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Labor Cost Audit Produces Savings without Layoffs



A medical center became more labor efficient by focusing not on how many employees are being paid, but on how and why they are being paid—and saved nearly \$2 million. → →

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WEB EXCLUSIVES

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Good Samaritan Hospital in Los Angeles has the challenge of providing high-quality tertiary services in an inner-city environment while maintaining a positive bottom line. One of its perennial goals is to improve its financial statement. "We need to continually fine-tune our operations to move beyond a break-even point to being in the black," says vice president of professional services Dan McLaughlin.

In 2009, the academic medical center, which has 408 licensed beds, audited its labor expenses. One year's worth of payroll data was analyzed for each cost center, including nursing, ancillary, and support departments, to determine how labor dollars were being spent. The goal: to identify areas of labor waste and redundancy that could be eliminated without instituting workforce reductions.

The medical center began implementing changes based on the report's findings and saw results within four months after

By devoting more time to replacing FTEs, Good Samaritan was able to cut the number of temporary personnel in half.

the audit began. Savings amounted to nearly \$2 million within the first six months of the initiative, which amounted to approximately 2 percent of productive labor costs. Premium dollar reductions per adjusted patient days dropped 11.6 percent.

What the Audit Analyzed

The analysis focused on three main areas: all forms of premium pay (such as incentives, bonuses, overtime, and weekend pay), use of temporary/agency personnel, and the efficiency of care, or how labor is used throughout the entire care process. The 30-page assessment showed that the main areas that required attention were:

- > Premium pay
- > On-call use
- > Flexing staff
- > Managing length of stay (LOS)
- > Bonus and advertising expenses

To address these areas, the medical center set up four task forces: recruitment, case management, scheduling, and governance (which focuses on policies and procedures). A fifth task force tracked results. Each task force was comprised of four to six key leaders, including a vice president, and representatives from human resources, case management, and accounting. The case management task force also included a physician.

"We worked to drive results and get bottom line savings," says McLaughlin, who participated in each task force.

The audit revealed where labor dollars were being wasted in each area. The

initial cost savings target was \$1.8 million, with the biggest amount to come from case management.

How the Savings Were Achieved

Working from the exposed weak spots, each task force was able to identify ways to reduce labor expenses without cutting personnel or programs.

Recruiting/timely filling of vacancies. The audit showed that the medical center was using ineffective strategies for recruiting that weren't yielding sufficient results. For example, online advertising wasn't producing enough qualified candidates to justify the expense. "We were putting money in the wrong place," McLaughlin says.

More significant, Good Samaritan was being "stingy" with the approval of replacement FTEs, McLaughlin says. Instead of filling these positions in a timely manner, the medical center was using expensive registry personnel. By devoting more time to replacing FTEs, Good Samaritan was able to cut the number of temporary personnel in half. "That was a key part of the savings," he says.

Changing how dollars were spent in these and other human resource areas resulted in savings of \$500,000.

Case management. Changes in how care was delivered yielded the greatest savings early in the initiative: \$837,000, based on a reduction of the total case-mix-adjusted cost per stay. The task force established a working DRG for each patient on admission. Each DRG was also given a targeted discharge date, which was established using the mean LOS per Medicare DRG, minus 15 percent of that number. The idea, says McLaughlin, was to aim beyond the mean LOS to drive the intended result. In five months, the

