



**FINANCE COMMITTEE MEETING  
TUESDAY, July 16 2013**

**Central Administration Offices Located at Highland Hospital  
1411 East 31<sup>st</sup> Street Oakland, CA 94602  
Barbara L. McElroy, Clerk of the Board  
(510) 437-8468**

**MINUTES**

**TAB #1 CLOSED SESSION - None**

**THE MEETING WAS CALLED TO ORDER AT 4:05 PM.**

**ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:**

Daniel Boggan, Jr., Michele Lawrence, Ronald D. Nelson, Stanley M. Schiffman.

And Valerie D. Lewis

**TAB #2 ACTION: Approval of Minutes**

***ACTION: A motion was made, seconded, and unanimously approved the Minutes of the May 21, 2013 Finance Committee Meeting as presented.***

***MOTION: Trustee Schiffman***

***SECOND: Trustee Nelson***

***AYES: Trustees Boggan, Lawrence, Nelson, and Schiffman***

***NAYS: None***

***ABSTAIN: None***

***ABSENT: None***

**TAB #3 Financial Forecasting and Analysis – No Report**

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**TAB #4 Financial and Operations Reporting**

**A. REPORT: Financial Update for the Month Ending March 31, 2013**

Marion R. Schales (CFO) and Bill Manns (COO) reported the financial results for the month of May 2013 with and without the effect of Delivery System Reform Incentive Pool (DSRIP) revenues and expenses.

Month-to-Date:

- May Net Operating Income was \$4.9M resulting in a positive variance of \$3.4M (214.6%) **over** budget and a positive variance of \$4.0M over prior year actual.
- May Total Operating Revenue was **over** budget by \$6.3M (13.2%) and Total Operating Expenses were **over** budget by \$3.0M (-6.4%) due to Labor and Benefit Expense.
- May Total Income (*with* DSRIP) was \$5.5M with a positive variance of \$4.5M **over** budget and a positive variance of \$4.2M **over** prior year actual.

Year-to-Date:

- YTD Net Operating Income was \$8.3M resulting in a negative variance of \$6.3M **under** budget and a negative variance of \$2.2M **under** prior year actual.
- YTD Total Operating Revenue was \$18.8M (3.6%) **over** budget and Total Operating Expenses were \$25.0M (-5.0%) **over** budget mostly due to Labor and Purchased Services.
- YTD Total Income (*with* DSRIP) was \$13.4M with a positive variance of \$5.0M **over** budget and \$5.7M **under** prior year actual.

Higher than budgeted revenues offset the problem areas which continue to be salaries and wages and purchased services.

In May 2013 we recognized additional unanticipated revenues of approximately \$18M for the Medi-Cal Waiver program. This unexpected receipt of additional revenues allowed us to meet the year-end working capital loan target.

We are currently working under an extended close calendar for June 30, 2013 due to fiscal year-end. We expect preliminary numbers by the third week of July.

**B. REPORT: Building Excellence Through Timely Expense Reduction (BETTER) Initiative Status**

Mr. Jack Datz, Executive Director of MedAssets, presented the status report on the MedAssets cost management initiatives with the following highlights.

- The targeted total project savings is \$19.6 M and the identified savings (through the work of the teams) to date is \$13.7M (70%) (annualized).

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- AHS has realized \$5.3M (27%) (annualized) of the identified savings since the beginning of the project.
  - Slow and delayed execution of the initiatives continues to be addressed by the Executive Sponsors.
  - The teams continue to identify additional savings opportunities.

Mr. Datz and Senior Staff have agreed to provide the major impediments and major accomplishments between now and the end of the year in a target schedule to the next Finance Committee.

### **C. REPORT: Delivery System Reform Incentive Payment (DSRIP) Semi-Annual Update**

Dr. Kathleen Clanon, Former Interim Chief Medical Officer, briefed the committee on significant updates since the last report.

- AHS' Category 5 project (HIV Transition) (which was a new category reported in January) was approved. Category 5 is intended to support the transition of people with HIV from Ryan White (payer of last resort) to Low Income Health Program (LIHP) (managed care).
  - Through Category 5, AHS has the potential to earn up to \$4.8M over 18 months, July 2012-December 2013.
- In January, all designated hospital systems (DPHs) submitted plan modifications that set targets for Category 4 (Acute Care Quality). AHS' targets were all approved.
- CMS is considering a major revision of the structure of distribution for Category 4 dollars.
  - The changes under consideration may require higher targets and/or shift more of the dollars toward "outcome" milestones that are harder to achieve. These potential changes could increase the risk of not claiming all potential DSRIP revenue.
  - The policy change is under discussion; CAPH / the Safety Net Institute are leading the process; AHS staff is participating with other health systems in work groups providing input to the State and CMS.
- CMS / DHCS are responsible to provide a "mid-point assessment" (MPA) of DSRIP for all of the participating hospital systems. AHS is prepared to increase milestone goals where feasible but we are still awaiting the mid-point assessment and further instructions.

