

Instructor Resources Sample

This is a sample of the instructor materials for *Introduction to the Financial Management of Healthcare Organizations, Eighth Edition*, by Michael Nowicki.

The complete instructor materials include the following:

- Test bank
- PowerPoint slides
- Answer guide to the chapter discussion questions
- Answer guide to the book's mini-case studies
- Answer guide to the end-of-book comprehensive case study
- Transition guide to the new edition

This sample includes the PowerPoint slides and answer guides to the discussion questions and mini-case studies for chapter 2.

If you adopt this text, you will be given access to the complete materials. To obtain access, e-mail your request to hapbooks@ache.org and include the following information in your message:

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Digital and Alternative Formats

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Chapter 2

Organization of Financial Management

“One of the signs of excellence in a manager is the ability to anticipate problems, not just to react to them.”

Sir Liam Donaldson, former chief medical officer of
National Health Service, England

Organization of Financial Management

Learning Objectives

- Understand how healthcare organizations are organized
- Understand how chief financial officers receive their authority regarding the financial matters of the organization
- Identify the roles and responsibilities of the key financial managers
- Examine the alternative corporate structures available to healthcare organizations

Introduction

Organizing includes

- Specialization
- Departmentalization
- Defining the span of management
- Defining authority
- Defining responsibility
- Establishing a unity of command
- Establishing the nature of relationships

Introduction

- Most healthcare organizations are organized as legal entities called corporations.
- Corporate status is granted by the state and provides several advantages:
 - Limited liability
 - Continuity of existence
 - Ability to raise capital from investors

Governing Body

- Duty to develop, utilize, and maintain all resources in the organization.
- Executive committee—typically monitors all committees.
- Finance committee—monitors the CEO's performance in financial affairs.
- Audit committee—selects an independent auditor and serves as link between the independent auditor and the board.
- Investment committee—provides investment policy recommendations and monitors actual investment performance against approved investment policy.

Governing Body

Fiduciary duty

- Loyalty – to act in the best interests of the healthcare organization and to subordinate their personal interests to those of the organization.
- Responsibility – to act with reasonable care, skill, and diligence in accomplishing their duties as members of the governing body.

Governing Body

Sarbanes-Oxley Act of 2002, corporate accountability standards (see Appendix 1.1)

- Applies only to publicly held for-profits.
- Several states have established larger audit thresholds for not-for-profits.

Financial Organization

- Richard Scrushy, HealthSouth CEO, was indicted for 85 counts of conspiracy, fraud, and money laundering.
- Scrushy added at least \$2.7 billion in fictitious income to HealthSouth's books during a multiyear conspiracy dating back to 1996.
- Scrushy was acquitted of all federal charges.

Chief Financial Officer

While the governing body delegates financial matters to the CEO, the CEO delegates most financial matters to the CFO.

- In 2019 survey of CEOs by ACHE, CEO's ranked financial concerns as their top concern for the seventeenth consecutive year.
 - Increasing cost of supplies and staff and decreasing Medicaid reimbursement.

Chief Financial Officer

- To establish, coordinate, and maintain an integrated control plan.

Chief Financial Officer

- To measure performance against approved operating plans.

Chief Financial Officer

- To measure and report on the validity of the business objectives and the effectiveness of policies, organization, and procedures in attaining those objectives.

Chief Financial Officer

- To report to government agencies and to supervise all matters related to taxes.

Chief Financial Officer

- To interpret and report on the effect of external influences on the attainment of business objectives.

Chief Financial Officer

- To provide protection for the assets of the business.

CFO Competency Model

- Past Role—Financial Expert
- Competency
 - Technical expertise
 - Results oriented
 - Supervisor
 - Internal focus
 - Risk minimizer

CFO Competency Model

- Present Role—Business Advisor
- Competency
 - Decision support
 - Compliance oversight
 - Coach/teacher
 - Internal/external focus
 - Risk quantifier

CFO Competency Model

- Future Role—Enterprise Leader
- Competency
 - Strategic leadership
 - System influencer
 - Mentor
 - External focus
 - Risk acceptor
- Develop a culture of transparency based on integrity and courage.

Case Study

Suppose you are the chief financial officer of Smithville Hospital and you have recently implemented a budget reduction throughout the hospital. You want to ensure that your actions are accepted among the hospital department managers.

- What would be the best way to communicate with these department managers?
- If there is resistance, what should you do?

What Makes a Good CFO?

