# Dopkins MC²

## Managed Care
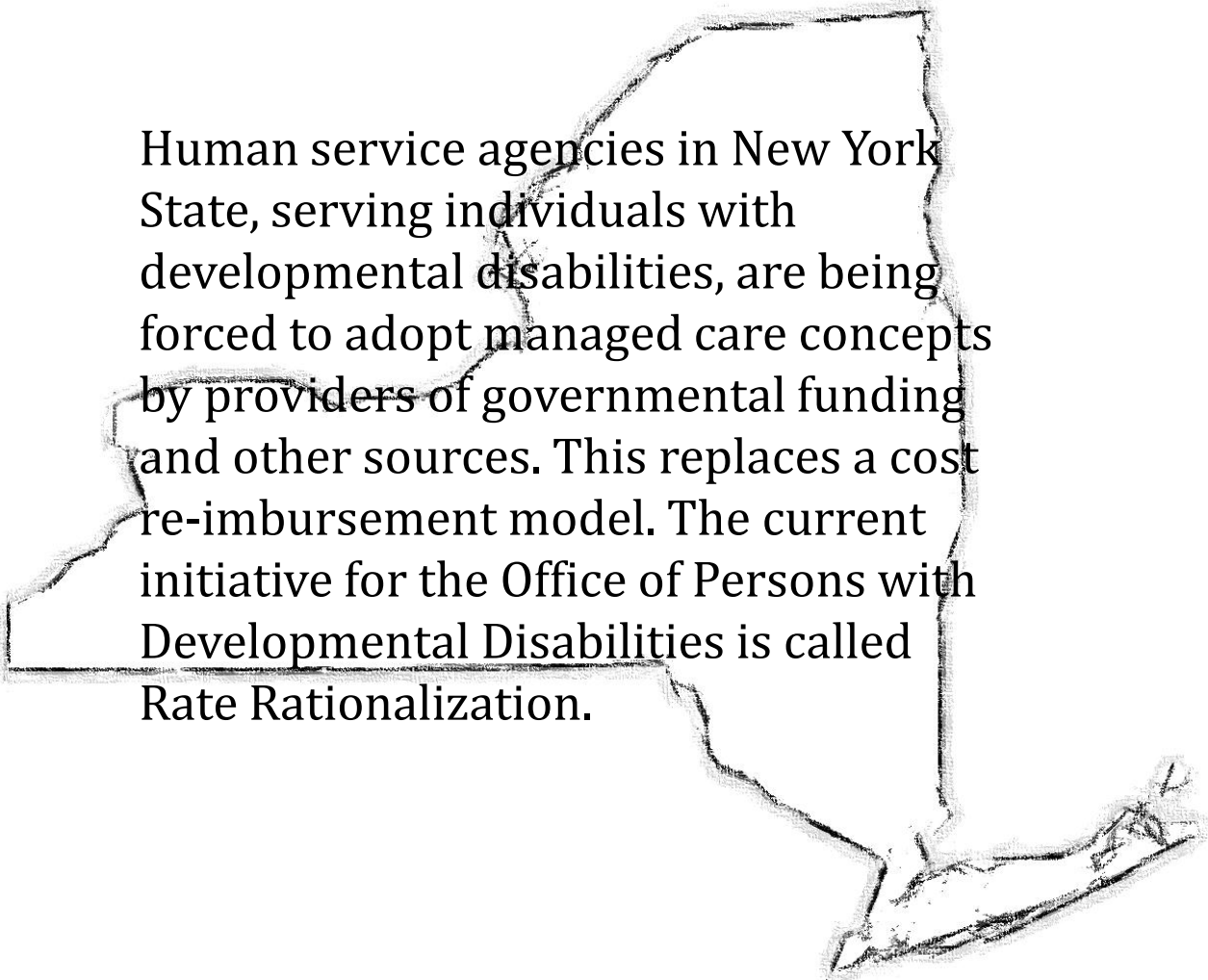## Managed Costs

**Define Acceptable Outcomes**

# Dopkins & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## Managed Care

...intended to reduce unnecessary health care costs through a variety of mechanisms

Managed Care Programs. National Library of Medicine.