A presentation shown in the meeting reflects the following:

- AHS received 100% of potential payments for Demonstration Years (DY) 6 and 7 (AHS FY 2010/11 and 2011/12). A total of \$70M has been received for the program to date (claimed for period ending December 2012).
- Total encumbered dollars for projects as of June 30 2013 equals \$44.5M.

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- We anticipate claiming between \$33M and \$34.7M (94% - 98%) of potential dollars for DY8. Some of the missed funds may be claimable in DY9. The amount of the missed milestones is \$800K, but is potentially recoverable in the next period.
  - The next claiming opportunity will be in October 2013, after submission of the June 30, 2013 report.

Mr. Lassiter, CEO introduced Dr. Bill Peruzzi, Chief Medical Officer.

**D. Report: Medicare Value Based Purchasing  
Kathleen Clanon, MD, Interim Chief Medical Officer**

Dr. Kathleen Clanon, former Interim Chief Medical Officer, reported that this session is an educational and informational for the Finance Committee.

- The Center for Medicare and Medicaid Services (CMS) Hospital Inpatient Value Based Purchasing Program is a program required by the Patient Protection and Affordable Care Act (PPACA) that attempts to improve quality and reduce costs to Medicare beneficiaries.
  - At this time it does not impact Medicaid patients, but changes are anticipated.
  - It is also known as the Inpatient Hospital Pay for Performance program.
  - The program focuses on three areas: Clinical practices (Core Measures- acute heart attack, surgical site infections, heart failure, and pneumonia), patient experience (8 experiences in care dimensions), and clinical outcomes (mortality rates for heart attack, heart failure and pneumonia 30 days after discharge).
  - Performance in these areas will impact hospital payments in FY 2014, FY 2015, FY 2016, and beyond.
- At this time, the funds involved are small in comparison to our overall Medicare revenue.
  - Currently, the amount in the VBP is small totaling 1% of Medicare payments. This money is put into the program incentive pool. Using the performance scores, a calculation is made by CMS and based on our performance; we can get additional funds in the form of a bonus or lose funds. So in essence, good performance gets additional incentive money and poor performers lose the incentive money.
- In brief, we have traditionally done well in Core Measures but continue to struggle with our patient experience scores.
- The mortality data is new. With the exception of patient experience, compared to National Association of Public Hospitals (NAPH), we perform better than most other hospitals.
  - In the future additional measures will be added evaluating our efficiencies and cost of providing care. This is an area of vulnerability for AHS.

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- For all measures, improvement efforts are underway. Performance in these three domains is also used by many organizations to rank quality of care.

### **E. Report: Contract Process**

#### **Rick Kibler, Director Internal Audit**

Mr. Rick Kibler, Director, Internal Audit, reported that at the request of the Board of Trustees, Internal Audit reviewed the approval process utilized by Alameda Health System for service, product and capital contracts. The purpose of the review was to identify and determine the adequacy of the internal controls built into the contracting process.

#### **Background**

- As part of the annual budget process, funds for service, product and capital contracts are identified and placed in the appropriate cost center budgets (Beginning with the FY2014 budget the specific contracts will be identified in the budget).
  - Departmental management works with the contractor/vendor to determine the scope of work and specific fee arrangements and submits the contractor/vendor proposal to the AHS Contracting Department for development of the contract.
  - The AHS Contracting Department works with management to draft acceptable contract language to ensure that the department has sufficient funds in the budget to support the contract, and that appropriate approvals are obtained.
  - All fully executed contracts are loaded to the contract database and a purchase order is then developed to authorize accounts payable to make payments as invoices are received.
- The Board of Trustees approved a revision to the Signature Authority Matrix in January 2013 that increased the CEO's signature authority from \$500,000 to \$1 Million for contracts and purchase orders.
  - As of 4/4/2013, there were 303 active contracts totaling \$288,369,442. There were 27 contracts ranging from \$500K - \$1M and 41 contracts in excess of \$1M.

#### **Internal Controls Identified**

- Departmental budgets that include funding for service contracts are reviewed and approved by Executive Management.
- The annual operating and capital budget is reviewed and approved by the Board of Trustees.
- The contract administrator in the Finance Department verifies that funds are available in the budget prior to creating or renewing a contract.
- Unbudgeted contracts require review/analysis and approval by the CFO and the responsible executive.

