support billing for an inpatient stay, and would have resulted in non-payment or denial of payment by Medicare, for a total of approximately $370,000 in billing. There are many factors contributing to non-compliance, including the complexities of residents, attending physicians and hospitalists, and the fact that UMC's medical records are a combination of paper and electronic.

Management quickly put measures in place to mitigate the problem, including the development of a self-monitoring procedure to ensure proper documentation is in the record, and on-going training of physicians and staff regarding proper documentation. All claims identified in the audit have been corrected and re-billed as allowed.

CMS recently performed a similar audit of UMC records, and found 50% compliance. It was noted that this is comparable to other hospitals nation-wide. Dr. Brookhyser and Mr. VanHouweling assured the Committee that hospitals are struggling nation-wide to comply with a rule that asks physicians to make a determination that anticipates the patient to stay past two midnights, which contradicts nationally accepted admission criteria. It is likely that as the CMS preliminary audits are conducted across the country and hospitals file protests,

that CMS will find a better way to meet the standard to demonstrate true inpatient need. In the interim, we must comply.

A follow-up internal audit will be performed in six months. CMS will also be conducting a second audit.

ACTION TAKEN: No action taken

**ITEM NO. 5 Receive a quarterly report on the managed care contracts; and direct staff accordingly. [For possible action]**

DOCUMENTS SUBMITTED: Managed Care Quarterly Report – September 11, 2014

DISCUSSION: Rose Coker, Director of Managed Care, provided an update on the status of managed care contracts. One contract has been finalized and many others are being negotiated and should be finalized by the end of the calendar year. The newly created analytics team is looking at the profitability of contracts to assist in negotiating appropriate reimbursement.

With several contracts being negotiated between now and the end of the calendar year, Chair Raney will suggest to the Governing Board Chair that the December meeting be moved out an additional week, to allow time for the Audit and Finance Committee to meet and review managed care contracts in December.

ACTION TAKEN: None.

**ITEM NO. 6 Receive an overview of UMC's liability insurance policies; and direct staff accordingly. [For possible action]**

DISCUSSION: Shaunda Phillips, Director of Risk Management, provided an overview of UMC's liability insurance coverage. She described the many insurance policies UMC purchases to protect its possible risk in a wide variety of areas. Due to some recent changes with overlap coverage by the County, Ms. Phillips will provide an update to the Committee when that information is available. Ms. Phillips explained that UMC uses County-approved broker pools, which then purchase the insurance policies on UMC's behalf.

ACTION TAKEN: No action taken

**ITEM NO. 7 Receive and discuss the executive overview of the final report from Innovative Health Solutions related to the implementation of enterprise-wide IT systems; and direct staff accordingly. [For possible action]**

DISCUSSION: Mason VanHouweling, Chief Operating Officer, and Ernie McKinley, Chief Information Officer, provided an overview of the final report of Innovative Healthcare Solutions. The final report contained 222 observations, findings and recommendations, each with a weight and priority assigned. The report did not emphasize the application; but rather the theme was on education

and training, processes and understanding the functionality of the McKesson system.

As result of the findings, an IT Executive Committee has been established to work with IHS to identify those issues we can remedy ourselves in the short-term, as well as long term issues requiring the engagement of IHS. Where necessary, we will seek a scope of work and cost from IHS. We will are working on a plan to re-educate staff on change management, so we can use the system to its fullest potential. Staff is analyzing resources and needs, and will report back to the Committee in October. Chair Raney asked that the report include a full action plan, including priorities, costs timelines and milestones. Chair Raney also asked that the full report of IHS be made available to Committee members on the Board Portal.

ACTION TAKEN: No action taken

Item No. 11 was taken out of order, following discussion of Item No. 7.

**ITEM NO. 8 Review the critical capital needs recently requested by Clark County for funding consideration; and direct staff accordingly. [For possible action]**

DOCUMENTS SUBMITTED: Capital Requests – Summary Form

DISCUSSION: The County is recommending to the Board of County Commissioners (BCC) to reallocate the unused $20 million of the $25 million loan to UMC for operating capital for the County and UMC. UMC will receive $3.3 million for critical operating capital. Additionally, once UMC repays the $5.5 million spent from the loan, that money would be reallocated for UMC capital as well. Staff updated the existing critical capital list with current needs and submitted that list to the County for the BCC's consideration at their September 15th meeting. Chair Rainey asked that the Governing Board be provided with the list of seven items that will be purchased. She also inquired about the status of the previously requested prioritized capital list. Ms Merrill stated that staff continues to work on the total capital assessment, which includes prioritization based on life safety, end of life, revenue generation.

