Turnaround Opportunity Audit

70 Diagnostic Questions for

- Using This Tool -

The questions below are intended to provide a "quick and dirty" guide to sources of potential inefficiency that, if attended to, might contribute to rapid margin improvement. The questions are excerpted from an audit that one turnaround firm, Cambio Health Solutions, uses on the first day of its turnaround engagements. "No" responses indicate potential areas of focus.

Questions for the COO

- #1 Is our ratio of FTEs to adjusted occupied beds less than 5.5 to 1?
- #2 Is our ratio of FTEs to 100 adjusted admissions less than 6 to 100?
- #3 Do aggregate salaries, wages, and benefits comprise less than 45 percent of our net revenue?
- #4 Do we have fewer than five layers of staff between top hospital administrators and frontline staff?
- #5 Does our count of FTEs include contract labor and consultants?
- #6 Do expenditures (or write-offs) greater than \$5,000 require senior executive approval?
- #7 Have nominal operating expenses per adjusted admission increased less than four percent per year across the last three years?
- #8 Have our expenses per adjusted discharge declined in real dollars over the last five years?
- #9 Do we have automatic procedures for reducing FTEs when volumes decline in a department or service line?
- #10 Do our hospital-based physician contracts have subsidies and administrative fees that do not exceed market standards?
- #11 Do managers receive monthly "scorecards" on their department's performance?

Yes	No

THE SENIOR MANAGEMENT TEAM

		Yes	No
Questions for the CFO			
#12	Do we have fewer than 70 days in net accounts receivable?		
#13	Is our total number of unprocessed bills worth less than five days of net revenue?		
#14	Have cash collections reached 99 percent of net revenue in the last 12 months?		
#15	Are capital expenditures roughly five percent of total expenses?		
#16	Do we have accurate P&Ls for every discrete service line?		
#17	Do we have a preestablished approval process for disbursements and write-offs?		
Questions for the CNO			
#18	Is our number of paid nursing hours per patient day between six and eight?		
#19	Do we use "flex scheduling" to maintain appropriate staffing ratios?		
#20	Have we adjusted our replacement factor for core staffing in light of the Family and Medical Leave Act?		
#21	Do we include observation and outpatient hours in our measurement of nurse productivity?		
#22	Do we account for nurse time spent on admissions, discharges, and transfers in our measurement of nurse productivity?		
#23	Do we perform a monthly benchmark analysis of agency and overtime use across nursing units?		
#24	Do we perform a biannual benchmark analysis of nurse wages in our market?		
#25	Do we track the ratio of worked to paid nursing hours to staff yield?		

$70\,Diagnostic \,Questions$ for

Yes

No

Questions for the CMO		
#26	Do we suspend physicians with delinquent medical records from the staff?	
#27	Do we track the rate at which individual physicians comply with our record keeping standards?	
#28	Do we hold coding training seminars regularly and are they well attended?	
#29	Are our annual malpractice costs less than \$50 per discharge?	
#30	Do we have a P&L for the faculty practice plan?	
#31	Is the medical staff enfranchised in the process of allocating clinical capital expenditures?	
#32	Is physician compliance with supply utilization protocols over 80 percent?	
Questions for the VP of Business Development		
#33	Do we have an action plan to increase the volume through our most profitable service lines?	
#34	Do we annually review the strategic import of each of our service lines?	
#35	Do we have a rigorous objective (external) review process for all business development ideas?	
#36	Do we integrate organizational planning into the strategic planning processes?	
#37	Do we have a protocol for divesting loss leaders?	
#38	Is there a credible link between patient volumes and our marketing efforts?	
#39	Has a satisfactory return on investment for all of our business development and marketing expenditures been clearly established?	

THE SENIOR MANAGEMENT TEAM

		Yes	No
Questions for the Director of Managed Care			
#40	Do each of our managed care contracts maintain an effective discount rate of less than 50 percent?		
#41	Have we avoided "lockout" from plans controlling more than five percent of the market?		
#42	Do our managed care negotiators know the specific prices and volumes necessary to make a contract profitable?		
#43	Are the majority of our managed care contracts written to cover fully allocated costs?		
#44	Do we track claims denials by payer, reason, and financial consequence?		
#45	Is information about recent payer denial rates included in contract negotiations?		
#46	Have we hardwired the managed care precertification process?		
#47	Do we track days in accounts receivable by payer?		
#48	Does our admissions staff evaluate whether uninsured patients are eligible for Medicaid, and assist eligible patients in applying for benefits?		
Que	stions for the Purchasing and Materials Manager		
#49	Does Materials Management control at least 90 percent of total inventory?		
#50	Are all supplies outside the control of Materials Management included in inventory counts?		
#51	Is the ratio of supply costs to net revenue less than 12 percent?		
#52	Do we have less than 30 days inventory on hand?		
#53	Are our inventories turns more than 12 per year?		
#54	Is the use of standing purchase orders widespread?		
#55	Are GPO contracts annually evaluated for actual cost savings impact?		
#56	Do we have an annual process for reviewing our sourcing strategy that includes a demonstration net cost savings from each vendor contract?		

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70 Diagnostic Questions for the Senior Management Team

		Yes	No
Que	stions for the CIO		
#57	Have we reassessed our IS vendor contracts within the last year?		
#58	Are IS department training courses widely attended?		
#59	Do we monitor the level of employee comprehension of IS systems and capacities?		
#60	Are those IS projects that are delayed more than six months reevaluated for cost and feasibility?		
Que	stions for the CEO		
#61	Do I personally track key hospital indicators such as FTEs per occupied bed, days cash on hand, and occupancy rate every week?		
#62	Are senior managers encouraged to express dissent on my key strategic and operational decisions?		
#63	Is senior management compensation linked to financial performance and quality?		
#64	Are initiatives proposed by managers accompanied by rigorous documented analyses and extensive critical scrutiny?		
#65	Are senior managers seen every day outside their offices interacting with department heads and frontline staff?		
#66	Do senior managers consistently rate middle management above average?		
#67	Is the average tenure of department heads between 5 and 10 years?		
#68	Are there dollar threshold criteria for fixed and working capital requirements that trigger in-depth board involvement in project approval?		
#69	Can the board act within 30 days of being presented with a problem?		
#70	Can each of my senior managers answer the "red flag" questions for their department without hesitation?		