

The Board's Role In Financial Oversight



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Two General Functions of the Board in Financial Oversight

1. Approval: Operational budgets, capital budgets, non budgeted items, and turn around plans.
2. Monitoring: Are the approved items being implemented? Financial statements, audits, and board reports.

Part 1

Approval

April 25, 2021

- Section 1: Review Board Basics.
- Section 2: Operating Budgets.
- Section 3: Capital Budget and Approval of Non-Budgeted Items.
- Section 4. The Role of the Finance Committee.
- Section 5: Case Studies/Questions and Answers.

Part 2

Monitoring

May 23, 2021

- Section 1: Understanding Financial Statements.
- Section 2: Financial Audits.
- Section 3: Case Studies/Questions and Answers.
- Financial turn around plans will be presented in the session titled “The Board's Role In Planning”.

Learninig Objectives

The Board members understanding of:

1. the components of financial statements
2. how to analysis a financial statement
3. the reasons for a financial audit
4. the potential types of audit findings
5. how the board processes an audit

Financial Reports

Financial Statements Components

- Balance sheet/Statement of financial position
- Income statement/Statement of financial activity
- Cash flow statement
- Notes

Statement of Financial Position/Balance Sheet

- An overview of the assets, liabilities and past gains/losses as a snapshot in time.

- Balance sheet formula:

For Profit Organizations:

$$\text{Assets} = (\text{Liabilities} + \text{Stockholders Equity})$$

For Not For Profit Organizations:

- $\text{Assets} = (\text{Liabilities} + \text{past gains/losses})$

Income Statement/Statement of Financial Activity

- A view over a specific period of time of the financial performance of the organization.

Notes

- Explain in more detail the entries on the financial balance sheet and the statement of financial activity.

Cash Flow Statement

- Measures how well the organization generated cash to pay for its' obligations.

Minimum Board Approach

1. Require numbers that you can compare.
2. Ask questions until you understand.
3. Use the Finance Committee.

**PURSLEY ADVENTIST HOSPITAL
STATEMENT OF FINANCIAL ACTIVITY
AS OF 31 Jul. 2015**

	CURRENT MONTH	YEAR TO DATE	YTD BUDGET	PRIOR YTD	YTD BUDGET VARIANCE
REVENUE					
INPATIENT	1,200,000	5,000,000	4,500,000	4,600,000	500,000
OUT PATIENT	400,000	1,200,000	1,300,000	1,250,000	-100,000
GIFT SHOP	50,000	100,000	95,000	96,000	5,000
INVESTMENT	50,000	200,000	195,000	195,000	5,000
TOTAL REVENUE	1,700,000	6,500,000	6,090,000	6,141,000	410,000
EXPENSES					
SALARIES	250,000	1,000,000	955,000	945,000	45,000
BENEFITS	125,000	500,000	495,000	496,000	5,000
SUPPLIES	600,000	600,000	400,000	385,000	200,000
OTHER	20,000	100,000	105,000	104,000	-5,000
TOTAL EXPENSES	995,000	2,200,000	1,955,000	1,930,000	245,000
NET INCOME	705,000	4,300,000	4,135,000	4,211,000	165,000

FINANCIAL REPORTS

FIVE LEVELS

- LEVEL 1: HOSPITAL
 - Statement of financial position
 - Statement of financial activity
 - Working Capital
 - Notes
- LEVEL 2: DEPARTMENTS (including volumes)
- LEVEL 3: SERVICE/PRODUCT LINES
- LEVEL 4: PAYERS
- LEVEL 5: PAYER BY SERVICE/PRODUCT LINE

PURSLEY ADVENTIST HOSPITAL
STATEMENT OF FINANCIAL ACTIVITY
AS OF 31 Jul. 2015
Laboratory Department

	CURRENT MONTH	YEAR TO DATE	YTD BUDGET	PRIOR YTD	YTD BUDGET VARIANCE
REVENUE					
DRUGS	80,000	330,000	320,000	300,000	10,000
TOTAL REVENUE	80,000	330,000	320,000	300,000	10,000
EXPENSES					
SALARIES	15,000	60,000	20,000	18,000	40,000
BENEFITS	7,500	30,000	10,000	9,000	20,000
SUPPLIES	480,000	480,000	240,000	490,000	240,000
OTHER	2,000	5,000	5,000	5,000	0
TOTAL EXPENSES	504,500	575,000	275,000	522,000	300,000
Contribution	-424,500	-245,000	45,000	-222,000	-290,000

Lab Volumes

	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan	Feb	Mar	Apr	May	Jun	Jul
Lab Tests Inpatient	159	207	152	121	279	176	201	85	50	148	161	142	85	114
Lab Tests Outpatient	78	63	93	72	89	63	53	59	66	71	85	64	28	45

Financial Analysis

Step 1: Produce a **complete** **timely** **accurate** financial statement.