Human service agencies in New York State, serving individuals with developmental disabilities, are being forced to adopt managed care concepts by providers of governmental funding and other sources. This replaces a cost re-imbursement model. The current initiative for the Office of Persons with Developmental Disabilities is called Rate Rationalization.

# A new way of thinking

Managed care concepts are focused on cost savings: driving innovative ways to provide needed care at a lower cost. This focus on cost control may be a very new and foreign concept to professionals in direct care, clinical, case management and even fiscal disciplines, where a full or partial reimbursement of reasonable expenses was the norm.



It may well be like grasping that the world is round, when it was always thought to be flat.

**Dopkins MC²**
Managed Care
Managed Costs

Define Acceptable Outcomes

Our focus is not on how best to provide direct or clinical care, but on how to organize and manage the organization's efforts to provide the best care in the context of reduced or fixed revenue.

MC² is our framework for thinking through the many concepts that reduced cost (or fixed cost) managed care requires. MC² is not the answer, or even a tool to give an answer, it's a way of thinking about providing care in a new way.

## Introduction

Many organizations recognize the need to make changes in order to deal with the new world of funding, but are struggling with what changes to make, and how to ensure that the changes are effective.

> MC$^2$ proposes that you start with the purpose, which is to manage costs, then address how cost control will affect the level of services provided. THEN, the changes that are necessary to accomplish the cost reductions within the performance goals can be identified. Finally, structure for monitoring and feedback must be in place.

| Identify and Manage Costs | Optimize Performance | Organizational Changes | Compliance And Internal Control |
|---|---|---|---|
| **Define Acceptable Outcomes** | | | |

All of it is subject to defining an acceptable outcome. That's a necessary part of the feedback loop and the monitoring loop, but it's also necessary to ensure that the quality of care that you've been dedicated to for your entire existence, isn't suffering simply because costs have to be managed. That hopefully ensures that you are not thinking of this as "get rid of half the people" because that will potentially affect acceptable outcomes. It's "get rid of the things that don't matter and don't need to be done."

## STEP 1: Identify and Manage Costs

 First, *identify* your costs. How are you going to reduce costs if you don't know what they are?  We're talking about real, actual costs, not what you *thought* you were going to pay, not what you *hoped* you would pay: what did you <u>actually spend</u>.

The next thing is to find the **true** cost. Currently, a lot of agencies will buy something, charge it to the agency, and then *allocate* it after the fact. Then a department or a program will see a cost number, but that cost number may not truly be what it cost that program. It's just what they got allocated. You may have gotten pushback from program directors in the past that say, "I can't manage that. I don't know what that number is; you just charged it to me." If we're asking those program directors to manage and reduce their costs, we can't charge them with something that we can't justify. They need to understand it. We need to know the true cost. That means wherever possible, <u>you'll want to direct-charge accounts payable expenses and payroll expenses to whoever used it: department, building, program, person.</u>

Managing costs is about planning an expenditure, sticking to the plan and disallowing or justifying any variances.

There are two types of budgets, each one helps to plan and control costs: one in which you take a baseline and start from there; the other starts with nothing and justifies each expenditure.

## Baseline Budget

In this example, you take 10 months of actuals, you divide by 10 and multiply by 12 and that's annualized actual. You estimate it's going to go up about 4%. You multiply times .04 and you call it the budget. Then you go in line-by-line and change things here and there. That's a baseline budget. That's a good starting point. This helps identify a reasonable expectation, it conveys what's do-able, and helps to quantify the magnitude of any cuts.

