

The Elements of an ASC Turnaround – Success Stories from the Field

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Background



- A Multi-Specialty Surgery Center – orthopedics, otolaryngology, & dental
- 1,800 cases per year in a small 2 OR facility
- Heavy mix of Blue Cross & insurance cases
- Showing significant loss, nearly bankrupt, had not ever paid dividends
- Bank considering loan foreclosure

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The Diagnostic



- Low revenue per case - based on case & payer mix
- Inaccurate accounts receivable - the center used the cash accounting method and did not track receivables.
- High expenses in certain categories
- No administrative direction
- Undetermined accounts payable since no general ledger
- High debt, inability to pay dividends, risk of foreclosure with the current bank loan covenants

Element One: Perform a financial/operational diagnostic and benchmark against other centers to identify areas of concern.

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The Site Visit



Assess these areas:

- How the business office functions
- How the clinical side functions
- Accounting and Financial Reporting
- Legal and Operations Structure
- On site managers

Element Two: Perform a site visit. Meet with staff, physicians, & managers to understand issues impacting the center.

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Site Visit Findings:

- The center lacked leadership and direction
- Nursing director and business office manager were not capable of functioning even with improved systems
- Former administrator had not paid bills – vendors stopped services
- Good inventory and staffing levels
- Poor payer contracts
- The center had no collector
- MIS system used improperly – unable to track denials
- Accounts receivable difficult to track
- No general ledger – unable to log invoices in order to determine payables

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The Analysis



- Accounting was in flux
- Investors did not receive actual financial statements
- The center needed to reduce expenses

Element Three: Perform a line item analysis of all expenses .

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The Plan

1. Managed Care
2. Collections
3. Coding
4. Accounts Payable and General Ledger
5. Fee Schedule
6. Employees and Bonus Program
7. Supplies
8. Accounting
9. Regular Reporting
10. Expense Control
11. Bank Debt and Raising of Equity
12. Employee Matters
13. Legal Matters
14. Equity Offering



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Details of the Plan

1. Managed Care - Key managed care contracts were re-negotiated to include multiple procedures and implant costs.
2. Reconstruction: Changed Business Manager, Front Office Staff, and Administrative Director.
3. Collections - A front desk collection policy was adopted and charted each day. Payer contracts loaded into MIS system.
4. Coding - A coding audit was performed for compliance purposes. Coding was outsourced.
5. Accounts Payable – invoices entered daily. Staff trained on new General Ledger System.

Element Four : Develop a plan based on initial findings and execute the plan.

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Details of the Plan

5. Fee schedule that better reflects charges in the community. New cosmetic fee schedule adopted.
6. Employees Bonus Program started to allow the employees participation in the success of the surgery center.
7. Supplies costs reduced by affiliating with our firm's group purchasing organization.
8. Accrual Accounting and prescribed closing and reporting standards. Health care accounting firm now provides monthly financials.

Element Four : Develop a plan based on initial findings and execute the plan.

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Details of the Plan

9. Regular Reporting – investors receive balance sheet, cash flows statement, income statement, benchmark analysis and management report.
10. Key areas were identified to decrease expenses and monthly overhead reduced significantly.
11. Raised equity, using the proceeds to reduce debt. Terms of bank debt re-negotiated. Debt guarantees lifted and covenants negotiated.
12. Employee Handbook updated and adopted. Conducted in-services with employees on risk management items.

Element Four : Develop a plan based on initial findings and execute the plan.

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Details of the Plan

13. Legal Matters – Bylaws updated to reflect current regulatory environment. Subscription agreements updated. Investors signed and approved all updates. All shareholders are governed by the same legal agreements.
14. Proceeds from new equity were earmarked to reduce debt. The equity infusion allowed for re-negotiation of the bank loan – the surgery center received more favorable terms.

Element Four : Develop a plan based on initial findings and execute the plan.

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Results

The elements of a turnaround always center on execution of the fundamentals of surgery center operations; and

Successful surgery centers are collaborative efforts between the surgeons, anesthesia, staff, on-site administration and management.

- ✓ The surgery center declared its first dividend to the investors and a bonus to the staff 4 months after the change in management. SCE has increased its dividend each quarter since the initial dividend declaration.
- ✓ The center was able to refinance the credit line and is on schedule to pay off all the debt within four years

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