

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
HEALTH AFFAIRS COMMITTEE
MAY 10, 2001**

HEALTH AFFAIRS COMMITTEE

Thursday, May 10, 2001
1:00 p.m.
Room 5044, McLeod Hall

Committee Members:

Charles M. Caravati, Jr., M.D., Chair	
H. Christopher Alexander, III, M.D.	Terence P. Ross
Thomas J. Bliley, Jr.	Thomas A. Saunders, III
Vincent F. Callahan, Jr.	Elizabeth A. Twohy
William G. Crutchfield, Jr.	Harry J.G. van Beek
William H. Goodwin, Jr.	John P. Ackerly, III, Ex Officio

AGENDA

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I. REPORTS BY THE VICE PRESIDENT AND PROVOST FOR THE HEALTH SYSTEM

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| A. Human Immune Therapy (Mr. Sandridge to introduce Robert M. Carey, M.D.; Dean Carey to introduce Craig L. Slingluff, Jr., M.D.; Dr. Slingluff to report) | 1 |
| B. Health Care Professional Workforce (Mr. Sandridge to introduce Ms. Pam Cipriano; Ms. Cipriano to report) | 2 |
| C. Medical Center Financial Report (as of March 31, 2001) (Mr. Sandridge to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report) | 3 |
| D. Medical Center Revenue Cycle (Mr. Fitzgerald to report) | 10 |

II. EXECUTIVE SESSION

Discussion of the appointment, assignment, performance, and evaluation of prospective candidates and specific employees of the University and departments of the Medical Center which will necessarily involve discussion of the performance of specific individuals; to evaluate with legal counsel the status of negotiations and performance with respect to integration of the Medical Center computer system; discussion of existing investment in two joint ventures which will involve consideration of personnel and proprietary business data of the Medical Center, where public disclosure at this time would adversely affect the University's competitive position; and discussion with legal counsel of the performance of Medical Center departments complying with regulatory requirements which will

also necessarily involve discussion of the performance of specific individuals. The relevant exemptions to the Virginia Freedom of Information Act are found in Section 2.1-344 A (1), (5), (6), (7), (8) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 10, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I.A. Human Immune Therapy

ACTION REQUIRED: None

BACKGROUND: The annual incidence of new cancer cases in this country exceeds 1 million, and annual cancer death rate exceeds 500,000. Most advanced cases of cancer have low response rates to current treatment regimens involving chemotherapy, radiation therapy, and surgery. Quality of life is an increasingly important motivation in the choice of therapy by patients, with some patients refusing conventional treatment because of fear of side effects.

Beginning with melanoma, a serious form of skin cancer, the Human Immune Therapy Center is developing an effective vaccine for the treatment of cancer using the body's own defense mechanism - the immune system.

DISCUSSION: There is groundbreaking immunotherapy research being pursued at the University which shows that the body's own immune system can be mobilized to destroy cancer cells without destroying healthy tissue. For this to occur, the immune system must be able to distinguish a cancer cell from a normal one. In the laboratories of the Cancer Center, we have succeeded in isolating telltale proteins that characterize certain kinds of cancer cells and that the immune system can recognize. With this information in hand, we are testing in patients a number of vaccines that can train the body's immune system to destroy their cancer cells. There are already patients who can attribute their lives to early successes in immunotherapy Phase II clinical trials at the University.

The intent of the Human Immune Therapy Center is to build on its experience and success with melanoma by extending this research to many more patients, and to treat patients with other forms of cancer. There are teams of researchers ready to use these techniques to attack ovarian, breast, colon, prostate and lung cancers. Our mission is to offer hope and longer life to all cancer patients.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 10, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I.B. Health Care Professional Workforce

ACTION REQUIRED: None

BACKGROUND: A top priority of the Medical Center is to provide as many inpatient beds as possible. In order to do this and to provide a proper level of patient care, it is obviously necessary to maintain a sufficient work force. To do this is a challenge, given personnel shortages and the increasing economic competition for health care staff.

DISCUSSION: Ms. Pam Cipriano, Chief Clinical Officer, will discuss efforts under way and give a progress report on recruitment, retention, and recognition of staff. She also will address bed availability and patient flow issues.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 10, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I.C. Medical Center Financial Report
(as of March 31, 2001)

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial report and reviews it with the Executive Vice President and Chief Operating Officer before submitting the report to the Health Affairs Committee of the Board of Visitors. The Health Services Foundation prepares and presents financial statements to the Vice President and Provost for the Health System.

