

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
HEALTH AFFAIRS COMMITTEE
OCTOBER 18, 2001**

HEALTH AFFAIRS COMMITTEE

Thursday, October 18, 2001
12:00 noon - 2:00 p.m.
Board Room, The Rotunda

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 EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER (Mr. Sandridge)	
A. Vice President's Remarks (Mr. Sandridge to report)	1
B. Medical Center Financial Report as of August 31, 2001 (Mr. Sandridge to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report)	2
C. Report on Leadership Development Program - Six Sigma (Mr. Sandridge to introduce Dr. Thomas A. Massaro; Dr. Massaro to report)	8
D. Miscellaneous Reports	
• Written Report on the Health Insurance Portability and Accountability Act (HIPAA)	9
II. EXECUTIVE SESSION	
• Discussion of the appointment, assignment, performance, and evaluation of prospective candidates and specific individuals and departments which will also necessarily involve consideration of the performance of specific individuals and discussion and evaluation of proprietary business information and patient base development strategies regarding a health care venture and affiliation, where disclosure would adversely affect the Medical Center's competitive position and negotiation of reimbursement terms in future provider contracts for medical services. Also, a report on and discussion of terrorist prevention strategies for deployment at the Medical Center. The relevant exemptions to the Virginia Freedom of Information Act are found in Sections 2.2-3711(A),(1), (8),(20) and (23) of the <u>Code of Virginia</u> .	

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 18, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.A. Vice President's Remarks

ACTION REQUIRED: None

DISCUSSION: The Executive Vice President and Chief Operating Officer will inform the Board of recent events that do not require formal action, but of which it should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 18, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.B. University of Virginia Medical Center
 Financial Report as of August 31, 2001

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.

DISCUSSION: Adjusted discharges for Fiscal Year 2002 are below budget by 1.0 percent, and above Fiscal Year 2001 by 2.5 percent. A trend is evident in that inpatient volume is below budget and outpatient volume is above budget. This is significant to the Medical Center because inpatient volume is profitable and outpatient volume tends to not be profitable.

Net operating revenue for Fiscal Year 2002 is 3.3 percent below budget and 10.8 percent above prior year. The increase in revenue over prior year is primarily the result of the conversion of the outpatient clinics to provider-based clinics. This conversion occurred on August 1, 2000, so is not reflected in revenue for July 2000. In addition, gross charges for the Medical Center increased an average of 15 percent on July 1, 2001.

Total operating expenses for Fiscal Year 2002 are .1 percent above the \$94.5 million budget and 14.4 percent over prior year expenses. Salaries and wages and supplies are higher than both budget and prior year. Medical center contracts are higher than budget, but below prior year expenses. Purchased services are higher than prior year, but below the Fiscal Year 2002 budget.

The number of full-time equivalent employees (FTEs) is 109 above budget and 566 above prior year. The increase in FTEs over prior year is the result of University and HSF employees transferring to the Medical Center's payroll and successful efforts to increase FTEs to permit the opening of more beds. Hospital and clinic FTEs were:

<u>FY 2001</u>	<u>FY 2002</u>	<u>2002 Budget</u>
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Hospital FTEs	4,351	4,790	4,692
Clinic FTEs	<u>313</u>	<u>440</u>	<u>429</u>
Total	4,664	5,230	5,121
Annualized			
Salary and Wage	\$39,921	\$42,509	\$41,083
Cost per FTE			

The salary and wage cost per FTE in Fiscal Year 2002 is higher than in the prior year because of several salary adjustments made during Fiscal Year 2001:

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

The operating margin for Fiscal Year 2002 is 2.1 percent, which is below both the budgeted margin of 5.4 percent and the prior year's 5.2 percent margin.

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

Description	Most Recent Three Fiscal Years			
	Audited August 00	Audited August 01	Unaudited August 02	Budgeted August 02
Net patient revenue	\$75.6	\$86.4	\$95.0	\$97.8
Other revenue	<u>1.6</u>	<u>0.8</u>	<u>1.6</u>	<u>2.1</u>
Total operating revenue	<u>\$77.2</u>	<u>\$87.2</u>	<u>\$96.6</u>	<u>\$99.9</u>
Operating expenses	68.7	76.7	88.2	87.9
Depreciation	5.0	5.2	5.6	5.8
Interest expense	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>
Total operating expenses	<u>\$74.5</u>	<u>\$82.7</u>	<u>\$94.6</u>	<u>\$94.5</u>
Operating income (loss)	<u>\$2.7</u>	<u>\$4.5</u>	<u>\$2.0</u>	<u>\$5.4</u>
Non-operating income (loss)	<u>\$0.9</u>	<u>\$1.0</u>	<u>\$0.2</u>	<u>\$1.6</u>
Net income (loss)	<u>\$3.6</u>	<u>\$5.5</u>	<u>\$2.2</u>	<u>\$7.0</u>
Debt principal	\$0.6	\$0.7	\$0.7	\$0.7

