CASE STUDY

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leveraging scale for value in a decentralized system

University of California Health has found a template for "systemness" success through a shared governance revenue cycle project.

AT A GLANCE

- With the ultimate goal of achieving operational unity, University of California Health (UC Health) began a major initiative to achieve *systemness* by working to improve revenue cycle processes.
- Although the most obvious solution was to centralize the revenue cycle system, this plan was met with resistance in the medical centers, so UC Health worked to find ways to optimize its revenue cycle in a decentralized system.
- Initial projected improvements within revenue cycle were $150 million to $200 million, but the system saw actual increased cash flow in excess of $270 million.

The accelerating movement from small health systems and stand-alone hospitals to large-scale health systems, partnerships, and networks has carried with it the promise of economies of scale, greater clinical integration, improved quality, and sustainable finances. In an era of value-based payment, population health strategies, and seismic shifts in commercial insurance, the promise is closely linked to survival.

Unfortunately, for many organizations, this promise and reality are not converging. Opportunities to reduce operating costs and gain economies of scale can be elusive without close attention to cultural differences among the combined entities. Health systems often contend with differing investments in technology, widely varying patient populations and payer mixes, inconsistent procurement practices, management resistance to change, and other issues, and they often react by frantically cutting staff and services to get out from under operating losses instead of carefully crafting new, truly integrated organizations.

One system that faced such challenges is University of California Health (UC Health). The health system determined that declining commercial payments, flat government payment, and a projected 6 percent year-over-year increase in operating expenses could add up to a shortfall of $1 billion by the end 2020.

UC Health understood that efforts to change this picture would be complicated by the nature of its health system. The organization comprises five complex academic medical centers sprawled across thousands of square

miles—each with its own unique organizational structure, business objectives, technology, patient populations, payer mix, and culture, with few unifying commonalities. A brief overview of the health system is shown in the sidebar below.

A new initiative, however, has helped UC Health improve its revenue cycle processes to mitigate this shortfall.

Leveraging Scale for Value

The management structure of UC Health makes it difficult for leadership to effect change, because the executive vice president and CFO of the health system do not have a line-reporting relationship to the campuses.

In 2014, however, a directive came from Janet Napolitano, president of the University of California, that the healthcare enterprise needed to act like more of a system if it was going to survive new market forces. The system, Napolitano said, needed to leverage economies of scale in a way that would recognize the unique nature of the individual campuses but deliver needed efficiencies.

UC Health at a Glance

UC Health operates six medical schools and five academic medical centers with an operating income of $9.7 billion. Its facilities include the following:

> UC Davis Medical Center, a 632-bed quaternary-care referral hospital serving a population of 6.2 million over a 65,000-square-mile service area
> UC Irvine Medical Center, a 411-bed facility serving as a major tertiary referral for Orange County, and the region's only Level I trauma center
> UCLA Health, which includes the 466-bed Ronald Reagan UCLA Medical Center in Westwood, the 265-bed Santa Monica-UCLA Medical Center and Orthopedic Hospital, and the 74-bed Resnick Neuropsychiatric Hospital
> UC San Diego Health, with campuses in Hillcrest and La Jolla, representing a combined 563 beds
> UC San Francisco Medical Center, which includes Moffitt-Long Hospital, Parnassus, UCSF Mount Zion Hospital, and UCSF Benioff Children's Hospital Oakland, for a total of more than 1,000 beds

The goal of the initiative, known as "Leveraging Scale for Value," was to save at least $150 million a year through efficiencies in supply chain, revenue cycle, clinical laboratories, and information technology.

The most successful piece of the program to date is the work on UC Health's revenue cycle. That work is now seen as a template for future performance improvement across the health system.

Industry best practices indicate that the greatest opportunity for revenue cycle improvements lays in the centralization of revenue cycle processes. This idea, however, was met with strong resistance from UC Health's medical center CFOs. In response, health system leadership challenged those CFOs to find a solution. The CFOs responded by showing that local optimization and improvements could, indeed, be more effective than a centralized approach. Although a few services may be regionalized eventually, this step is expected to generate only a comparatively modest share of the overall savings.

