

## Industry Voices — The Right Recipe to Address Hospital Cash-Management Issues

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Over the past several years, hospitals across the U.S. have faced increasingly strong industry headwinds and difficult market conditions, putting many in financial jeopardy. At the same time, many of these hospitals have suffered from poor cash-management practices, further exasperating their financial wounds.

Hospitals can only do so much to counter a challenging market, but cash management and strategic planning is one area that can be fully controlled.

While every hospital's financial situation is unique, there are a number of common themes among hospitals with financial issues. Namely, these hospitals suffer from reduced patient volumes, reduced federal reimbursement aid, poor financial system integrations, billing and collection issues and increased uncompensated care.

Further compounding the financial issues, many of these hospitals fail to employ individuals or hire cash-management consultants with the appropriate experience and technical skills to manage cash flow to combat financial and liquidity-related blood clots.

For instance, hospitals frequently delegate cash-management responsibilities to one of their lowest-paid accounting employees, who may be able to track or reconcile cash coming in and going out each day. However, they typically lack the experience and strategic mindset to properly assess the hospital's historical and projected financial performance. For instance, an experienced and highly trained treasurer would prepare a detailed, rolling, 13-week cash flow forecast that would provide management a road map of projected liquidity over a rolling three-month period.

When prepared correctly, the 13-week cash forecast closely estimates the hospital's anticipated cash receipts, allowing the treasurer to determine the number of disbursements it can afford to pay. To the extent the 13-week cash forecast identifies liquidity constraints where the hospital either begins or continues to fall behind on its financial obligations, the forecast should be used as a strategic tool for management to determine the appropriate corrective actions necessary to avoid cash shortfalls or covenant defaults. And, when executed correctly, these cash-management practices could resuscitate the hospital or provide additional time to evaluate strategic alternatives.

Preparing a 13-week cash forecast may sound easy to do; however, building a reliable and accurate cash forecast often takes a considerable amount of time and patience to accurately project future cash flows based on the hospital's historical and projected financial performance. As such, the treasurer and accompanying staff must have access to and the ability to analyze such data and must be included in the hospital's strategic discussions in case such decisions have an impact on the hospital's cash flow.

Unfortunately, all too often hospitals underprioritize the importance of cash management, and by the time they recognize their deficiency, it's too late to salvage the hospital from financial default or a bankruptcy filing.

For example:

- A California-based hospital, which experienced many of the issues above, was losing \$12 million a year, failed to address various operational issues, lacked a chief financial officer and neglected standard cash-management practices. As a result, [the hospital filed](#) for bankruptcy protection and eventually was sold. If the hospital were more aggressive and proactive in making expense reductions and addressed its cash-management deficiencies sooner, it may have been able to avoid bankruptcy or at least find a lifeline to identify potential capital resources.
- Similarly, a hospital system in Louisiana found itself in a tough situation a few years ago when it became clear the enterprise misvalued and overpaid for a hospital that failed to meet anticipated patient volumes. As a result, the system quickly deteriorated financially and was forced to fire-sale the newly purchased hospital to meet its immediate financial obligations and attempt to avoid bankruptcy. Unfortunately, following the sale, the system's financial losses continued to mount, and eventually the system was forced to [file for bankruptcy](#) and was eventually sold.
- A Georgia-based hospital made many of these same mistakes. A few years ago, the hospital was losing more than \$30 million a year, encountered a major liquidity crisis and was days away from a bankruptcy filing. The hospital was plagued with various issues that led to its financial hardship. A quick assessment revealed that the hospital, like the others noted above, lacked an experienced treasurer and the appropriate road map (13-week cash forecast) to manage its short- and long-term liquidity needs. In addition, the hospital's management team struggled to make difficult but necessary changes to cut costs and limit its financial losses. Fortunately, in this case, the hospital was able to secure a major cash infusion, narrowly avoiding bankruptcy.

At the end of the day, hospitals need the right tools and strategic advice as to how to manage cash when times get tough. It would be helpful for these hospitals to hire stronger candidates with the requisite knowledge and cash-management experience, but the reality is financial roles are not always viewed as a priority or necessity. As the previous examples demonstrate, the lack of an experienced treasurer in crisis situations is a quick recipe for disaster, and steering the ship without a financial plan or 13-week forecast is only going to make a bad situation worse. As such, hospitals should always strive to leverage planning tools or a cash-management dashboard to track cash on hand at all times. Similarly, if it becomes clear the hospital's financial staff members don't have the necessary skills or aren't disciplined enough to make the tough decisions in financially pressing situations, these individuals should be replaced. And, the hospital should consider hiring an experienced financial adviser to implement and train employees with the appropriate tools and strategies to effectively manage cash through difficult times.

Hospitals can only do so much when it comes to industry headwinds and broad market conditions, but cash-management issues can be addressed if appropriate steps are taken in a timely manner. With the right ingredients and by confirming that only qualified people are handling its cash, hospitals can weather certain liquidity storms with proper planning and execution of strategic goals.

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