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

Description	Audited 8/31/1999	Audited 8/31/2000	Unaudited 8/31/2001
Assets			
Operating cash and investments	\$93.8	\$63.4	\$77.7
Patient accounts receivables	44.7	48.7	72.2
Other current assets	30.1	43.1	18.8
Property, plant and equipment	214.4	219.4	229.1
Depreciation reserve investments	144.1	156.9	168.6
Other assets	<u>10.5</u>	<u>17.7</u>	<u>19.2</u>
Total Assets	<u>\$537.6</u>	<u>\$549.2</u>	<u>\$585.6</u>
Liabilities			
Current portion long-term debt	\$3.8	\$4.1	\$4.2
Accounts payable & other liab	56.9	39.4	53.4
Long-term debt	93.0	93.2	88.7
Accrued leave and other LT liab	<u>12.2</u>	<u>13.4</u>	<u>18.2</u>
Total Liabilities	<u>\$165.9</u>	<u>\$150.1</u>	<u>\$164.5</u>
Fund Balance	<u>\$371.7</u>	<u>\$399.1</u>	<u>\$421.1</u>
Total Liabilities & Fund Balance	<u>\$537.6</u>	<u>\$549.2</u>	<u>\$585.6</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years Budgeted			
	Audited August 00	Audited August 01	Unaudited August 02	Budgeted August 02
Operating margin (%)	3.5%	5.2%	2.1%	5.4%
Total margin (%)	4.6%	6.2%	2.3%	6.9%
Current ratio (x)	2.8	3.6	2.9	4.0
Days cash on hand (days)	216.9	180.6	175.6	190.0
Gross accounts receivable (days)	69.0	72.7	76.0	80.0
Average payment period (days)	54.1	34.8	40.1	30.6
Annual debt service coverage (x)	6.6	7.7	5.6	8.9
Debt-to-capitalization (%)	20.0%	18.9%	17.4%	20.0%
Capital expense (%)	7.8%	7.3%	6.8%	7.0%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			
	August 00	August 01	August 02	Budgeted August 02
Discharges	4,750	4,709	4,648	4,858
Patient days	24,359	25,247	25,879	26,150
Average length of stay	5.3	5.5	5.6	5.4
Clinic visits	79,674	81,770	85,954	86,336
ER visits	9,307	9,567	9,669	9,712
Medicare case mix index	1.7387	1.9263	1.8726	1.8923
Utilization by Payor Class				
Medicare %	36.8%	40.2%	38.4%	38.4%
Medicaid %	12.1%	14.6%	10.8%	10.9%
Blue Cross %	16.4%	14.7%	16.8%	13.2%
Managed care %	12.8%	13.2%	12.3%	11.7%
Self-pay, Commercial & other %	<u>21.9%</u>	<u>17.2%</u>	<u>21.6%</u>	<u>25.8%</u>
Total	100%	100%	100%	100%
FTE's	4,440	4,664	5,230	5,121

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 18, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.C. Report on Leadership Development
Program - Six Sigma

BACKGROUND: A well-managed organization will seek best practices wherever and whenever it can. Early this year the Medical Center established a relationship with General Electric (GE) Medical Systems to acquire several management techniques developed at GE in the past.

DISCUSSION: There are three major new skills being developed in this technology transfer process. Workout™ is a tool for eliminating non-value added tasks and facilitating rapid decision-making within the organization. It is most useful for breaking down barriers between and among groups. It will be an important vehicle for diffusion and transmission of the cultural changes we are seeking because it brings together multiple stakeholders to make quick practical decisions.

Change Acceleration Process (CAP) is a set of skills designed to reduce resistance and barriers to change in an organization. These skills allow managers to implement decisions in a timely way by providing templates on how to assess, manage and overcome resistance.

Six Sigma is the statistically rigorous process improvement tool designed to reduce defects and improve quality in complex systems. It will be used to improve service quality, to enhance patient safety and to streamline process flow in our complex patient care and administrative systems.