To begin this work, UC Health's CFOs pursued a comparative analysis of revenue cycle performance that included more than a dozen peer academic health systems across the United States. Specifically, the following areas were evaluated:

> Individual entity performance
> Ownership of revenue cycle functions
> Cultural variances and sensitivities
> Operational consistencies
> Technology platforms
> Human resource considerations
> Space/logistics considerations
> Risks and dependencies to time

Key questions health systems might ask as they gather similar information are listed in the sidebar on page 4.

The review's main finding was that UC Health's performance as a system was difficult to assess because each medical center was using its own data sources, processes for driving metrics, and methods of compiling metrics.

A COMPARATIVE ANALYSIS OF OPERATIONAL PERFORMANCE IN REVENUE CYCLE MANAGEMENT AT UC HEALTH'S 5 CAMPUSES

		Opportunities by Revenue Cycle Area				
Medical Center		**#1**	**#2**	**#3**	**#4**	**#5**
Category	**Near-Term Priority**	**Stabilize**	**Optimize**	**Optimize**	**Optimize**	**Convert**
Patient Access	Insurance Verification	High	Minimal	Moderate	Moderate	Minimal
	Financial Counseling	Moderate	Minimal	Minimal	Minimal	Minimal
	Point-of-Service Collections	Moderate	Moderate	Low	Moderate	High
Service Delivery	Case Management	Low	Minimal	High	Minimal	Moderate
	Health Information Management	Moderate	Minimal	Minimal	Minimal	Minimal
	Charge Capture	High	Moderate	Moderate	Moderate	Moderate
Patient Financial Services	Billing	High	Minimal	Minimal	Minimal	Minimal
	Collections	High	Moderate	Moderate	Minimal	Minimal
	Cash Posting	Moderate	Minimal	Minimal	Low	Minimal
Overall Revenue Cycle	Denials Management	High	Moderate	Moderate	Moderate	Moderate
	Vendor Management	High	Low	Minimal	Moderate	Minimal
	Metric Reporting	Moderate	High	Minimal	Moderate	Minimal
	Productivity and Quality	High	High	Minimal	Moderate	Low

Source: Huron Consulting Group.

The analysis also found that opportunities for improvement varied widely by revenue cycle area and by medical center, as shown in the exhibit above. At UC San Diego, for example, where there had been considerable management turnover, the opportunities were greater across the board.

The findings helped to drive a strategy that involve two work streams—establishing a baseline for optimized performance and implementing a consistent operating model for standardized performance—to leverage economies of scale via shared services models.

From Strategy to Action

To put this strategy in motion, UC Health focused on three key areas.

System governance and stakeholder engagement. A new revenue cycle governance structure, with representation from all five medical centers, was created to function as the decision-making authority. An executive steering committee and a revenue cycle governance council were created, with appointed leadership coming from within the health system.

Change management support. A team was assembled to do the detail work of implementing change and maintaining momentum at both the medical center and health system levels.

Transparency and standardization of metrics. UC Health established benchmarking objectives and consistent standards for measuring revenue cycle performance. The result has been "virtual consolidation" through common measuring sticks (e.g., accounts receivable days, verification rates, billing backlogs, follow-up performances, late charges), which established a baseline for performance evaluation.

From there, the initiative turned to the processes at the individual medical centers. Eleven work streams were created to provide a standard methodology for key components of workflow and staff management to ensure consistency across all functional areas and regional facilities, while implementing leading practice processes.

Examples include preregistration, insurance verification, billing, collections, vendors, and denials.

It was determined that the initiative would unfold in four phases:

> Develop a strategy (requiring an assessment of opportunities)
> Create an action plan (requiring a road map to be defined for each of UC Health's medical centers)
> Implement the plan at all five medical centers
> Identify options for long-term sustainability

In assessing each opportunity and defining the recommended road map for UC Health's medical centers, the team adhered to the following principles:

> Preserve each center's mission of high-quality education, research, and patient care.
> Identify and stratify opportunities based on estimated financial return, risk to current operations, organizational readiness, and speed to implementation.
> Use local strengths and best practices to promote recommended changes across the system.
> Create an environment that encourages collaboration and consistency.