Step 2: Explain the differences.

Step 3: Do Comparisons.

Step 4: Determine the problem.

Step 5: Ask yourself: Now what?

Case Exercise

- Analyze the following hospital financial statement.
- What is(are) the primary problem(s) to be solved?
- How would you solve them?

Step #1

Produce a complete timely
accurate financial
statement.

Pursley Hospital

Balance Sheet as of Dec. 31, 2012

	Dec. 2012	Dec. 2011
Current Assets		
Cash and Bank (Note 1)	173,000	7,906,000
Investments (Note 2)	20,655,000	8,556,000
Accounts Receivable (Note 3)	71,559,000	64,762,000
Inventory	2,050,000	2,688,000
Total Current Assets	94,437,000	83,912,000
Property and Equipment	93,000,000	70,000,000
Total Assets	187,437,000	153,912,000
 Current Liabilities		
Payables (Note 4)	6,314,000	7,153,710
Notes payable Current (Note 5)	10,720,000	4,620,000
Total Current Liabilities	17,034,000	11,773,710
Long Term Liabilities (Note 6)	40,866,000	17,230,000
Total Liabilities	57,900,000	29,003,710
Past Gains(Losses)	129,537,000	124,908,290
 Fund Balance	187,437,000	153,912,000

Current Assets: Assets that can be conveniently sold, consumed or used through standard business operations with one year.

Current Liabilities: Amounts due to be paid within 12 months.

Pursley Hospital

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Pursley Hospital

Statement of Financial Activity

	Dec. 2012	Budget	Dec. 2011
Revenues			
Inpatient Revenue	14,676,000	29,578,000	31,296,000
Professional Fees	3,620,000	0	7,582,000
Outpatient Revenue	13,128,000	17,800,000	12,916,000
Donation Income	5,600	0	11,760
Investment Income	127,400	1,000,000	-284,000
Other Income	434,000	0	0
Total Revenues	31,991,000	48,378,000	51,521,760
Expenses			
Salaries and Wages	14,256,000	17,028,000	16,484,000
Contract Services	1,288,000	1,725,000	2,484,000
Outside Medical Providers	1,870,000	2,152,000	926,000
Food, Drugs, and Supplies	7,086,000	8,920,000	11,962,000
Administrative Expenses	1,268,000	1,186,000	1,248,000
Maintainance Expenses & Rent	632,000	620,000	702,000
Legal & Insurance	1,416,000	520,000	1,222,000
Depreciation	2,190,000	2,500,000	2,538,000
Charity/Discounts	1,706,000	750,000	1,792,000
Christmas Gifts	552	0	0
Utilities	791,200	1,076,000	1,214,000
Travel Expenses	87,400	0	82,500
Employee Medical	470,000	540,000	604,000
Retirement	278,000	708,000	58,298
Advertising	64,000	0	54,230
Interest	5,866,000	5,102,000	1,680,000
Security	354,000	480,000	438,000
Audit Fees	392,000	392,000	390,000
Total Expenses	40,015,152	43,699,000	43,879,028
Net Income(loss)	-8,024,152	4,679,000	7,642,732

Notes

Note 1: Cash and Bank

Cash On Hand	5,000	15,000
Bank/Checking Accounts	168,000	500,000
Interest Bearing Account	0	7,391,000
Total Cash and Bank	173,000	7,906,000

Note 2: Investments

Lending Agency Reserve	20,655,000	2,000,000
Other Investments	0	6,556,000
Total Investments	20,655,000	8,556,000

Note 3: Accounts Receivable

Employees	20,000	10,000
SDA Organizations	5,000	6,000
Government Health Insurance	71,534,000	64,746,000
Less: Allowance For Doubtful Accounts	0	0
Total Accounts Receivable	71,559,000	64,762,000