ACTION TAKEN: No action taken.

**ITEM NO. 9 Receive monthly financial report for June 2014 and year-end financial report for FY 2014; and direct staff accordingly. [For possible action]**

DOCUMENTS SUBMITTED:
- Management Discussion & Analysis, June FY2014 Financials
- Appendix – Key Historical Data
- Financial Statements, June 2014 - Preliminary

DISCUSSION:

Stephanie Merrill, CFO, reviewed the Management Discussion & Analysis of the June FY2014 financials and year over year comparisons. She cautioned the

Committee that the information presented today is based on pre-audit data and does not include Period 13 adjustments.

In response to inquiries from the Committee, Ms. Merrill explained why despite the net deficit being $21.5 million worse than budget, cash collections were 7% better than budget. The main reason for the increase in cash collections is the "catch up" from McKesson system conversion issues, which is temporary. There has also been an increase in Medicaid payments.

There was a discussion about the need to base budgeted cash receipts on expected collections related to budget, rather than the previous year's actual cash receipts. This would result in a more accurate picture. Ms. Merrill stated that the budgeted cash receipts included an expectation of UPL funds, which have not yet been approved. She stated that for the current fiscal year, staff could look at projected net revenues compared to budgeted cash flow.

Ms. Merrill cited the following drivers of the net revenue falling 52% below budget: $23.1 reduction in UPL, $19.1 million reduction due to volume decrease, $11.4 million related to price decreases because of Medicare bundling changes and lower level of acuity, $7.5 million due to changeover from Clark County Social Services to Medicaid, and $2.7 million decrease in DSH payments. With the exception of patient volume, most of these decreases were unexpected and unavoidable.

Patient volume and net revenue per adjusted patient day have declined from FY 2013 to FY 2014. Noting the decreasing patient volume, specifically in the last six months, Chair Raney requested that payer volume of individual managed care payers be addressed in the Committee's next quarterly Managed Care report. She made a note that while staff has addressed the $20 million decrease in subsidy from the County, it has not appropriately addressed the shift in volume. COO Mason VanHouweling informed the Committee that he has executed a plan to manage to patient volume and achieve 100% productivity.

Chair Raney has directed staff to do prepare a "slope of the line" analysis for first quarters of the fiscal year, to help the Committee better understand the financial situation of the hospital.

ACTION TAKEN: No action taken

**ITEM NO. 10 Receive an update from the Chief Financial Officer; and direct staff accordingly. [For possible action]**

DISCUSSION:
Ms. Merrill introduced Hillary McElroy, recently promoted to the position of Controller.

ACTION TAKEN: No action taken

**ITEM NO. 11 Discuss a bill draft request to the Legislature regarding dedicated funding opportunities for UMC; and direct staff accordingly. [For possible action]**

DISCUSSION: Yolanda King, Clark County Chief Financial Officer, reported that County staff has conducted research on dedicated funding sources of safety net hospitals nation-wide. It is the County's recommendation that the Board look at options for UMC other than property tax or funding that requires voter approval.

There was discussion about ideas for revenue sources that would not require voter approval, including surcharges for rental cars and hotel rooms, and taxes on cigarettes, fuel, and firearms, and additional fees for traffic infractions and DUI's. The ability to bond money against any such revenue was also mentioned. There was also discussion about using hospital data as a nexus to justify revenue, i.e., the need for UMC's Level I Trauma center.

The Chair asked that staff look at surcharges in other major cities with high tourism.

ACTION TAKEN: None.

**ITEM NO. 12 Review and recommend for approval by the Governing Board to exercise the option for a one-year extension of services on the Agreement for Physician Professional Services between Ronald L. Casey, M.D., P.C., d/b/a Hospitalist Medicine Physicians of Clark County and University Medical Center of Southern Nevada for hospitalist medical services; and take action as deemed appropriate. [For possible action]**

DOCUMENT SUBMITTED: Letter of Extension from UMCSN to HMP

DISCUSSION: Staff is recommending approval to exercise options for a one year extension from November 1, 2014 through October 31, 2015, for hospitalist medical services, during which time staff can renegotiate the existing contract or develop an RFP. Staff was reminded that when renegotiating existing physician contracts to make adjustments for the change in CCSS patient billing status. Previously physicians could not bill for CCSS patients, but now that these patients have Medicaid, there is an opportunity for physicians to bill and be paid for their services. Because this is a physician contract in excess of $1 million, this extension will require the approval of the Hospital Board of Trustees.