Key Questions for Achieving Systemness

Here are some key questions to consider regarding the creation of *systemness* within a health system's revenue cycle:

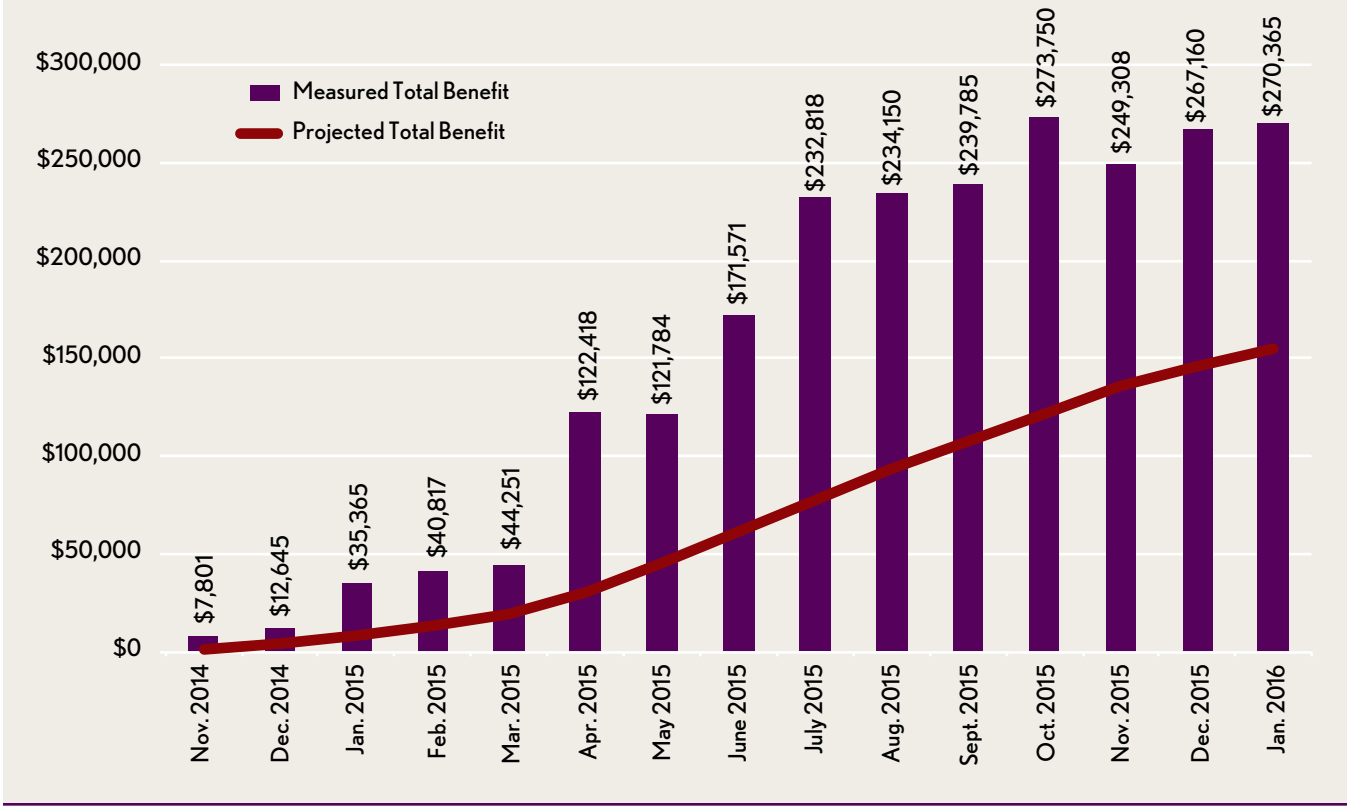
> Is the organization's governance or decision-making structure clearly defined and flexible enough to meet the need for rapid change?
> Are there significant differences in performance levels among areas of the revenue cycle?
> Is the vision of optimal revenue cycle performance shared at all levels of the organization?
> Are communication pathways being used regularly and often to inform, direct, and hold employees accountable?
> Do processes and accountability measures vary across the organization?
> Is the organization considering new payment models that require increased coordination between the business areas?
> Is there a clear view of overall payer and vendor performance or root causes of denials?

One early key to success was the conscious commitment to make decisions incrementally. Smaller, frequent decisions build momentum for change and reduce the magnitude of change management. For example, efforts to achieve the goals of improved consistency, transparency, and availability of data and metrics began with the development of a single system dashboard containing only five metrics that all medical center leadership agreed were important to track, leaving development of long-term, systemwide metrics to a later date.