The initiative has been widely communicated within the organization. Training on each of these tools has begun. A summary of initial projects will be reviewed and the anticipated benefits will be discussed.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 18, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.D. Written Report on the Health Insurance Portability and Accountability Act (HIPAA)

BACKGROUND: The Health Insurance Portability and Accountability Act of 1996 (HIPAA) amended the Social Security Act to provide for portability of health insurance, and accountability of the healthcare industry for fraud and abuse. Its provisions will be enforced by the Office for Civil Rights. This law has significant implications for the way the Medical Center does business. The law has evolved into a set of administrative simplification requirements in the areas of billing, coding, privacy and security.

DISCUSSION: Marge Sidebottom, Director for HIPAA Initiatives and Barbara Baldwin, Chief Information Officer of the Health System, will provide a presentation on HIPAA at the January 2002 Board meeting. The following is a brief synopsis of the law's requirements and how the University is meeting those requirements. The coding and transactions portion of the regulations, enforceable in October 2002, requires a standardized format for submitting information for payment and other business operations.

The privacy portion requires patient consent (or in some cases, a more specific and limited "authorization") prior to any use or disclosure of individually identifiable health information, whether in electronic, paper or oral form, and limits the use and disclosure to the "minimum necessary" for the purpose. The rule also requires us to enter into specialized confidentiality agreements with a business associate with whom we share protected health information. The enforcement date for the privacy regulations is April 2003. Proposed security regulations will require administrative, technical and physical safeguards to ensure the integrity of the protected health information.

We have taken a team approach to prepare for HIPAA, utilizing existing structures, where appropriate, and creating specialized short-term work groups, as necessary, to plan and execute our response.

This is a realistic, methodical process as we plan a strategic response to this large and complex piece of legislation.

INFORMATION SHEET

II. The Health Insurance Portability and Accountability Act of 1996 (HIPAA)

Background: Original Legislation

Amended the Social Security Act

Health Insurance Portability (COBRA)

Accountability – provide a means in which to reduce fraud and abuse in the healthcare industry. This has evolved into Administrative Simplification which has three components:

Coding Transaction Sets	Standard format for submitting information for payment and other business operations
Privacy	Protection of individually identifiable health information Includes electronic, paper, and oral communication
Security	Security for access and reporting of individually identifiable health information – includes IS technical guidelines

Basic Definitions:

PHI – protected health information (individually identifiable health information such as name, medical record number, diagnosis, etc.)

TPO – treatment, payment, business operations – exchange of information for TPO purposes is allowed with fewer restrictions and documentation requirements than for non-TPO purposes

Covered Entity – The entity that must comply with HIPAA. The covered entity refers to healthcare providers, health plans and healthcare clearing houses.

Consent – a consent is a general document that, in combination with a “Notice of Privacy Practices”, gives health care providers, which have a direct treatment relationship with a patient, permission to use and disclose all protected health information for the purposes of treatment, payment or business operations (TPO).

Authorization – an authorization is a more customized document that gives the covered entity permission to use specified protected health information for specific purposes, which are generally other than treatment, payment or business operations (TPO) such as research or psychotherapy notes.

Revocation – A written document presented by a patient to revoke a consent or authorization.

Minimum Necessary – The privacy rule requires covered entities to take reasonable steps to limit the use or disclosure of and requests for protected health information (PHI) to the minimum necessary to accomplish the intended purpose.

Business Associate – a business associate is a person or entity who provides certain functions, activities, or services for or to a covered entity, involving the use and/or disclosure of protected health information (PHI).

Chain of Trust – A chain of trust partner agreement is a contract entered into by two business partners in which both partners agree to electronically exchange data and protect the confidentiality and integrity of the data exchanged.

UVA Organizational Structure for HIPAA

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|--------------------------------------|---|
| ▪ University Administration | ▪ HIPAA Steering Committee |
| ▪ Health System Executive Management | ▪ Advisory Committees and Workgroups (currently 18) |

What are we doing?

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| ▪ Identifying the ways in which HIPAA applies to UVA and its healthcare affiliates | ▪ Networking with academic medical centers and colleagues locally and nationally |
| ▪ Educating the community | ▪ Attending and presenting at summits/conferences as new information becomes available |
| ▪ Assessing and inventorying systems | ▪ January Board of Visitor presentation planned |
| ▪ Conducting a PHI survey | |
| ▪ Assessing technology requirements | |

This is a realistic, methodical process as we plan a strategic response to this large and complex piece of legislation.