ACTION TAKEN: A motion was made by Harry Hagerty to approve the one-year extension and make a recommendation to the Governing Board to approve and recommend approval by the Hospital Board of Trustees. Motion carried by unanimous vote.

**ITEM NO. 13 Review and recommend for approval by the Governing Board the Agreement for Physician Professional Services between ROP Consortium, LLC and University Medical Center of Southern Nevada for Neonatal Ophthalmology Services on Retinopathy of Prematurity; and take action as deemed appropriate. [For possible action]**

DOCUMENTS SUBMITTED:

- Agreement between ROP Consortium LLC and UMCSN
- Disclosure of Ownership
- Disclosure of Relationship

DISCUSSION: This contract represents a $48,000 savings over previous contract with the same provider.

ACTION TAKEN: A motion was made by Harry Hagerty to approve and make a recommendation to the Governing Board to approve the Agreement. Motion carried by unanimous vote.

**ITEM NO. 14 Review and recommend for approval by the Governing Board the Agreement between Cerner Corporation and University Medical Center of Southern Nevada for Laboratory software maintenance and support; and take action as deemed appropriate. [For possible action]**

DOCUMENTS SUBMITTED:
- Cerner Invoice
- System Schedule between UMCSN and Cerner
- Business Associate Agreement
- Disclosure of Ownership
- Disclosure of Relationship

DISCUSSION: UMC has contracted with Cerner (best in KLAS) since 1996 for the FDA required continuous lab upgrades. Mr. McKinley explained that the regulations require software upgrades of $150,000 every two years, $350,000 in hardware upgrades every third year, as well as annual maintenance of software and hardware, Staff has considered the option of offloading to a remote host, but determined that it was more cost-effective to stay with Cerner. This is a six year contract with reductions after three years to break even, with a five year "out" clause.

ACTION TAKEN: A motion was made by Jeff Ellis to approve and make a recommendation to the Governing Board to approve the Agreement. Motion carried by unanimous vote.

**ITEM NO. 15 That the Governing Board Audit and Finance Committee review and recommend for approval by the Governing Board the Purchase Agreement between Extreme Networks, Inc and University Medical Center of Southern Nevada for network infrastructure; and take action as deemed appropriate. [For possible action]**

DOCUMENTS SUBMITTED:
- Price Quotation
- BCC Agenda items – 9/2/12 and 5/18/10

DISCUSSION: This IT infrastructure replacement is on the critical capital needs list. This purchase will replace one-third of the existing system. The vendor will reduce the price by $400,000 if purchased by month-end.

ACTION TAKEN: A motion was made by Harry Hagerty to approve and make a recommendation to the Governing Board and Board of Trustees to approve the purchasing agreement. Motion carried by unanimous vote.

**ITEM NO. 16 Identify financial issues that have the potential to impact the hospital strategic plan; and take action as deemed appropriate. [For possible action]**

None identified.

**ITEM NO. 17 Identify emerging issues to be addressed by staff or by the Audit and Finance Committee at future meetings; and direct staff accordingly. [For possible action]**

In follow-up to the earlier discussion in Item No. 11 about a designated funding source, it was suggested to staff that they determine what percentage of trauma patient come from out of state, the source of injury, and billed charges. It was also suggested that the Brookings Institute might have information related to tourist volume or revenue opportunities. There will be further discussions at future meetings to create a list of viable options to pursue.

**COMMENTS BY THE GENERAL PUBLIC:**

At this time, Chair Raney asked if there were any persons present in the audience wishing to be heard on any items not listed on the posted agenda.

SPEAKERS(S): None

There being no further business to come before the Committee at this time, at the hour of 5:52 p.m., Chair Raney adjourned the meeting.

APPROVED:

Eileen Raney

Eileen Raney, Committee Chair

ATTEST:

Cindy Dwyer

Cindy Dwyer, Board Secretary