

**CPR . . . A Breath of Life
(Cash Problems Recovery)**

A Report on Mendocino Coast Health Care District
May 24, 2007

Summary

The 2006/2007 Mendocino County Grand Jury conducted an oversight of the Mendocino Health Care District (District). The District owns and operates the Mendocino Coast District Hospital (MCDH), which provides a full range of medical services including ambulance service and outpatient support for Fort Bragg and the north Mendocino Coast.

MCDH's profitability has continually declined over the last three to five years as the result of a number of external and internal factors. MCDH was severely impacted by the Georgia Pacific Mill closing and the reduction of the fishing and logging industries. In response to the financial climate, the District asked their constituents to approve a parcel tax measure in 2004 which did not pass.

Finances continued to decline which ultimately resulted in a loss in excess of five million dollars (\$5M) for fiscal year 2005/2006. MCDH is currently in default on some of its loan agreement covenants because of its operating losses. At this time it is putting forth maximum efforts to pursue options to increase revenues, put cost controls in place, and increase cash flow through better management of its revenue cycle functions.

MCDH received Critical Access Hospital (CAH) status in the Fall of 2006. Under similar circumstances, other hospitals with CAH status are able to maintain an adequate revenue stream. However, MCHD's past allocations and mismanagement of funds resulted in a decrease in overall revenue. Interim financial reports to the Board of Directors (BOD) were often misrepresented. State and Federal standards for handling charity and bad debt are burdensome but do not appear insurmountable, or have a great affect on the bottom line.

In 2006, the BOD accepted the resignations of the previous Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The BOD has hired new senior management (CEO and CFO) who are implementing appropriate corrective measures. The new programs and directions provided by the CEO and CFO are having an effect, and the financial picture of MCDH appears to be turning the corner. The full impact of the new programs and directions on financial solvency will most likely not be realized for another five years or so. Success will require the joint efforts of a dedicated community and MCDH working together.

Background

The Mendocino Coast Health Care District is a special district of the State of California formed by a vote of the District's constituents in January 1967. The District encompasses an area of approximately 680 square miles serving a population of 20,000-30,000 persons.

MCDH is licensed by the California Department of Health Services and accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and the Center for Medicare and Medicaid Services as a 25-bed CAH. It is located in the City of Fort Bragg which is approximately 60 miles from the next closest full-service hospital. MCDH provides emergency, inpatient and outpatient services, healthcare education, and is designated as the sole community provider for Medicare reimbursement.

The Mendocino Coast Hospital Foundation (MCHF) is a non profit organization separate from the District and MCDH. It was established in 1984 for the benefit of the hospital. In its 22 years of operation, the annual gifts to MCDH have totaled over \$3,500,000.

Methods

The Grand Jury conducted numerous site visits and reviewed relevant documents including BOD minutes, budget, financial reports, and audits. It interviewed Board members, medical, management and staff personnel.

The Grand Jury oversight investigated and assessed the current status and direction of MCDH operations, and did not attempt to address in detail or place blame for previous financial conditions. The primary focus of this oversight is on the current administrative and financial management of hospital operations, as MCDH is already highly documented for its medical care and delivery.

Findings

1. The District opened a 54 bed MCDH in June 1971.
2. Over time the number of beds had been reduced to 49.
3. The previous CEO did not support reducing the number of beds necessary to obtain CAH status.
4. CAH limits the number of beds to 25 maximum.
5. Historically, the average MCDH bed usage was about 18.
6. The current CEO and CFO were hired in the Fall of 2006.
7. The MCDH received CAH status in the Fall of 2006.
8. The MCDH staff consisted of 295 full and part-time employees at the end of February 2007.
9. MCDH is a union facility with a generous benefit package for employees. Wages and benefits account for nearly 60% of total budget costs.