Note 4: Accounts Payables

Bank Overdraft	120,000	0
Trade Payables	6,194,000	7,153,710
Total Accounts Payable	6,314,000	7,153,710

Note 5: Notes Payable Current

Bank Loan	10,720,000	4,620,000
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Note 6: Long Term Liabilities

Bank Loan	40,866,000	17,230,000
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Pursley Hospital Cash Flow Statement







	31-Dec-12
Net increase (Decrease) From Financial Activity	(8,024,152)
Adjustment to eliminate non-cash item	
Accumulated Depreciation	2,190,000
Decrease (Increase) in Accounts Receivable	(6,797,000)
Decrease (Increase) in Inventories	638,000
Increase (Decrease) in Accounts Payable	839,710
Increase (Decrease) in Notes Payable	0
Net increase (Decrease) in Cash	(11,153,442)
 Cash at the Beginning of the Year	 11,326,442
 Cash at the End of Dec. 31, 2012	 173,000

Step 2.

- Explain the differences.

Pursley Hospital

Balance Sheet as of Dec. 31, 2012

	Dec. 2012	Dec. 2011	
Current Assets			
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Long Term Liabilities (Note 6)	40,866,000	17,230,000	
Total Liabilities	57,900,000	29,003,710	
 Fund Balance	129,537,000	124,908,290	

Pursley Hospital

Statement of Financial Activity

	Dec. 2012	Budget	Dec. 2011
Revenues			
Inpatient Revenue	14,676,000	29,578,000	31,296,000
Professional Fees	3,620,000	0	7,582,000
Outpatient Revenue	13,128,000	17,800,000	12,916,000
Donation Income	5,600	0	11,760
Investment Income	127,400	1,000,000	-284,000
Other Income	434,000	0	0
Total Revenues	31,991,000	48,378,000	51,521,760
Expenses			
Salaries and Wages	14,256,000	17,028,000	16,484,000
Contract Services	1,288,000	1,725,000	2,484,000
Outside Medical Providers	1,870,000	2,152,000	926,000
Food, Drugs, and Supplies	7,086,000	8,920,000	11,962,000
Administrative Expenses	1,268,000	1,186,000	1,248,000
Maintenance Expenses & Rent	632,000	620,000	702,000
Legal & Insurance	1,416,000	520,000	1,222,000
Depreciation	2,190,000	2,500,000	2,538,000
Charity/Discounts	1,706,000	750,000	1,792,000
Christmas Gifts	552	0	0
Utilities	791,200	1,076,000	1,214,000
Travel Expenses	87,400	0	82,500
Employee Medical	470,000	540,000	604,000
Retirement	278,000	708,000	58,298
Advertising	64,000	0	54,230
Interest	5,866,000	5,102,000	1,680,000
Security	354,000	480,000	438,000
Audit Fees	392,000	392,000	390,000
Total Expenses	40,015,152	43,699,000	43,879,028
Net Income(loss)	-8,024,152	4,679,000	7,642,732



Notes

Note 1: Cash and Bank	Dec-12	Dec-11
Cash On Hand	5,000	15,000
Bank/Checking Accounts	168,000	500,000
Interest Bearing Account	0	7,391,000
Total Cash and Bank	173,000	7,906,000
Note 2: Investments		
Lending Agency Reserve	20,655,000	2,000,000
Other Investments	0	6,556,000
Total Investments	20,655,000	8,556,000
Note 3: Accounts Receivable		
Employees	20,000	10,000
SDA Organizations	5,000	6,000
Government Health Insurance	71,534,000	64,746,000
Less: Allowance For Doubtful Accounts	0	0
Total Accounts Receivable	71,559,000	64,762,000
Note 4: Accounts Payables		
Bank Overdraft	120,000	0
Trade Payables	6,194,000	7,153,710
Total Accounts Payable	6,314,000	7,153,710
Note 5: Notes Payable Current		
Bank Loan	10,720,000	4,620,000
Note 6: Long Term Liabilities		
Bank Loan	40,866,000	17,230,000

Step 3

- Calculate ratios and compare.
- 132 different ratios

Compare?

Compare current performance against budget and past performance of your organization.

