

NORTHWESTERN UNIVERSITY
KELLOGG GRADUATE SCHOOL OF MANAGEMENT
Accounting Information and Management 479

102-479: Financial Assessment and Performance Evaluation of Healthcare Entities

This course focuses on accounting, operational, utilization and financial systems as they apply to the financial management of healthcare entities with current information technology. Topics include financial statements of different types of healthcare entities, financial viability, medical technology, hospital closures, physician performance, patient treatment profiles, short-term financing, management of patient accounts, payor analysis, long-term financing, issuance of tax-exempt securities, and bond ratings. Each student will perform a strategic assessment of healthcare entities in a marketplace using published data provided by the instructor and will make a class presentation of the findings. Prerequisite: Accounting 430. [Scheduled **Spring Quarter, Thursday Evening, Section 81 on Evanston Campus, at 6:30 pm**]

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Revised Course Content:

Advancements in information technology and healthcare management are incorporated in the revised materials. Mergers, closures, and distressed healthcare facilities are significantly influenced by their status in information technology. A case study on Computer-based Medical Record supported by hand-held devices is included in the fifth class session on assessing physician performance and patient outcomes by treatment protocol.

Tom Prince is directing the national project on Patient Friendly Billing initiative supported by American Hospital Association and the Healthcare Financial Management Association. Materials from the Project's Task Force meetings will be distributed and discussed in class.

Course Objectives:

The purpose of this course is to assist you in the financial management and strategic assessment of hospitals and other healthcare entities. A series of creative frameworks for financial and operational analysis is used to quickly identifying key factors with a major impact on financial viability of healthcare entities. These frameworks are applied to accounting, operational, utilization, and financial systems from the perspective of the financial management of healthcare entities with current information technology. Educational materials used in this study of accounting and financial systems draw upon institutional concerns and regulatory issues in federal and state taxes, ownership, mergers, joint ventures with physicians and managed care organizations, payment mechanisms, and risk sharing arrangements in some insurance and managed care structures. Medical technology index and the marketplace and community services index are applied in assessing financial viability of healthcare entities.

Course Objectives (continued)

Distressed facilities and bankruptcy are two special considerations. Emphasis is placed on your gaining an understanding of short-term and long-term financing of healthcare entities in the context of legal, tax, regulatory, economic, and institutional forces. This understanding includes knowledge about published data sources relevant to financial management and strategic assessment of healthcare entities.

The course requirement includes applying these secondary data in a given analysis for a brief discussion document supporting a class presentation.

Upon successful completion of the course you should be able to:

1. Understand the macroaccounting problems in accumulating healthcare expenditure, price, and utilization data along with knowledge about alternative measures and sources of these data.
2. Perform an assessment of healthcare services within a given geographical area based on published data sources from regulatory units, administrative bodies, governmental agencies, and healthcare associations.
3. Understand the capital structure environment of healthcare entities and how the financial profile varies by type of facility, ownership, control, tax position, systems status, and geographical location.
4. Develop some key financial, performance, and organizational indicators of merged, closed, and distressed hospitals, with particular attention to institutional and market factors that can quickly move an economically viable facility into a distressed status.
5. Understand the financial and cost-shifting impact of reductions in coverage and eligibility in federal and state programs on insurance companies, managed care organizations, and other third-party payors.
6. Understand the application of cash management to healthcare entities with special emphasis on credit and collection monitoring, management of patient accounts, electronic claims processing, guaranty funds, and state insurance constraints on payment behavior.
7. Know long-term financing options for different types of healthcare entities and also know how to issue tax-exempt securities and their bond ratings.
8. Understand the relation between medical technology and financial profile of community hospitals including the importance of shared services within a referral network.

Course Objectives (continued)

9. Perform a financial management and strategic assessment of a community hospital within a healthcare network located in a changing economic and geographical setting.
10. Discuss the options for managed care arrangements in a given setting with emphasis given to taxation, cash flow, medical technology, and financial management issues.

Required Text:

- Thomas R. Prince, *Strategic Management for Health Care Entities: Creative Frameworks for Financial and Operational Analysis*, Chicago: American Hospital Publishing, Inc., 1998.
- Case Packet [Distributed in class compliments of instructor].