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- The contract administrator drafts each contract using an approved standard template. Any changes to the standard language require approval from legal.
  - The final contract is reviewed and approved by the vendor, Legal/Compliance, departmental management, and Executive Management based on signature authority matrix.
  - Currently, contracts are presented to the Finance Committee and the Board of Trustees when in excess of the CEO signature authority threshold. (Management will be requesting a change in this approach because it is thought to be a redundant step.)
  - Fully executed (approved) contracts are loaded to the contract management system (TractManager) to monitor spend and contract time limits.
  - Purchase orders are created by the contract administrator and Purchasing based on the approved contract terms.
  - Accounts Payable pays invoices based on approved purchase orders.

#### **Findings – conclusions**

Based on the results of the work performed, the process for contract approval is well controlled

Ms. Schales noted that the BOT requested that the Internal Audit staff perform an internal audit to evaluate adequacy of the internal controls around contracting processes. It was anticipated that the results of this internal audit would provide a level of verification that would support approval of a change in the policy around approval of a higher signature authority for the CEO.

The Trustees engaged in general discussion about the level of transparency during the budget process to support internal controls and appropriate authorization levels. Trustee Boggan recommended that we use the October retreat to start to think about priorities for the system/budget in advance of the planning cycle for the next fiscal year.

#### **TAB #5 CFO Update**

##### **REPORT: Chief Financial Officer Update, Marion R. Schales, Chief Financial Officer**

In preparation for Ms. Schales departure date on August 8, 2013, Ms. Schales introduced Mr. Jim Strong as the Interim Chief Financial Officer. Mr. Strong has joined the organization effective Monday, July 8, 2013. There will be a 5 week overlap to allow adequate transition planning.

Mr. Lassiter acknowledged and thanked Ms. Schales for her outstanding job as CFO. Trustee Boggan noted that we owe Ms. Schales a great deal of thanks.

Ms. Schales presented the pie chart on payor mix based on gross charges from the budget presentation in June. At Trustee Kirk Miller's request to clarify the scope of all operating revenue, Ms. Schales presented a table that reports gross charges by payor, net patient revenue by payor and the supplemental and other operating revenue received by AHS.

Ms Schales reported that as part of the EHR project, Soarian Financials went live July 1<sup>st</sup>. Generally the implementation has been going quite well despite many issues that were encountered such as system/interface problems, long lines of patients awaiting registration, system login problems, provider frustrations and system slowness. Each issue is being addressed by a well staffed command center. It is important to note that all system conversions will result in issues and problems in the early days of the implementation and that the best defense to manage and mitigate these problems result from effective readiness planning.

Ms. Schales asked that the Trustees acknowledge April Bass, Director of Admitting and Registration, Geoff Dottery, Senior Director Revenue Cycle, and the many Information Technology, Clinical and other Revenue Cycle staff for their commitment and dedication to ensure a successful implementation of Soarian Financials. It was a true partnership between all of these areas.

**TAB #6 Financial Policy Development  
Marion R. Schales, Chief Financial Officer**

**ACTION: Adoption of revision to Signature Authority Matrix and Contracts Approval Policy**

- Ms. Schales presented a proposed revision to the current Signature Authority Matrix and Contracts Approval Policy as requested by the Board of Trustees. The revision seeks to alleviate the burden of Board re-review and re-approval of expenditures.
  - The Board of Trustees has identified that the "extra" work by the Finance Committee and the Board of Trustees does not add value to the approval process.
  - Management just reported that the internal controls surrounding the approval process for both contracts and purchase orders are adequate; therefore, the proposed change increases the signature authority limit for the CEO only.
  - Management proposed that the Board of Trustees increase the CEO's approval upper limit threshold from \$1,000,000 for **BUDGETED** contracts, purchase orders and capital projects to an unlimited amount for budgeted contracts, purchase orders and capital projects.
- These expenditures, when already approved during the budget process, DO NOT require re-submittal to or re-approval by the Finance Committee or the Board of Trustees UNLESS the expenditure is not budgeted AND exceeds \$1,000,000.

The Trustees discussed the proposal and generally agreed that the internal controls were adequate and supported the change to the Signature Authority policy.