Compare your organization against other like organizations. (50,000,000 debt vs. 500,000,000)

Types of Ratios

Profitability

Days of cash on hand

Average age of the plant

Profit per inpatient discharge

Average daily census

FTEs per occupied bed

Debt service coverage

Etc. etc. etc.

Financial Statement Analysis Ratios

- Liquidity
- Profitability
- Asset Efficiency

Liquidity

Do we have any money?

Current Ratio

Current Ratio

- Current Ratio = Current assets/Current Liabilities

How valid are the current assets? Will they be cash within the year?

- Cash and bank?
- Investments?
- Accounts Receivable?
- Inventory?

Pursley Hospital

Balance Sheet as of Dec. 31, 2012

	Dec. 2012	Dec. 2011
Current Assets		
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Long Term Liabilities (Note 6)	40,866,000	17,230,000
Total Liabilities	57,900,000	29,003,710
 Fund Balance	129,537,000	124,908,290

Notes

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Note 6: Long Term Liabilities

Bank Loan	40,866,000	17,230,000
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Pursley Hospital

Current Ratio

- 2,223,000
- 17,034,000
- Equal
- .13

Current Ratio

2013 Almanac of Hospital Financial and Operating Indicators
Optum Insight

	Median Values
Revenues < \$10 Million	2.11
Rural Hospitals	2.24
Less Than 100 Beds	2.18
True Pursley Hospital	.13

Profitability

Are we making money?

Total Margin =

$$\frac{\text{Excess Revenues over Expenses}}{\text{Total Revenue}}$$

*

100

Pursley Hospital

Statement of Financial Activity

	Dec. 2012	Budget	Dec. 2011
Revenues			
Inpatient Revenue	14,676,000	29,578,000	31,296,000
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Pursley Hospital Total Margin

- Excess Revenues Over Expenses = - 8,024,152
- Total revenue = 31,991,000
- $-8,024,152 / 31,991,000 = -.25$
- $-.25 / 100 = -.00251$

Total Margin

2013 Almanac of Hospital Financial and Operating Indicators
Optum Insight

	Median Values
Highest	7%
Middle	3%
Low	.01%
Pursley Hospital	.00251%

Asset Efficiency

How are we doing managing what we have?