Grading:

- Preparedness on the assigned materials when questioned and class participation (10 percent).
- Midterm examination is a written case analysis of The McGill University Health Centre — Case C (25 percent).
- Class presentation with supporting handouts (15 percent graded on a pass/fail basis). Each student will select a marketplace containing at least eight healthcare entities and then perform a strategic assessment of these healthcare entities using operational, utilization, financial, and organizational data. It is suggested that a student select a marketplace containing no more than 16 healthcare entities. Copies of marketplace data from secondary sources will be provided to the student for use in performing this strategic assessment. Since the assessment draws upon the course materials, it cannot be started before the seventh class session. The student will make an oral presentation of the findings in class with supporting handouts. [Primary purpose of the paper is to require students to use governmental and other secondary data sources in strategic assessment of a management problem in healthcare.]
- Final examination contains five essay questions (50 percent). Students are given an **optional** (take home) examination which also contains five essay questions. Students can either turn in the take home response or take the regular examination at the scheduled time.

Honor Code

- The Honor Code is taken seriously.
- Students are encouraged to form study groups for purposes of discussing technical notes, case studies, and readings. This joint effort includes studying for the midterm case analysis and the final examination.
- The term paper is to be an individual effort; students should discuss any problems with the teacher and not with other students.
- After the optional take home examination is distributed in class, then all cooperative discussions between and among students regarding Accounting 479 course must cease.

Prerequisite

- There are no prerequisites in health industry management for the Accounting **479** course.

Course Materials:

Accounting 479 examines financial management and strategic assessment of healthcare entities, and the instruction is organized in four parts. The first part focuses on institutional materials about healthcare entities within the broad context of the healthcare environment. A five-dimensional framework is presented for classifying healthcare entities, and additional dimensions are added to this framework for selected financial and operational analysis. A competitive analysis of hospital service areas is illustrated by using detailed information on competing hospitals from published sources. Case-mix index, medical school affiliation, membership in the Council of Teaching Hospitals, facility codes and services, and ownership status are some of the factors considered in interpreting the competitive analysis and in assessing the capital structure of healthcare entities. Key financial and operational ratios are examined in the context of assessing financial viability of healthcare entities.

The second part examines mergers, closures, distressed facilities and bankruptcy. Frameworks are presented for assessing physician performance and forecasting health services. Other topics covered are risk management, insurance, managed care contracting, assessing third-party payers, medical technology index, marketplace and community services index, and telemedicine.

The third part examines short-term and long-term financing for community hospitals. These materials are presented as applications of corporate finance techniques and decision-making tools to healthcare entities without any review of concepts and general theories. These applications include cash management, credit and collection monitoring, management of patient accounts, electronic claims processing, investments, long-term financing, bond ratings, debt insurance coverage, and financial service expenses. The role of state regulatory bodies is examined in the context of collection patterns, monitoring of insurance companies, guaranty funds, and liquidation of health insurance company.

Course Materials (continued)

The fourth and final part represents the student presentations of their assessments of groups of healthcare entities based entirely on published data sources provided to students in the class.

Typical students for which the Accounting 479 course is designed:

- Healthcare major with interest in human resources and benefit management
- Healthcare major with interest in marketing
- Healthcare major with interest in corporate finance
- Healthcare major with interest in healthcare institutions
- Marketing major with interest in pharmaceutical companies
- Marketing major with interest in suppliers of healthcare services
- Finance major with interest in banking (loans to healthcare entities)
- Finance major with interest in benefit management
- Nonprofit major with interest in healthcare institutions
- Management consultant with potential interest in healthcare

Four courses required for the major in "health industry management" should typically not be based on **both** Accounting 432 and Accounting 479 courses. Students taking Accounting 432 and Accounting 479 are strongly encouraged to take three other courses within the health industry management program.