Last Year                                    Next Year
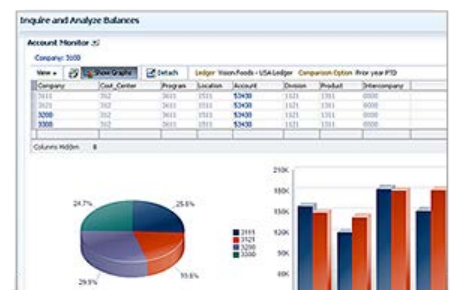


The problem is it's a lot harder to justify reducing a cost: I had to pay it last year; I probably have to pay it this year. There's no motivation to say just because I paid $10,000 last year, why should I pay $10,500 this year? Maybe I should pay $6,000 this year. Basing it on history is a starting point, but it's not a good way to reduce costs.

# Zero-based Budget

An example is your Christmas list. Do you sit down and say, "What did I spend on my kids last year and I'm going to spend the same thing plus 4%"? Is that how anybody does a Christmas budget? Or do you say, "Give me your Christmas list. What do you want? I will go out and price it and figure out what I can afford to pay, and if I don't have enough money, I'm going to start crossing things off the list, so tell me which things you want the most because I will try to get those first? "

## Each expenditure needs to be justified.

Identify each individual expenditure, plan how many you need, identify a cost, plan a timeframe. This represents the budget, then any deviation is due to something unexpected. As you move forward, the unexpected either gets prevented or planned for in the future.

A utility bill has expected usage, a rate, changes in volume based on season. If the rate goes up, you can turn the thermostat down.

## STEP 2: Optimize Performance

Optimize Performance really means <u>lean thinking</u>. Lean (sometimes known as Six Sigma) may have a negative connotation in human services circumstances.
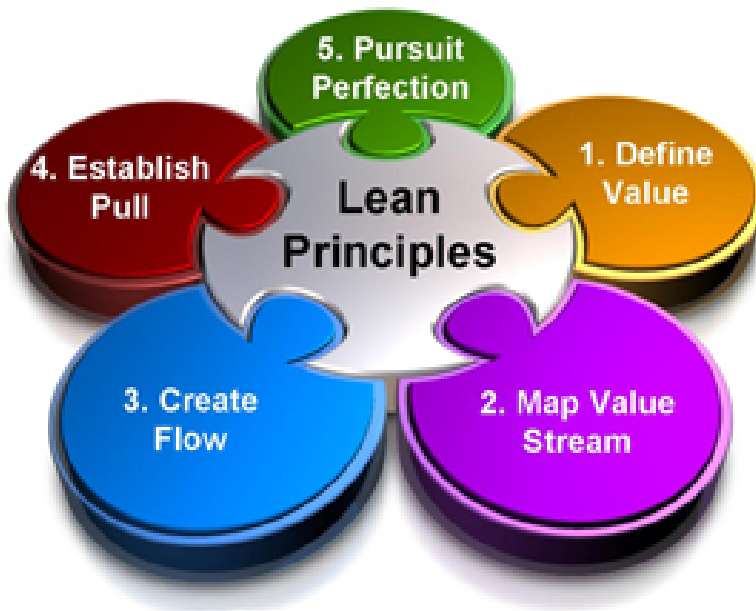


One of the first principles of lean thinking is the concept of value and value stream. In our old world and in fact many other types of industries, value is sometimes mistakenly interpreted as the value that we provide in terms of how *we* interpret it.

But frankly, it's just the opposite. Value is determined by the consumer, the person who is the beneficiary of the goods and services we produce.  In the context of developmental disabilities, it's really the people we serve. The measure of value is not what or how much *we* do, but how much *they* benefit from it.

> Optimizing performance means eliminating any activities  that do not add to the <u>value received </u>by the consumer, activities  that they don't want or are not willing to pay for.