- Days In Receivables

Asset Efficiency

Receivables Analysis

- Receivable Turnover
- Days' uncollected

Receivable Turnover

Yearly Net Patient Revenue

Average Accounts Receivable

Days In Patient Accounts Receivable

365

Net Patient Receivable Turnover

Pursley Hospital

Statement of Financial Activity

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Note 1: Cash and Bank

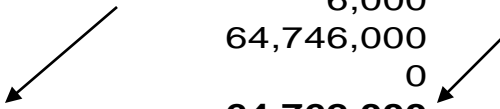
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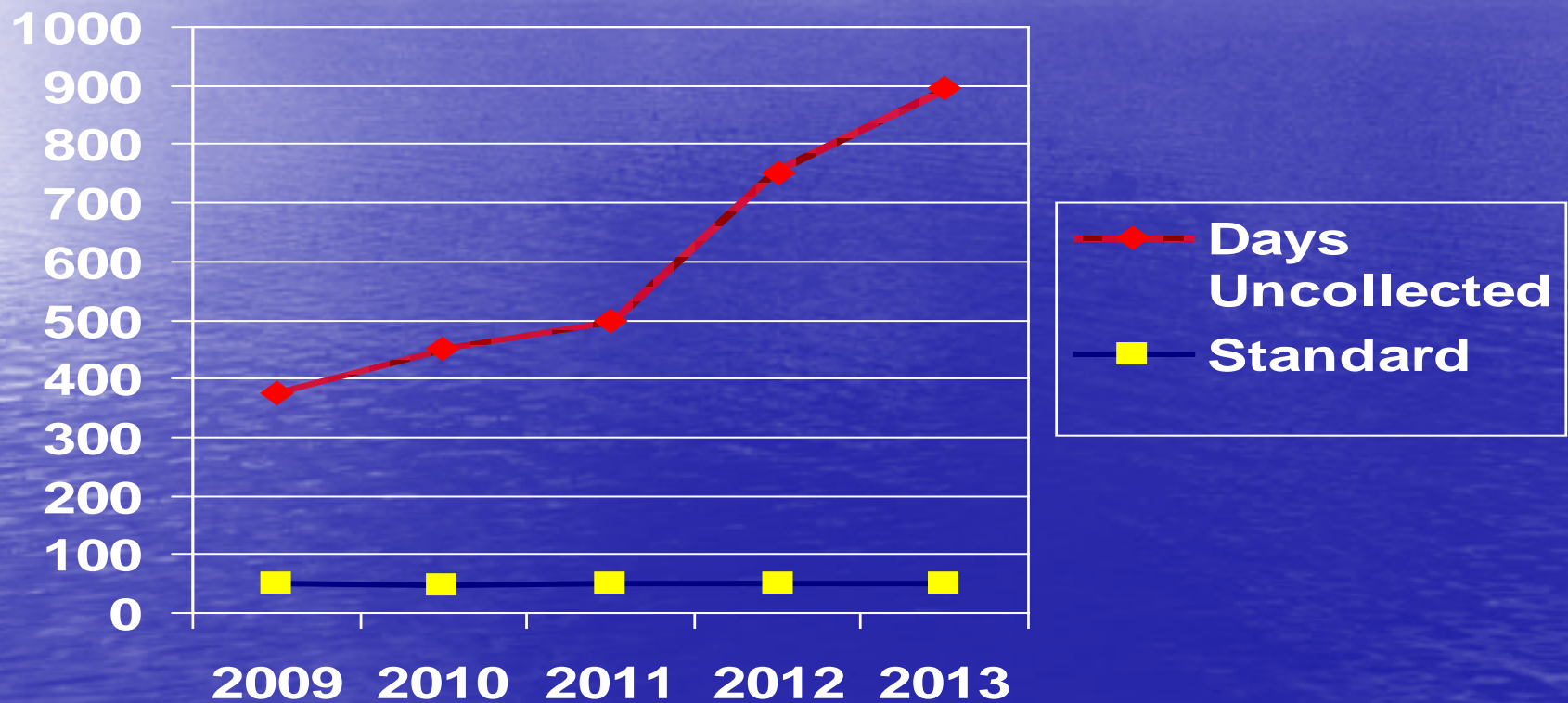
Pursley Hospital

Days In Accounts Receivables

<u>Yearly Patient Revenue</u>	36,008,000
Average Accounts Receivable	68,160,500
Net Patient Receivable Turnover	0.53
Days In Patient Accounts Receivable	Turnover/365
Days in Accounts Receivables	691

Past Performance

Days Uncollected



Bad Debt Allowance

"There shall be established a provision for bad debts on those accounts receivable for which no payment has been received as follows:

- a. 12 months – 50% of the amount of the account
- b. 24 months – 100% of the amount of the account"

"The Accounts Receivable shown in the annual Financial Statement shall not be in excess of:

Medical Institutions-6% of annual patients business (not including insurance carriers)."

Allowance for doubtful accounts

- 90 days 0%
- 91 days to 180 25%
- 181 days to 270 50%
- 271 days to 365 days 75%
- Over 366 days 100%

Days In Patient Accounts Receivable

2013 Almanac of Hospital Financial and Operating Indicators
OptumInsight

	Median Values
Revenues < \$10 Million	42 Days
Rural Hospitals	35 Days
Less Than 100 Beds	36 Days
Pursley Hospital	691 Days

Step #4

- Determine the Problem(s).

- What is(are) the primary problem(s) at Pursley Hospital?

Pursley Hospital

Balance Sheet as of Dec. 31, 2012

	Dec. 2012	Dec. 2011
Current Assets		
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Payables (Note 4)	6,314,000	7,153,710
Notes payable Current (Note 5)	10,720,000	4,620,000
Total Current Liabilities	17,034,000	11,773,710
Long Term Liabilities (Note 6)	40,866,000	17,230,000
Total Liabilities	57,900,000	29,003,710
 Fund Balance	129,537,000	124,908,290