10. The MCDH five-member BOD have varied backgrounds in business or health care.
11. CAH Medicare reimbursement is 100% of cost plus 1% profit allowance. Non-CAH Medicare reimbursement is approximately 33% of billed charges.
12. CAH status and its billing reimbursements has the potential to improve revenue and cash flow.
13. Capital Reserves have been substantially depleted.
14. Cash flow continues to be a major issue.
15. Mishandling of billing issues by the business office greatly impacted MCDH's overall cash flow position.
16. MCDH conversion to a new computerized accounting and billing system program is complete and operational. The system has made reports and billings more timely and accurate.
17. Patient billings (Accounts Receivables) now take approximately 44 days to receive payment, which is within Healthcare industry standards. Prior to the recent changes in management, the length of time to receive payment took as long as 60-90 days.
18. The hospital generally pays outstanding invoices and obligations (Accounts Payables) in approximately 90-120 days. Healthcare industry standard is 45-60 days.
19. MCDH currently owes between \$4-4.3 million. MCHD projects that it may take a number of years to bring its Accounts Payables in line with industry standards.
20. The most recent independent audit indicates a loss of over \$5 million for fiscal year 2005/2006.
21. The audit found that many 2005/2006 interim financial reports were misrepresented to the BOD. The reason is not readily evident.
22. Accounts Receivables was often overstated. When this money was not received, cash flow was greatly impacted and MCDH was unable to pay its bills on time.
23. The audit made a note about a "going concern of uncertainty". This uncertainty indicates a red light regarding the recent considerable operating losses and a need to increase revenues, put cost controls in place, and increase cash flow through better management of revenue.
24. In addition to the annual audit, the BOD now requires a quarterly review by an independent C.P.A.
25. There is no apparent evidence of any malfeasance on the part of any previous senior administrators.
26. The MCDH CEO sets the tone and style of empowerment and accountability for hospital operations.
27. The previous administration and the BOD had different visions regarding the future direction for MCDH. The CEO and CFO envisioned growing hospital services and maintaining the 49-bed license.
28. The BOD has the authority to approve the budget, external contracts, and staff appointments with guidance and recommendations from the CEO.
29. In the interest of providing a higher level of transparency, the BOD reorganized committee structure from 'Committees of the Whole', i.e. BOD members only, to ones with broader community members' involvement.

30. MCDH is currently pursuing options to increase revenues, initiate cost controls, and increase cash flow through better management of revenue cycle functions.
31. MCDH plans to acquire the Mendocino Medical Associates Rural Health Clinic License to create a MCDH Hospital-Based Rural Health Clinic (RHC).
32. Operation of a Hospital-Based RHC in connection with CAH status is projected to result in higher reimbursements for both patient treatment and physicians' compensation.
33. The Hospital-Based RHC will provide a new revenue stream, with containment and reduction of associated management costs.
34. MCDH projects a breakeven operation within five years with the implementation of the new management, tighter financial controls, CAH status and the RHC.
35. MCHF is embarking on a community-wide capital fund raising campaign.

Recommendations

The Grand Jury recommends that:

1. the BOD together with the CEO continue to perform their duties in a totally transparent manner. They must take a strong positive leadership role and exercise diligent oversight for all decisions regarding the future operations of MCDH.
2. the BOD assure that financial controls implemented by the new management team continue. Both BOD and new senior management pursue all options for increasing revenues while putting cost controls in place, to increase cash flow.

Comments

The financial stability of MCDH has been seriously impacted by the closures of the Georgia Pacific Mill, reduction in the fishing and logging industry on the Coast, and combined with reductions in various reimbursement rates. This, together with apparent internal management problems, had left MCDH on the door of bankruptcy.

It appears the BOD relied too heavily on the opinions of the previous CEO in their policy decisions. The previous CEO had a different vision for the future of MCDH, regardless of whether holding that position might ultimately negatively affect MCDH's bottom line.

MCDH had to look at other alternatives for solving the serious financial problems after the failure of the parcel tax measure. The citizens of Fort Bragg and the north Mendocino Coast could face the loss of this vital health care delivery system if the financial situation did not materially improve.

The BOD removed previous senior management and retained a new CEO and CFO. The new administration has a positive vision on how to solve the financial issues and continue operation of this important community asset. The turn around has begun as their vision and programs are put in place. MCDH is by far not out of the

woods; it will take a number of years to fully realize a breakeven, if not a profitable, position.

The community itself is equally an important player in maintaining the financial stability of MCDH. MCDH is highly regarded for its medical care and delivery. However, all the adverse discussions concerning its financial condition have tainted community respect and opinion. This respect must be re-earned.

It is important that MCDH BOD, management, and staff operate with total transparency and include the community at every level of decision-making processes. Conversely, the community as a whole must fully and completely support MCDH by using them for their healthcare needs as opposed to going out of the area. Together, they are interdependent on one another to sustain and promote this necessary vital healthcare asset for Fort Bragg and the north Mendocino Coast.

Required Responses

Board of Directors, MCDH (All Findings; All Recommendations)

Requested Responses

Board of Directors, Mendocino County LAFCO (Findings 1-2, 6, 13-14, 25, 28, 32-33; All Recommendations)