Striving for perfection is really important. There are not as many complex issues as in landing a plane (for example)



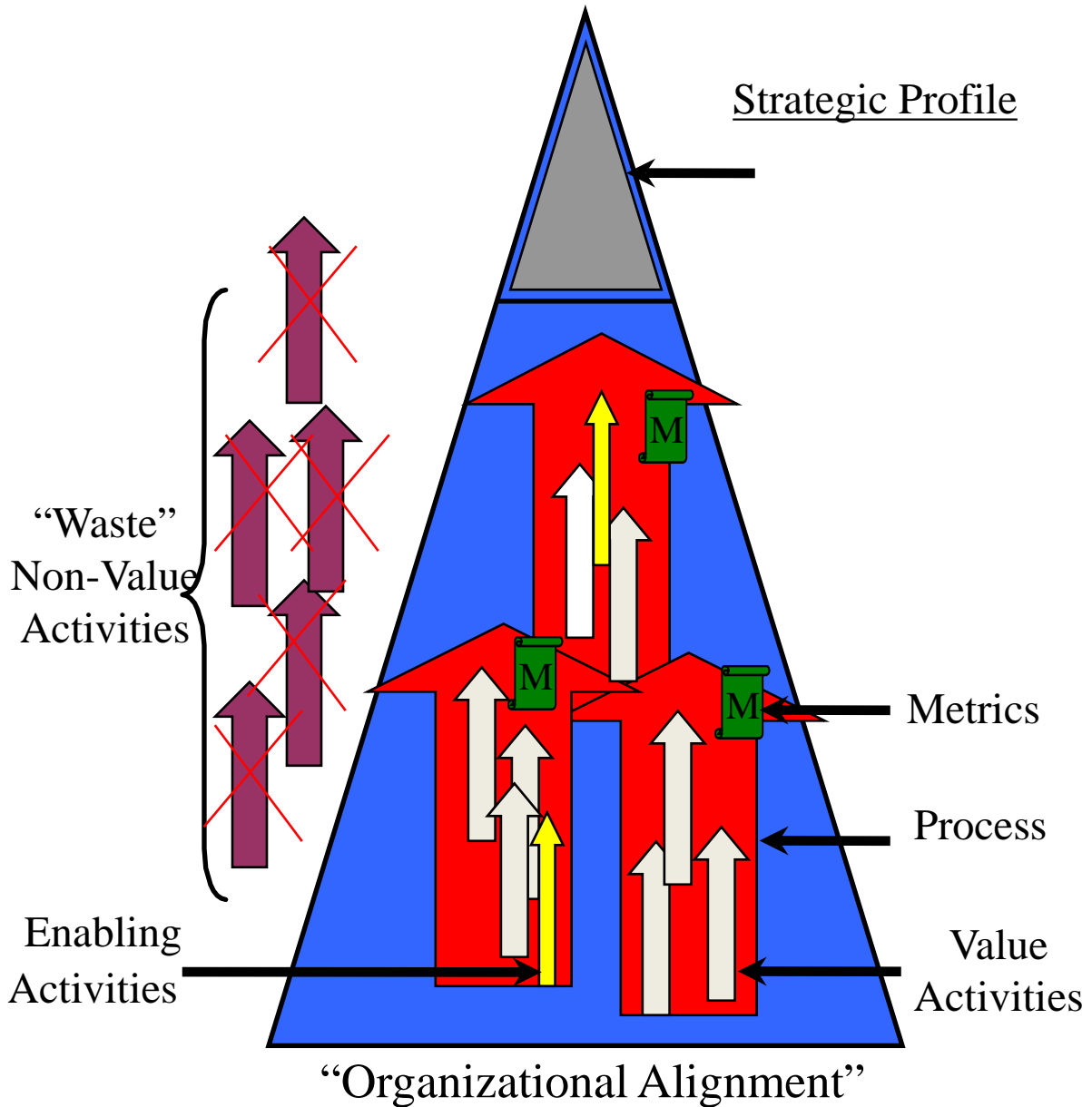**Have no fear of perfection, you'll never reach it.**

- Salvador Dali

but the point is that seeking perfection or continuous improvement is how we identify and eliminate unproductive activity and manage in a managed care environment.

The concept of Optimizing Performance or "Lean" can apply to a specific task or service, and it can apply to the organization as a whole.