Pursley Hospital

Statement of Financial Activity

	Dec. 2012	Budget	Dec. 2011
Revenues			
Inpatient Revenue	14,676,000	29,578,000	31,296,000
Professional Fees	3,620,000	0	7,582,000
Outpatient Revenue	13,128,000	17,800,000	12,916,000
Donation Income	5,600	0	11,760
Investment Income	127,400	1,000,000	-284,000
Other Income	434,000	0	0
Total Revenues	31,991,000	48,378,000	51,521,760
Expenses			
Salaries and Wages	14,256,000	17,028,000	16,484,000
Contract Services	1,288,000	1,725,000	2,484,000
Outside Medical Providers	1,870,000	2,152,000	926,000
Food, Drugs, and Supplies	7,086,000	8,920,000	11,962,000
Administrative Expenses	1,268,000	1,186,000	1,248,000
Maintainance Expenses & Rent	632,000	620,000	702,000
Legal & Insurance	1,416,000	520,000	1,222,000
Depreciation	2,190,000	2,500,000	2,538,000
Charity/Discounts	1,706,000	750,000	1,792,000
Christmas Gifts	552	0	0
Utilities	791,200	1,076,000	1,214,000
Travel Expenses	87,400	0	82,500
Employee Medical	470,000	540,000	604,000
Retirement	278,000	708,000	58,298
Advertising	64,000	0	54,230
Interest	5,866,000	5,102,000	1,680,000
Security	354,000	480,000	438,000
Audit Fees	392,000	392,000	390,000
Total Expenses	40,015,152	43,699,000	43,879,028
Net Income(loss)	-8,024,152	4,679,000	7,642,732

Notes

Note 1: Cash and Bank

Cash On Hand	5,000	15,000
Bank/Checking Accounts	168,000	500,000
Interest Bearing Account	0	7,391,000
Total Cash and Bank	173,000	7,906,000

Note 2: Investments

Lending Agency Reserve	20,655,000	2,000,000
Other Investments	0	6,556,000
Total Investments	20,655,000	8,556,000

Note 3: Accounts Receivable

Employees	20,000	10,000
SDA Organizations	5,000	6,000
Government Health Insurance	71,534,000	64,746,000
Less: Allowance For Doubtful Accounts	0	0
Total Accounts Receivable	71,559,000	64,762,000

Note 4: Accounts Payables

Bank Overdraft	120,000	0
Trade Payables	6,194,000	7,153,710
Total Accounts Payable	6,314,000	7,153,710

Note 5: Notes Payable Current

Bank Loan	10,720,000	4,620,000
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Note 6: Long Term Liabilities

Bank Loan	40,866,000	17,230,000
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Problems

- No Cash?

Not the problem--indicator of the problem.

- Not enough revenue?

Too General

- Declining Inpatient Revenue

Why?

- Not collecting receivables

Why?



Now What?

Financial Turn Around Plan

What Can Go Wrong?

- 1. Financial statements contain inaccurate information. (The board is not getting the true picture of the institution's financial position)**
- 2. Internal controls are not in place and/or are not being followed. (Funds are misappropriated)**
- 3. No inventory control system or it is not being adhered to. (Supplies are being stolen)**
- 4. Spending limits are not being followed. (Purchases are being made that are not needed)**
- 5. Conflict of interests are not being dealt with.**
- 6. Administration is not following board approved actions.**



Financial Audits

Reasons For Financial Audits

1. Fulfill the duties of the board in financial oversight
2. Comply with the requirements of lending and granting agencies.
3. Obtain funds from donors.

Who Should The Board Select to Accomplish the Audit?

General Conference Auditing Service?

- Financial audit

- Policy audit

- Not independent

Public Auditing Firm?

- Financial Audit

- No Policy audit

- Independent

Audit Findings

- Unqualified
- Qualified
- Going Concern
- No Opinion

Audit Deliverables

1. Audited financial statement
2. Disclaimer and overall finding
3. Management letter

Management Letter

Contains:

1. Audit adjustments
2. List of discovered weakness
3. Management's responses

Processing the Audit

Audit Committee of the Board

1. Auditor meets with the committee and presents in detail the audit
2. Audit Committee meets with the auditor and determines the skill of the hospitals accounting staff, their co.operation and any other item of interest
3. Findings of previous years are reviewed

Processing the Audit

Audit is presented to the Board:

1. Detail?
2. By Audit Committee Chair or auditor?
3. Board votes to accept the audit?
4. Audit is sent to agencies.

Two Functions of the Board in Financial Oversight

1. Approval: Operational budgets, capital budgets, non budgeted items, and turn around plans.
2. Monitoring: Are the approved items being implemented? Financial statements, audits, and board reports.

Case Studies

Question and answers