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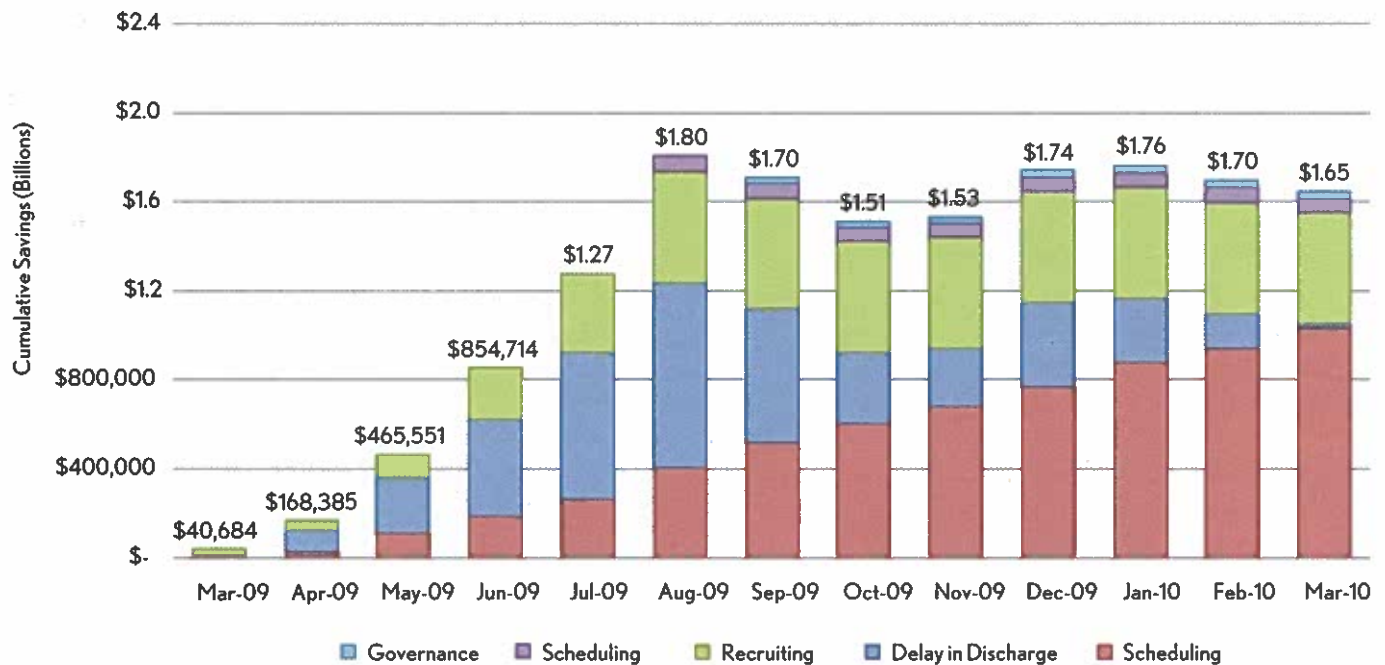
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Labor Savings at Good Samaritan, March 2009 to March 2010



This chart shows the savings Good Samaritan achieved from March 2009 to March 2010. The hospital experienced additional savings beyond this period.

hospital's full Medicare LOS (i.e., across all DRGs) was reduced by one-half day, from 5.53 to 5.03.

The targeted date of discharge was communicated to clinicians on patient charts. To achieve the goal of providing more efficient care, physicians requested their own improvements, as well, such as receiving clinical data, like laboratory and radiology test results, in a timelier basis. To help meet this request, radiologists were given benchmarks, such as reading tests ordered/performed in the morning by noon each day and ensuring that all afternoon procedures were read by the close of the business day.

Discharge dates were also communicated to family members via a whiteboard in patient rooms. It helps to have family members aware of when the patient will most likely be discharged so they can make proper arrangements. McLaughlin says efficiency can be negatively affected when a patient is ready to be discharged

but the family is not ready to take the patient home.

Scheduling. The task force focused on premium pay, including overtime and temporary staffing. The key change agent was giving departmental directors more "actionable data" that enabled them to more easily identify problem areas and develop solutions, McLaughlin says.

For example, the detailed reports meant that outliers could more easily be tracked on a daily basis; figures, such as totals for premium pay dollars and hours, were coded in red, yellow, and green to signify what areas required immediate attention. As a result, unnecessary overtime pay was more easily tracked, as was the additional expense incurred from the use of temporary personnel.