**ACTION:** *A motion was made, seconded, and unanimously approved the contract with Alameda County Sheriffs' Department as presented.*

**MOTION:** *Trustee Schiffman*  
**SECOND:** *Trustee Boggan*

**AYES:** *Trustees Lawrence and Nelson*  
**NAYS:** *None*  
**ABSTAIN:** *None*  
**ABSENT:** *None*

**TAB #7** Healthcare Reform & Regulatory Changes - No Report

**TAB #8** Contract and Capital Authorization

**A. ACTION:** Authorization for the CEO to Execute the following Operating Contracts:

- Contract Renewal with Alameda County Sheriffs' Department for the period of July 1, 2013 through June 30, 2014 not to exceed \$2,700,826. Trustee Lewis wants # 15 and 17 to be removed from the contract.

**ACTION:** *As amended, motion was made, seconded, and unanimously approved the contract with Alameda County Sheriffs' Department as presented.*

**MOTION:** *Trustee Schiffman*  
**SECOND:** *Trustee Nelson*

**AYES:** *Trustees Boggan, Lawrence, Nelson, and Schiffman*  
**NAYS:** *None*  
**ABSTAIN:** *None*  
**ABSENT:** *None*

- Contract Renewal with Otis Elevator for the period of February 1, 2013 through January 31, 2018 not to exceed \$1,383,213.

**ACTION:** *A motion was made, seconded, and unanimously approved the contract with Preferred Vendor with Otis Elevator as presented.*



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**MOTION: Trustee Schiffman**  
**SECOND: Trustee Lawrence**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** None

- Contract **Renewal** with Quest Diagnostics for the period of April 1, 2013 through March 31, 2016 not to exceed **\$7,500,000**.

**ACTION: A motion was made, seconded, and unanimously approved the contract with Quest Diagnostics as presented.**

**MOTION: Trustee Lawrence**  
**SECOND: Trustee Schiffman**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** None

- Contract **Amendment** with Atul Patel, MD for the period of April 1, 2011 through March 31, 2014 not to exceed **\$2,241,056**.

**ACTION: A motion was made, seconded, and unanimously approved the contract amendment with Atul Patel, MD as presented.**

**MOTION: Trustee Schiffman**  
**SECOND: Trustee Nelson**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** None

- Contract **Amendment** with Federico Castro-Moure, MD for the period of April 1, 2011 through March 31, 2014 not to exceed **\$2,241,056**.

Mr. Lassiter suggested that staff will provide a deeper education on Relative Value Units (RVUs) used for productivity, and relative billing realization for pro fees.

**ACTION: A motion was made, seconded, and unanimously approved the contract renewal with Federico Castro-Moure, M.D. as presented.**

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**MOTION: Trustee Nelson**  
**SECOND: Trustee Schiffman**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** None

- **New** Agreement with Athens Administrators for the period of August 1, 2013 through July 31, 2016, not to exceed **\$1,247,187**.

**ACTION: A motion was made, seconded, and unanimously approved the contract renewal with Athens Administrators as presented.**

**MOTION: Trustee Nelson**  
**SECOND: Trustee Schiffman**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** Trustee Lewis

- Contract **Amendment** with Robert Half International for the period of July 1, 2012 through June 30, 2013 not to exceed **\$1,350,785**.

Mrs. Louden - This is a contract where we did not have control of our costs; costs somewhat unexpected to EHR; some vacant position offsets.

This contract would come to the board even under newly approved signature authorization.

**ACTION: A motion was made, seconded, and unanimously approved the contract amendment with Robert Half International as presented.**

**MOTION: Trustee Schiffman**  
**SECOND: Trustee Lawrence**

**AYES:** Trustees Boggan, Lawrence, Nelson, and Schiffman  
**NAYS:** None  
**ABSTAIN:** None  
**ABSENT:** None

**B. ACTION: Authorization for the CEO to Execute the following Capital Contracts:**

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*None*

**C. List of approved contracts \$500K - \$1M (3 contracts), for Trustees' information**

**D. Table of vendors with cumulative contracts (2 vendors), for Trustees' information**

**TAB #9 Annual Finance Committee Agenda Calendar and Follow-up**

**A. INFORMATION: Annual Finance Committee Agenda Calendar and Follow-up Worksheet were provided.**

**TAB #10 REPORT: Legal Counsel's Report on Action Taken in Closed Session**

Daniel Boggan, Jr., Committee Chair, reported there was no Closed Session.

**Public Comments:** None.

**Board of Trustees Remarks:** None.

**ADJOURNMENT: THE MEETING WAS ADJOURNED AT 6:00 PM.**

Respectfully submitted,

Barbara L. McElroy  
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: \_\_\_\_\_

  
Douglas B. Habig, Esq.  
General Counsel