Another important aspect of this process has been the attention paid to the success of the groups committed to developing and implementing improvements. The executive steering committee has conference calls twice monthly and occasional onsite meetings. The revenue cycle governance council also meets twice monthly and reports the meeting results to the executive steering committee. The new structure establishes majority rule in adopting systemwide practices. As the revenue cycle council identifies a new policy or procedure they want to create or adopt within their span of control, members discuss among each other and then present the policy to the executive steering committee for a vote. Four of the five campuses must agree for the new policy or procedure to be adopted systemwide. For example, leaders recognized that the definition and implementation of performance standards across business offices was inconsistent. After the governance council agreed to productivity and quality standards for specific roles in the business office, it was approved by the executive steering committee and rolled out to the organization with clear expectations and buy-in.

Because the decision-making process was essentially turned over to these groups, it was imperative that the key players establish a leadership culture of trust. The office of the president had to trust that the CFOs would be passionate enough about the project to see it through for years and maintain the respect of the governance process and each other. Leadership needed to set clear goals and provide resources

UC HEALTH TRENDED TOTAL BENEFIT



Note: Original benefit range is $143 million to $199 million.
Source: Huron Consulting Group.

and support, and then let those charged with performing the work do so without interference. It is this decentralized leadership process that distinguishes UC Health's initiative from other change management programs and is key to the project's success. The medical centers were brought together on this complex project through creation of the position of system director of revenue cycle.

To be able to lead this complex, high-stakes initiative, the five medical center CFOs also had to establish trust and collaboration with their revenue cycle staffs. Although the CFOs were concerned about the consequences of a potential failure of the initiative, they made a coordinated effort to address the concerns of revenue cycle managers.

Another important aspect of bringing the medical centers together was the use of a common electronic health record (EHR) system. Four of the five campuses are using the same EHR, and the fifth is in the process of joining them. Other common IT solutions are likely to follow as UC Health continues its mission to become a cohesive health system.

Results

Initial high-level projections highlighted $150 million to $200 million in potential savings or additional revenue across the system. They included the following elements:

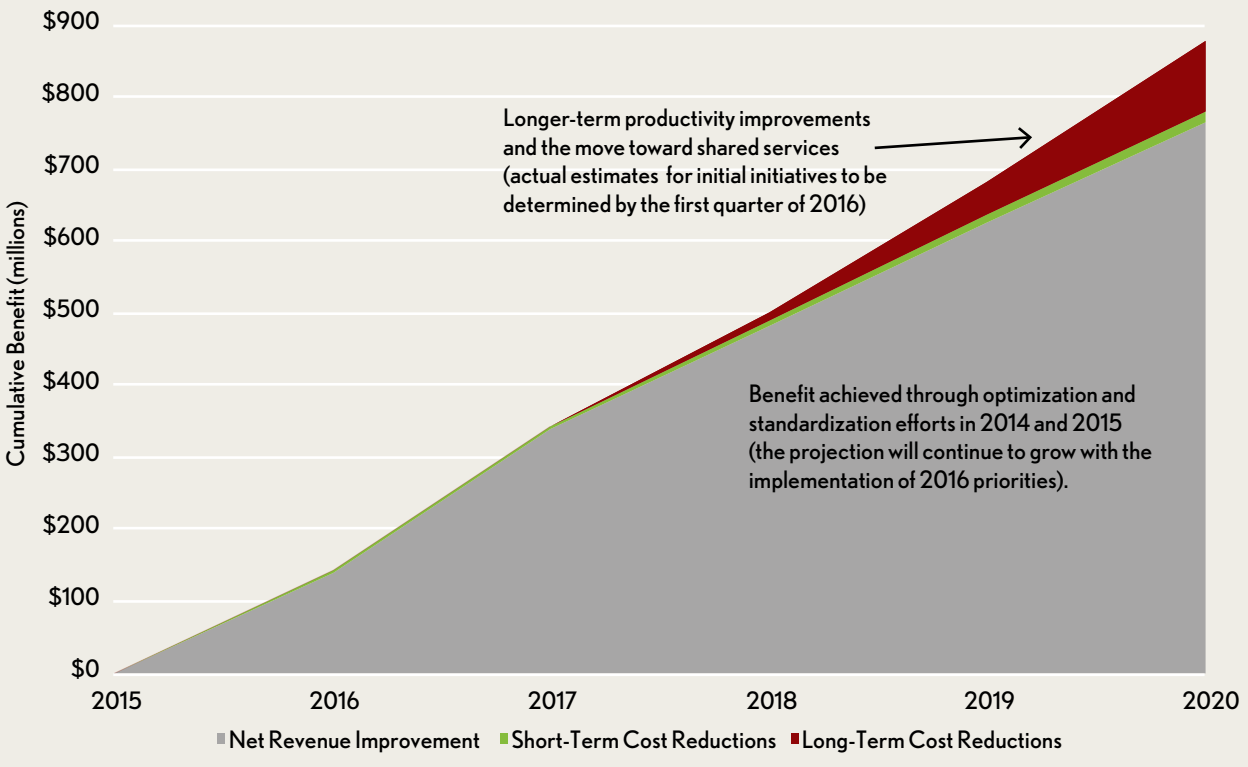
- A one-time $80 million cash benefit if all five campuses could reduce accounts receivable days to match the statewide average of 54
- A recurring $10 million to $20 million in efficiencies if the health system could reduce