- Traits
 - Strategic thinking
 - Ability to adjust to change
 - Personal integrity
 - Vision
 - Ability to be a team player
- Acquired leadership skills
 - Communicate clearly
 - Provide leadership in day-to-day operations
 - Manage resources and finances
 - Build coalitions
 - Create a positive organizational culture
 - Maintain a strong physician relationship

CFO and Accountant Personalities

- Introverted (versus extroverted)
- Sensing (versus intuitive)
- Thinking (versus feeling)
- Judging (versus perceiving)

Controller and Treasurer

Following are the responsibilities of the controller:

- Financial accounting
- Managerial accounting
- Tax accounting
- Patient accounting
- Internal auditing

Controller and Treasurer

Following are the responsibilities of the treasurer:

- Managing working capital
- Managing investment portfolio
- Managing capital financing

Corporate Compliance Officer

Following are the responsibilities of the CCO:

- To conduct compliance reviews
- To investigate potential fraud and abuse problems
- To examine relationships for possible illegal actions

Corporate Compliance Officer

Necessary skills of a CCO:

- Analytical, inquisitive, persistent
- Detail-minded
- Skilled in dealing with people
- Dispassionate, objective
- Discreet
- Strong moral sense

Corporate Compliance Officer

- 69 percent of compliance officers have advanced degrees, including 22 percent with a JD and 58 percent certified in healthcare compliance.

Chief Information Officer

- Responsible for management oversight for all information systems and telecommunication systems in the organization.
- Assisting senior management in using information in management decision making.

Privacy Officer

- HIPAA-mandated by position
- Responsible for the development and implementation of the privacy policies and procedures of the organization.

Security Officer

- HIPAA-mandated by function.
- Responsible for the development and implementation of the security policies and procedures of the organization.

HIM Professionals

HIM professionals should have the following traits:

- HIPAA competency
- Knowledge of how confidential information is used
- Knowledge of how confidential information is disclosed
- Knowledge of information technology
- Knowledge of state and federal laws on information
- The ability to promote unpopular positions

Independent Auditor

- Responsible for “obtaining reasonable assurance that financial statements are free of material misstatements caused by error or fraud.”
- Typically audit the healthcare organization once each year.

Independent Auditor

An audit report is made up of three paragraphs:

- Introductory paragraph
- Scope paragraph
- Opinion paragraph
- Explanatory paragraph (included only if GAAP were not used in preparing the financial statements).

Independent Auditor

Independent auditors use four types of opinions:

- An unqualified opinion
- A qualified opinion
- An adverse opinion
- A disclaimer of opinion—no opinion offered usually due to limited scope.

Internal Auditor

- Employee of the organization, who usually reports to the controller.
- Protects assets from fraud, error, or loss.

Alternative Corporate Structures

- Private Foundation—-independent legal entity set up for charitable purposes such as education, research, or the provision of charity care.
- Parent Holding Corporation—set up to protect assets.
- Independent Subsidiary Corporation—set up to maximize patient care and other operating revenues; usually controls 51 percent of the governing body of the subsidiary corporation.
- Joint Venture—set up by an agreement of two or more organizations identifying capital investment, operating control, and income distribution.

Case Study

Mr. Jones, an 87-year-old widow who lives alone, was admitted to the hospital through the ER for shortness of breath and swollen ankles. After an extensive interview, the admitting physician discovered that Mr. Jones had been admitted two weeks earlier with the same symptoms and had been diagnosed with congestive heart failure. After a four-day stay, Mr. Jones had been transferred to a skilled nursing facility where he had spent three days before being discharged home with a prescription for a diuretic to help reduce fluid buildup. The admitting physician discovered that no one at the hospital or the skilled nursing facility explained to Mr. Jones the importance of maintaining a low-sodium diet. Mr. Jones had attended a grandchild's birthday and had eaten several hot dogs before his latest symptoms appeared.

- Who should be financially responsible for the costs related to Mr. Jones's latest admission?
- Should Medicare, or any insurer, pay for readmissions related to errors in discharge instructions?
- Would it be different if Mr. Jones received instructions for a low-sodium diet but chose to ignore them?

Organizations Designed to Integrate Care

- Integrated delivery system—an organized group of healthcare providers capable of delivering a continuum of care to a defined population while accepting clinical and financial responsibility.
- Physician-hospital organization—a joint venture between hospitals and their medical staffs to accomplish the purposes of an integrated delivery system.
- Accountable care organizations—an organized group of physicians, hospitals, and other providers formally recognized by CMS to provide coordinated care to a defined population of Medicare patients. Recommended by MedPAC and ACA, 1,588 Medicare ACOs were recognized in 2019.

Key Points

- The governing body of a healthcare organization has several duties, including proper development of resources and monitoring of the CEO's performance.
- If a governing body breaches its duty, it may be legally liable.
- The CFO is responsible for financial management of the organization, a responsibility that requires the skills of a supervisor and intrinsic traits.
- The CCO's duty is to ensure that the organization supports the compliance functions.