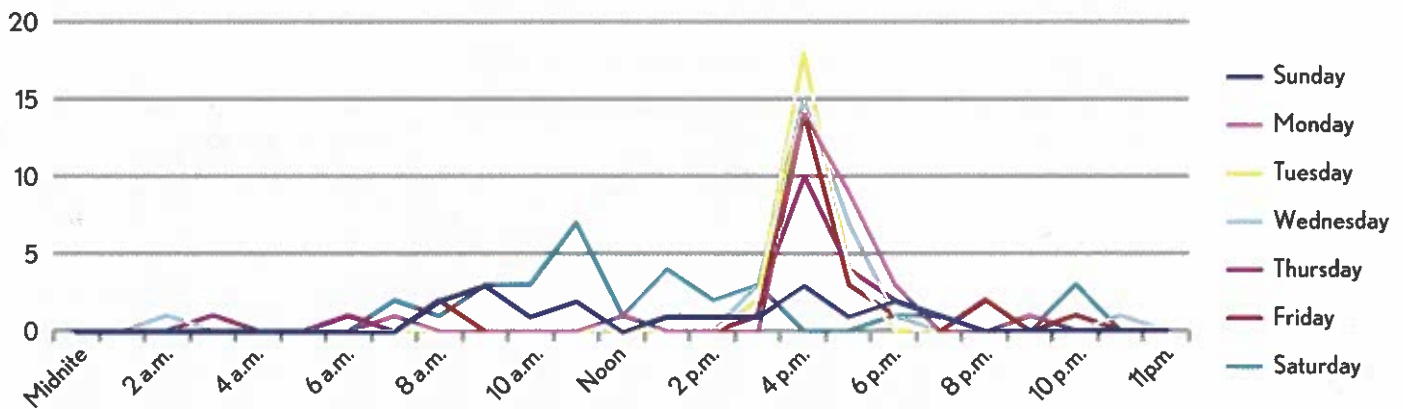
The task force found that the greatest opportunity to reduce premium pay was associated with the operating room, the catheterization laboratory, and radiology.

The hours of every employee in these departments were carefully reviewed to flag variances and determine when overtime was necessary and when it was not, and when a change could be implemented to reduce or eliminate these additional costs.

For example, the task force discovered that 85 percent of the on-call hours in nuclear medicine were occurring within an hour or two of the shift ending. Two technicians were working the same day schedule. To reduce costs, the schedules were changed so one technician started earlier, and the other started later—meaning the middle of the day was fully covered and most of the on-call hours toward the end of the original day shift were eliminated.

By scrutinizing premium pay, the task force was able to reduce the number of temporary FTEs by half, from about 140 FTEs per month to 70 FTEs. Because premium pay hours are appropriately

Nuclear Medicine Call-Back Times, Good Samaritan Hospital, Sept. 2008 to June 2009



By analyzing on-call hours in nuclear medicine by day of week and time period, a task force at Good Samaritan discovered that 85 percent of the on-call hours in nuclear medicine were occurring within an hour or two of the shift ending. To reduce costs, the schedules were changed so that the middle of the day was fully covered and most of the on-call hours toward the end of the original day shift were eliminated.

replaced by regular pay hours, the initiative reduced labor costs by approximately \$400,000 within five months.

An additional \$67,000 was saved by declaring an informal holiday in August, when patient census is typically low, to reduce staff in nonessential areas, such as administration, marketing, and various support departments. The informal holiday was a day when the hospital could shut down, or reduce staffing in, nonpatient care critical areas. Employees who participated had the option of either using their accrued paid time off or taking the day off without pay.

Governance. Initial efforts related to governance—or policies and procedures—focused on time clock use. Abuse of the time clock, such as employees clocking in a few minutes early to capture an extra quarter hour of pay, pump up labor costs.

McLaughlin says simply being more proactive in communicating updates in policies to department directors and managers, who in turn repeat the

information to employees, helped reduce incidents of time clock abuse. Also, reviewing incidental overtime reports with directors and managers, from either the executive level or from accounting, helps bring closer attention to the issue, he says. Cost savings in the governance area were combined with savings in scheduling.

Areas for Continued Improvement

Plans for this year call for driving down even further in areas, such as governance, where there's plenty of room for improvement. McLaughlin says there are several policies and procedures, such as with leave/vacation time, that need to be fine-tuned.

The next step is obtaining more detailed benchmark data to look for other cost-reduction opportunities. This data will include industry comparables by cost center from Californian hospitals. The goal is to compare Good Samaritan's labor unit performance—cost center by cost center—with other hospitals in the region/state to determine respective rankings and thereby reveal room for improvement.

Worth the Investment

At a cost of slightly less than \$80,000 for the labor analysis, and some follow-up focused coaching, Good Samaritan Hospital's audit and "Labor Initiative without Layoffs" proved to be well worth the investment. McLaughlin says the goal of each division leader is to maintain the financial gains from the initiative, promote quality, and drive improvement where possible, with each operating unit of the hospital.

Although the ROI has been considerable, the process of examining so much labor data in such detail was not always a smooth one. McLaughlin says managers were concerned at times that they were being micromanaged. McLaughlin acknowledges that such scrutiny of labor dollars may feel overwhelming at times, "But you do have to remind yourself as leaders and remind middle managers, as well, that the pursuit of excellence never stops, and the pursuit of a better bottom line never does either." ☎