revenue cycle operating expense by 5 to 10 percent—increasing labor productivity and negotiating more favorable vendor contracts
> An additional $100 million per year in cash from reducing claim denials by 1 to 2 percent

To the surprise of many leaders, by January 2016, UC Health saw its overall cash flow improve by $270 million systemwide—far more than was projected—including $55 million in one-time benefit and $215 million in recurring benefit. The exhibit on page 5 provides a comparison of the projected benefit with actual measured benefit. The exhibit below shows the projected benefit for the next several years. Performance across the health system continues to improve with October 2016 showing $341 million in overall cash flow including $67 million of one-time cash and $274 million in recurring benefit.

In 2016, UC Health began five new initiatives, with each medical center taking the lead on one project, to continue its work toward building a cohesive health system. The initiatives are focused on:
> Increasing point-of-service collections and developing a system to more readily identify charity write-offs versus bad debt
> Improving customer service, especially through call centers (automating simple processes such as bill pay so operators can be freed up to handle the harder questions and improve the patient experience)
> Identifying and contracting with a vendor to improve self-pay collections
> Engaging current low-dollar collection vendors to improve net benefit either through increased collections or lower vendor fees
> Improving the registration process to reduce registration-related denials

UC HEALTH REVENUE CYCLE INITIATIVE BENEFIT MEASUREMENT



Source: Huron Consulting Group.

As of October 2016, 25 percent of total opportunity provided by these initiatives had been achieved and three new initiatives started, including:

> Ensuring point-of-service policies across the health system are enforced, leveraging analyses to support areas of focus
> Tracking monthly data consistently to highlight areas of remaining focus for registration quality
> Investigating the benefit of adding additional, low-dollar vendors to increase competition and thus improve performance

Looking to the Future

As UC Health continues its efforts to improve its revenue cycle performance, a key challenge will be sustaining the momentum of governance, methodology, processes, and culture of accountability. The health system envisions achieving $587 million to $783 million in savings over next five years through local and enterprisewide revenue cycle operational enhancements. The health system is working to identify the best strategy to achieve this larger goal, as it is predicated on some level of consolidation—the very issue that led to the shared governance model in the first place. One possibility is creating a streamlined shared services structure for the revenue cycle, with the medical center directors reporting to the system director. A similar model has been suggested by the CFOs.

In the long run, as the medical centers continue to collaborate and identify best practices, there may be an opportunity for a specific medical center to take on certain functions for the health system—for example, HIM coding staff. However, at this point, each of the medical centers can benefit most from sustaining the gains made, identifying additional local opportunities, and standardizing across the system.

UC Health also is looking to replicate its model of revenue cycle change management in other areas to find the needed savings—for example, supply chain and procurement. Decentralized governance of change also could prove beneficial for labor spending and IT, two areas that have proven challenging. The success of the revenue cycle project provides insight and key questions for UC Health as it looks to further its unique sense of *systemness*. ■

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