Key Points

- The CIO is responsible for information processing and telecommunications systems of the organization.
- Other management positions in an organization include the privacy officer, internal auditor, and independent auditor.
- Corporate structures include private foundations, parent holding corporations, independent subsidiaries, and joint ventures.
- Organizations designed to integrate patient care include integrated delivery systems, physician–hospital organizations (PHOs), and accountable care organizations (ACOs).

Discussion Questions

1. How would you explain the meaning of corporate status in relation to healthcare organizations? What are the advantages corporate status provides?
2. What is the role of the governing body? How does the governing body use organized committees to monitor the performance of the CEO?
3. What are the responsibilities of the CFO? What are the characteristics and traits of a successful CFO?
4. Although both the corporate compliance officer (CCO) and the chief information officer (CIO) report to the CEO, what are the primary aspects of their individual roles that distinguish these positions?

Discussion Questions

5. How would you compare the roles of the privacy officer and the security officer?
6. How would you compare the roles of the internal auditor and independent auditor? What must the independent auditor include the audit report?
7. How would you describe organizational models that attempt to integrate patient care, including the differences among them?

Introduction to the Financial Management of Healthcare Organizations
8th edition, by Michael Nowicki
Part I Discussion Questions

Chapter 2

1. How would you explain the meaning of corporate status in relation to healthcare organizations? What are the advantages corporate status provides?

Healthcare organizations represent one, or often more than one, corporation. Corporate status provides several advantages to healthcare organizations: limited liability, continuity of existence, increased ability to raise capital. In for-profit corporations, stockholders are also free to sell their shares at any time.

2. What is the role of the governing body? How does the governing body use organized committees to monitor the performance of the CEO?

The governing body is responsible for the proper development, utilization, and maintenance of ALL resources in the organization. The governing body uses the executive committee to evaluate the performance of the CEO.

3. What are the responsibilities of the CFO? What are the characteristics and traits of a successful CFO?

The CFO is responsible for the following:

- ***Establish, coordinate, and maintain an integrated control plan***
- ***Measure performance against the control plan***
- ***Measure and report on the validity of business objectives***
- ***Report to government agencies and supervise all matters related to taxes***
- ***Interpret and report on the effect of external influences***
- ***Provide protection for the assets of the business***

CFOs tend to have master's degrees, they tend to be CPAs, and many have certification in HFMA.

Important CFO traits include the following:

- ***Strategic thinking***
- ***Ability to adjust to change***
- ***Personal integrity***
- ***Vision***
- ***Ability to be a team player***

4. Although both the corporate compliance officer (CCO) and the chief information officer (CIO) report to the CEO, what are the primary aspects of their individual roles that distinguish these positions?

The CCO is responsible for conducting compliance reviews, investigating potential fraud and abuse problems, and examining relationships and contracts for possible illegal provisions.

The CIO is responsible for providing management oversight to all information processing and telecommunications systems and assisting senior management in using information in management decision making.

5. How would you compare the roles of the privacy officer and the security officer?

Both officer roles are required by the US Department of Health and Human Services and require the officer to develop and implement policies and procedures for the entity. The American Health Information Management Association offers a certification in healthcare security and privacy. A privacy officer is responsible for the development and implementation of privacy policies and procedures. A security officer is responsible for the development and implementation of security policies and procedures.

6. How would you compare the roles of the internal auditor and the independent auditor? What must the independent auditor include in the audit report?

While both are auditors, an internal auditor is an employee of the organization with an ongoing audit responsibility for detecting fraud, error, or loss, while an independent auditor is not an employee and has a periodic responsibility for ensuring that the financial statements comply with GAAP.

The audit report of the independent auditor must include an introductory paragraph, a scope paragraph, and an opinion paragraph.

7. How would you describe organizational models that attempt to integrate patient care, including the differences among them?

The following organizational models attempt to integrate patient care but do so in different ways: The integrated delivery system offers a full range of services and professes to offer higher quality and lower cost; physician-hospital organizations are joint ventures capable of contracting and delivering services to managed care populations; and accountable care organizations emphasize coordinated care and mandate provider accountability.

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Answer Guides to Mini-Case Studies

p. 41—In determining the best way to communicate negative information, it is often best to communicate in person and provide an opportunity for questions. If there is resistance, the manager should be prepared to discuss alternatives that were considered and why the alternatives were rejected. In retrospect, it is desirable for department managers to discover the problem and the potential solutions on their own.

p. 47—In determining the financial responsibility for errors in care, students should explore the concepts of putting assets at risk with substandard care and the assumption of risk (and responsibility borne by the patient).