OVERALL DISCUSSION: Overall the financial statements reflect a series of broad operational issues such as the following:

- The discharges have declined because of bed availability and the nursing shortage. In order to maintain a safe ratio of nursing personnel to staff beds, especially intensive care beds, we have had to close beds.
- Personnel costs including contract labor, which account for 50 percent of the Medical Center's operating expenses, are increasing in a number of ways associated with the nursing shortage. We have increased the rate of pay above what was budgeted. The overtime pay in Fiscal Year 2001 is 40 percent above Fiscal Year 2000 spending. The contracted labor cost is 28 percent (\$3.3 million) above budget, primarily because of the use of traveling nurses. We have been forced to retain these expensive traveling nurses in order to keep as many beds open as possible.
- Supply cost is increasing primarily because of the increase in pharmaceutical costs.

These broad operational issues are affecting all hospitals across the country in varying degrees.

DETAILED DISCUSSION: Discharges from the Medical Center for Fiscal Year 2001 are below budget by 1.9 percent, and below Fiscal Year 2000 by 1.7 percent. The Psychiatry and Surgery

service lines experienced the most significant increases in discharges over last year, while the Neurology and Pediatrics service lines experienced the most significant decreases in discharges. Although discharges are slightly below expectations, patient days are at budget and 1.4 percent above prior year. A higher than expected case mix index has led to a higher than expected average length of stay for patients discharged through March.

Net operating revenue for Fiscal Year 2001 through March is 3.0 percent above budget and 14.6 percent above prior year. The increases in revenue are primarily because of lower indigent care write-offs, the conversion of the outpatient clinics to provider-based entities, the increase of the case mix index and the opening of the Augusta Dialysis Center.

Total operating expenses through March of Fiscal Year 2001 are 5.0 percent over the \$376.3 million budget and 16.1 percent over prior year expenses. Salaries and wages, Medical Center contracts, medical supplies and purchased services are higher than budget and higher than prior year.

The number of full-time equivalent employees (FTEs) is 93 above budget and 489 above prior year. The increase in salaries and FTEs over prior year is primarily the result of University and HSF employees transferring to the Medical Center's payroll with the conversion to provider-based clinics in Fiscal Year 2001. Hospital and clinic FTEs are:

	<u>FY 2000</u>	<u>FY 2001</u>	<u>2001 Budget</u>
Hospital FTEs	4,279	4,518	4,433
Clinic FTEs	<u>134</u>	<u>384</u>	<u>376</u>
Total	4,413	4,902	4,809
Annualized			
Salary and Wage	\$37,702	\$39,816	\$38,959
Cost per FTE			

The salary and wage cost per FTE has increased because of salary adjustments made in:

- July 2000 Retention and recruitment bonus
- September 2000 Minimum wage range adjustment
- October 2000 Implemented enhanced shift differential Program

November 2000 Holiday/premium pay adjustment
Equity increases to market rates

January 2001 4 percent pay for performance increase

March 2001 Internal equity alignment increases for
health care professionals

Medical Center contracts are above budget primarily because of payments to physicians for medical direction being greater than budgeted. The higher cost of pharmaceuticals is a contributing factor to the increased medical supplies expense. Pharmaceuticals expense through March is \$2.2 million (8.0 percent) higher than prior year. Filling nursing vacancies by contracting with traveling nurses is a contributing factor to the increased purchased services expense. Travelers' expense through March is \$1.4 million (42 percent) higher than prior year.

The operating margin for Fiscal Year 2001 through March is 2.9 percent, which is below the budgeted margin of 4.8 percent and the prior year's 4.1 percent margin.

University of Virginia Medical Center
Income Statement
(Dollars in Millions)

Description	Most Recent Three Fiscal Years			Budgeted
	Mar 99	Mar 00	Mar 01	Mar 01
Net patient revenue	\$342.1	\$347.6	\$398.1	\$387.0
Other revenue	<u>8.1</u>	<u>7.7</u>	<u>9.2</u>	<u>8.4</u>
Total operating revenue	<u>\$350.2</u>	<u>\$355.3</u>	<u>\$407.3</u>	<u>\$395.4</u>
Operating expenses	317.4	314.1	367.1	347.3
Depreciation	23.1	22.8	24.6	25.4
Interest expense	<u>4.2</u>	<u>3.7</u>	<u>3.6</u>	<u>3.6</u>
Total operating expenses	<u>\$344.7</u>	<u>\$340.6</u>	<u>\$395.3</u>	<u>\$376.3</u>
Operating income (loss)	<u>\$5.5</u>	<u>\$14.7</u>	<u>\$12.0</u>	<u>\$19.1</u>
Non-operating income (loss)	(<u>\$4.5</u>)	<u>\$4.4</u>	<u>\$7.0</u>	<u>\$4.1</u>
Net income (loss)	<u>\$1.0</u>	<u>\$19.1</u>	<u>\$19.0</u>	<u>\$23.2</u>
Debt principal	\$2.7	\$2.9	\$3.2	\$3.2

University of Virginia Medical Center
Balance Sheet
(Dollars in Millions)