❑ **Identify and Track outcomes**: these are what the buyer values

❑ **Measure quality**: this captures how well we provide the value

❑ **Eliminate unproductive activity and waste:** this ensures efficient and effective delivery of quality outcomes

# The Performance Management & Improvement Model



Strategic Profile

"Waste" Non-Value Activities

Metrics

Process

Enabling Activities

Value Activities

"Organizational Alignment"

This is a framework that we've put together that we call the tip of the funnel. The "tip" represents the strategic profile of an organization:

- Core Values
- Purpose
- Vision
- Goals
- Strategy
- Critical Success Factors

This is the heart and heart beat of a not for profit agency: the mission, the purpose, why it exists. That mission and purpose is often, if not always, derived by what we value as an agency and those core values are things that never change over time. The mission may change, based on economic issues or public needs but the core values never change.

# Waste:

- Doing a job prematurely
- Waiting; just the opposite
- Inventory: too much inventory is wasteful because it is stored and not used
- Motion waste
- Manual processing: filling out spreadsheets where there's a system in place perhaps that we're not fully trained on

## STEP 3: Organizational Change

The oft quoted definition of insanity is "Doing the same thing and expecting different results." A whole new way of thinking may well require significant changes in actions and structures to be successful. For example, redefined roles, responsibilities, service delivery models perhaps, are all options when we're trying to meet the changing demands of the people we serve.



- Collaboration
- Shifting staff responsibilities
- Acquiring new needed skills

Often, costs can be reduced and outcomes improved through specialization. If an organization focuses on one thing, and does it very well, it can be an efficient, low-cost provider of quality service.

However, it may lack in some of the complementary services it used to provide, or in some needed support functions. A collaboration between agencies, if well defined and planned, can provide true synergies.

Within an organization, shifting staff responsibilities can achieve some of the same results as specialization.  Breaking the duties of a position into its component parts can help identify tasks that might be eliminated as waste, or which can be transferred to another position, such as  transferring documentation or recordkeeping activities from a clinical position to a clerical position.

Perhaps new skills  will need to be developed in certain positions, which would replace tasks eliminated or shifted to other positions. These new skills could be more in line with delivering value to the organization.

An example might be for a case worker, traditionally focused on delivering outcomes in the form of personal metrics, to add cost control and budgeting skills. Then, one person would be in the best position to weigh the tradeoffs between costs and outcomes for a particular individual or population served.

## STEP 4: Monitor / Audit / Follow-up

Any significant change will require monitoring to insure that old habits do not recur, and any new tasks worth doing well will require follow-up and correction to achieve continuous improvement.

Most people will try faithfully to do what is asked of them, this is especially true of mission-driven personalities that we find in human service not for profits……they WANT to see the mission/agency succeed.  Laying out clearly the plans for change and the reasons, and linking these to the success of the mission is the best hope for "buy-in" from all levels in the organization.



**TRUST…**

- Define boundaries
- Educate staff on the Do's and Don'ts

**…but VERIFY**

- Technology
- Prevent bad things
- Monitor incidents

But controls  should be implemented which report successful outcomes, prevent unwanted activities, and constitute a "feedback loop" for management to spearhead continuous improvement initiatives.

# Internal Control

A process, effected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

- Internal control is a process. It is a means to an end, not an end in itself.

- Internal control is not merely documented by policy manuals and forms. Rather, it is put in by people at every level of an organization.

- Internal control can provide only reasonable assurance, not absolute assurance, to an entity's management and board.

- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

## Start with the Costs

Managed care is about reducing costs: Identify them, budget reductions, eliminate or justify the variances from the plan

## Focus on what's important

Optimize performance by identifying value provided and eliminating obstacles to delivery and waste

## Make Changes

Changes to people, their responsibilities, and even to the organization and its partners will be necessary to succeed at cost reduction and performance optimization

## Follow-up

Major change is hard to implement and sustain. Implement controls and feedback to constantly check that new ways are working and accomplishing the goal

## Don't forget the Mission

Cost management, performance, change and control must all be subject to the organization's commitment to a level of service and acceptable outcomes