· Description of **102-432: Information Technology In Healthcare Management**

This course examines accounting concepts as they apply to the planning and management control aspects of healthcare institutions with current information technology in a connected world. Topics covered include cost accounting, hospital information systems, activity-based costing, clinical information systems, responsibility accounting, management control, product costing, financial reports, cost benefit analysis, performance assessment, computer-based medical records, medical clinic information systems, and enterprise-wide information networks. Information technology in a connected world encompasses all healthcare relationships, and these communications are examined with case studies. Prerequisite: Accounting 430. [Scheduled in **Winter Quarter for Monday Evening, Section 81 on Evanston Campus at 6:30 pm**]

102-479: Financial Assessment and Performance Evaluation of Healthcare Entities

Class Session

2001

1. Mar 29 Entities Providing Health Care Services to Individuals; Macroaccounting Reports of the Health Care System
Read: Chapter 1 and Chapter 2.
Read: Study Questions and Responses for Chapters 1 and 2 [send professor an e-mail for responses].

2. Apr 5 Competitive Analysis of Health Care Entities in the Marketplace
Read: Chapter 3.
Read: Study Questions and Responses for Chapter 3.
Prepare: "The McGill University Health Centre — Case A."

3. Apr 12 Revised Financial Statements for Health Care Entities and Financial Analysis
Review: Exhibit 4-3 (pp. 76-77), Exhibit 5-4 (p. 99), Exhibit 5-5 (p. 103), and Exhibit 7-1 (p. 131).
Read: Chapter 9.
Read: Study Questions and Responses for Chapter 9.
Prepare: "The McGill University Health Centre — Case B."
Guest lecturer: Keith J. Shapiro, bankruptcy attorney at Greenberg Traurig who heads the American Bankruptcy Institute's Health Care Insolvency Committee
Topic: "Bankruptcy of Health Care Entities—Public Policy Issues"

4. Apr 19 Assessing Mergers, Closures, and Distressed Health Care Facilities
Read: Chapter 18.
Read: Study Questions and Responses for Chapter 18.
Read: "Financial Viability, Medical Technology, and Hospital Closures"
Read: "Patient Friendly Billing Initiative"

5. Apr 26 Physician Performance; Forecasting Health Services by Patients Within a Health Care Facility
Read: Chapter 15 (pages 343-347 only).
Read: Chapter 16.
Read: Study Questions and Responses for Chapters 15 and 16.
Read: "Information Technology and Medical Group Management"

Class Session

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- 6A.May 3 Midterm examination is a written analysis of "The McGill University Health Centre — Case C." [Written analysis is due at 6:30 p.m. on November 1.]
- 6B.May 3 Cash Management, Short-Term Financing, and Management of Patient Accounts
Read: Chapter 19.
Read: Study Questions and Responses for Chapter 19.
7. May 10 Risk Management, Insurance and Assessing Third-Party Payors; Telemedicine; Managed Care Arrangements
Read: Chapter 20.
Read: Study Questions and Responses for Chapter 20.
Read: Collection of papers on Telemedicine [distributed in class].
Guest lecturer: Mr. Michael F. Anthony, Partner and Head Health Law Department, McDermott, Will & Emery
Topic: "The Organization of Providers for Managed Care Contracting: Legal and Regulatory Issues"
8. May 17 Capital Structure and Long-Term Financing
Read: Chapter 21.
Read: Study Questions and Responses for Chapter 21.
Ms. Laura Watson, Vice President, Program Development and Marketing, University of Chicago Hospitals
Topic: "Sharing Risk of Health Care Services Between Provider and Supplier"
9. May 24 Issuing Tax-Exempt Securities and Bond Ratings for all Types of Health Care Entities
Read: Chapter 22.
Read: Study Questions and Responses for Chapter 22.
Guest lecturer: Terence M. Mieling; Director, Health Care Finance Department, Merrill Lynch
Topic: "Issuing Tax-Exempt Securities and Bond Ratings for Health Care Entities"

Class Session

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10. May 31 Strategic Assessments; Monitoring Quality Systems; Term paper Presentations
The "term paper" is an applied application of concepts in the course to a group of healthcare entities within a marketplace. Assessments of the healthcare entities will be based entirely on published data sources provided to students in the class.
Read: Chapter 12.
Read: Study Questions and Responses for Chapter 12.
11. June 7 Final Examination
Thursday, **June 7th, 6:30 to 8:45 p.m.**
The optional take home examination must be turned in by 6:30 p.m. on Thursday, June 7, 2001, unless there are extenuating circumstances supporting an extension.