Description	3/31/99	3/31/00	3/31/01
Assets			
Operating cash and investments	\$57.8	\$87.2	\$35.3
Patient accounts receivables	69.9	50.4	69.0
Other current assets	17.9	21.9	32.6
Property, plant and equipment	213.4	215.8	228.6
Depreciation reserve investments	142.2	157.7	175.2
Other assets	<u>11.2</u>	<u>16.6</u>	<u>19.0</u>
Total Assets	<u>\$512.4</u>	<u>\$549.6</u>	<u>\$559.7</u>
Liabilities			
Current portion long-term debt	\$3.6	\$3.8	\$4.1
Accounts payable & other liab	36.1	48.5	33.6
Long-term debt	96.8	97.4	93.1
Accrued leave and other LT liab	<u>12.8</u>	<u>12.2</u>	<u>16.0</u>
Total Liabilities	<u>\$149.3</u>	<u>\$161.9</u>	<u>\$146.8</u>
Fund Balance	<u>\$363.1</u>	<u>\$387.7</u>	<u>\$412.9</u>
Total Liabilities & Fund Balance	<u>\$512.4</u>	<u>\$549.6</u>	<u>\$559.7</u>

**University of Virginia Medical Center
Financial Ratios**

Description	Most Recent Three Fiscal Years			Budgeted
	Mar 99	Mar 00	Mar 01	Mar 01
Operating margin (%)	1.6%	4.1%	2.9%	4.8%
Total margin (%)	0.3%	5.3%	4.6%	5.8%
Current ratio (x)	3.7	3.0	3.6	4.0
Days cash on hand (days)	174.7	216.6	159.8	190.0
Gross accounts receivable (days)	82.5	71.7	68.6	80.0
Average payment period (days)	33.8	45.3	27.9	30.6
Annual debt service coverage (x)	4.1	7.0	7.0	7.7
Debt-to-capitalization (%)	21.0%	20.1%	18.4%	20.0%
Capital expense (%)	7.9%	7.8%	7.1%	7.7%

**University of Virginia Medical Center
Operating Statistics**

Description	Most Recent Three Fiscal Years			Budgeted
	Mar 99	Mar 00	Mar 01	Mar 01
Discharges	21,708	21,101	20,742	21,151
Patient days	116,802	111,246	112,819	112,806
Average length of stay	5.4	5.3	5.5	5.3
Clinic visits	352,482	373,637	381,805	380,031
ER visits	43,401	42,575	42,571	42,373
Medicare case mix index	1.8565	1.7911	1.9002	1.7904
Utilization by Payor Class				
Medicare %	36.8%	38.3%	38.5%	37.0%
Medicaid %	13.7%	12.0%	11.5%	11.9%
Blue Cross %	14.1%	16.2%	15.8%	14.0%
Managed care %	12.7%	13.0%	12.9%	15.5%
Self-pay, Commercial & other %	22.6%	20.6%	21.3%	21.6%
Total	100%	100%	100%	100%
FTE's	4,565	4,413	4,902	4,809

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 10, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I.D. Medical Center Revenue Cycle

ACTION REQUIRED: None

BACKGROUND: The University of Virginia Health System has been making a major effort to improve the revenue cycle for the Medical Center. The Medical Center engaged the KPMG Consulting Firm to assist in the assessment and implementation of a revenue cycle redesign. Efforts have focused on patient access, charge capture, patient billing, customer service, collections and cash application. In September, 2000, the Revenue Cycle team turned some of its efforts to the Charge Capture process and late and lost charges. The late and lost charges project was broken into two phases. The first phase focused on late and lost charges for ancillary services and the second phase focuses on late and lost charges for inpatient and provider-based clinic services.

DISCUSSION: Efforts in Phase 1, focused on Ancillary Services, because the largest opportunity for revenue enhancement existed there. Four high dollar areas were identified: Radiology, Pharmacy, Laboratories and Cardiac Rehabilitation. The Revenue Cycle teams looked at their current process to identify opportunities to streamline and improve quality of information, avoid data delays and omissions and improve the education level of staff and physicians.

Results from the efforts on the Ancillary Services resulted in a dramatic decrease in the number of late charges as a percent of total charges. The percentage of gross charges identified as late or lost declined from 3.97 percent in October to 2.05 percent in February.

In April 2001, the Revenue Cycle team began Phase 2. In this Phase attention is focused on inpatient and provider-based Clinic Issues. The Medical Center has developed policies and procedures for Health Information Process and Management and for Charge Process and Management as well as established standards and processes for the Revenue Cycle to achieve industry standard timelines for processing Outpatient Charges.

Inpatient efforts focus on areas where the current process has resulted in a high level of lost charge opportunities - for example, supply billing. In addition, the Medical Center has looked at specific services that it has been unable to bill or have under billed because of process issues, such as Grant billing and Bilateral Tubal Ligations.

It is believed that the efforts of the revenue cycle group on late and lost charges will result in decreasing accounts receivable and increasing revenue to the system.