Funds flow in academic medical centers

Moving toward a transparent and equitable funding model

What's at stake?

Academic medical centers (AMCs) should consider reimagining funding of the tripartite mission to remain competitive in the evolving health care marketplace.

AMCs face significant pressures in today's evolving marketplace. Regulatory reform, a consolidating industry, rapid technological change, and increasingly sophisticated consumers have converged to define a new normal for how health care is and will be selected, delivered, and paid for. AMCs, as key players in this marketplace, face these pressures along with a unique challenge: they must not only navigate the increasingly complex industry dynamics, but they also need to manage often misaligned stakeholder groups to advance their core missions in research, education, and care delivery.

As external funding sources evolve and new regulatory standards emerge, AMCs are faced with the challenge of allocating resources in the most efficient and effective manner. If not proactively managed, this complexity can result in a lack of transparency and create an environment where financial decisions are made in silos, with limited data, or without a focus on the strategy. In today's AMC, leadership should take action to ensure that resource allocations are closely aligned with the strategic objectives of the enterprise. The development of an effective funds flow model can help achieve this objective.

An industry in flux

In the evolving health care ecosystem, patient care, research, and education pose new funding challenges for AMC leaders.

The ongoing transformation of the US health care system is driving the need for AMCs to examine their funds flow and confirm that resource allocations align with cross-enterprise strategic objectives. Economic and industry challenges are placing pressure on AMCs funding needs across three missions:

1. **Clinical care:** AMCs are being pressured by a convergence of forces that are impacting the cost of delivering care on one hand and declining reimbursement on the other. Increasing consumerism is raising the bar for delivering differentiated outcomes alongside a leading patient and provider experience.[1] Simultaneously, government and commercial payers are pushing forward with value-based payment models in many markets and are expected to further pressure the fee-for-service status quo throughout the nation over time.[2] Additionally, substantial investments in technology have been required to meet the compliance guidelines outlined in HITECH, HIPAA, and ACA.[3] With hospitals expected to face significant cuts in medical spending[4] and traditional, high-priced, high-volume specialty care transitioning into lower cost outpatient clinics and patient homes,[5] AMCs will have to rethink funding priorities and find new ways of raising revenue.
2. **Research:** As NIH funding continues to be a topic of federal budget debates and uncertainty, competition for private donation is intensifying. Leading AMCs are developing new models of research collaboration with the public sector and seeking alternative sources of government funding that require investment and leadership focus.[6,7] Going forward, AMCs will need to grapple with these challenges while balancing the needs of the clinical enterprise and the mission to educate the future health care workforce. Bringing cutting-edge research to the bedside can be a strong advantage for AMCs if funding, research, and clinical goals are aligned.

"A revolution under way in health care is fundamentally changing how every academic medical center (AMC) operates .... Every aspect of AMCs will undergo transformation in the decades ahead: how care is delivered, how students and residents are educated and integrated into clinical care, how the research enterprise is organized and funded, and how the missions come together in a new and meaningful way."

Source: Advancing the Academic Health System for the Future: A Report from the AAMC Advisory Panel on Health Care, Association of American Medical Colleges, 2014.

[1] The Beryl Institute, "Defining Patient Experience: A Critical Decision for Healthcare Organizations,"2014.
[2] HHS.gov, "Better, Smarter, Healthier: In historic announcement, HHS sets clear goals and timeline for shifting Medicare reimbursements from volume to value," January 26, 2015.
[3] Deloitte, "2015 Health Care Providers Outlook," © 2015 Deloitte Development LLC.
[4] Deloitte, "2014 Health Care Providers Outlook," © 2014 Deloitte Development LLC.
[5] Hospitals and Health Networks, "The Great Migration," March 11, 2014.
[6] Deloitte analysis and http://www.foundationcenter.org/.
[7] Tufts Center for the Study of Drug Development, "Academic-Industry Partnerships for Biopharmaceutical Research and Development: Advancing Medical Science in the US."

3. **Education:** The education mission is also evolving with increasing competition for funding, the need for physicians and other providers increasing, and evolving care models requiring new and different skills among graduates.[8] AMCs continue to face the challenge of complex relationships between medical schools and clinical delivery organizations as they strive to educate more and more clinicians.

This is just a snapshot of the some of the challenges AMCs now face. Many questions remain about future reimbursement models, the scale and scope of industry consolidation, and the technologies needed to deliver leading patient care and medical education. However, one thing is clear: AMC funding will need to be more strategic, more transparent, and more nimble to effectively address these challenges.

"Across the board cuts, the eight percent NIH cut, and changes due to the Affordable Care Act are costing us $100-$150M .... We have to make adjustments."

—Faculty at an AMC

Our take—Designing an effective funds flow model

Future success of the AMC model will likely rely on appropriate resource allocation.

Given the array of challenges facing today's academic medical center, it is critical that every AMC establish a structured approach for funding the three missions of the enterprise. The approach for designing an effective funds flow model is composed of four stages:

1. Analyzing the cash inflows and outflows to understand how funding is utilized
2. Rationalizing and simplifying the existing flow of funds
3. Defining a transparent and rule-driven model
4. Laying the groundwork for sustainability through policy, process, governance, and controls

Understanding the numbers

An ideal starting point in the development of a funds flow model is to gain an understanding of the cash inflows and outflows at each entity within the academic medical center. Funds may be transferred as a result of contracted or purchased services, based on unique contracts to provide salary or other support for faculty physicians, or even as a result of the legal governance documents in place between these entities, to name just a few examples. In many cases, the data must be "normalized" by creating a common data model and then mapping the existing accounts to this model.

Once a common data model has been established, the next step is to consolidate the data from the three entities and begin analyzing the cash inflows and outflows.

Because the education and research missions cannot sustain themselves through external funding sources, the objective of this analysis is to understand how these missions are funded. Accordingly, two key questions should be asked: how much funding for education and research comes from external sources, and how much funding is subsidized by the clinical enterprise (e.g., hospitals and practice plan)?

[8] HealthAffairs, "Graduate Medical Education," August 31, 2012.

Rationalization of existing funds flows

Prior to designing the actual funds flow model, the existing flow of funds from the clinical enterprise to the medical school should be further scrutinized. The objective of this review is to rationalize or eliminate funds transfers where possible, thereby simplifying the design requirements of future state funding model. A typical opportunity for improvement lies in the contracts that are in place among the hospital, the practice plan, and the medical school. In many cases, these contracts can be rationalized, streamlined, or eliminated.

Funds flow complexities may result from resources that are not aligned with their core mission. At many AMCs, certain clinical support staff are employed by the medical school. These individuals draw upon the existing funds of the academic enterprise but do not provide academic support. A solution to this problem may be to transfer employment of these individuals to the clinical enterprise. The benefits of such a realignment can be numerous in the form of increased transparency and streamlined management, among others. At the same time, resource realignment can be a time complex process. AMCs should ensure that it is done in compliance with state and federal employment regulations and in conjunction with careful management of salary and benefit changes, as well as organizational culture.

Designing the model

After the existing flow of funds has been simplified as much as possible, it is time to design the new funds flow model. A key consideration in the design stage is to establish a cross-functional team with members from the medical school, practice plan, and hospital.

An effective funds flow model consists of three significant components: funding categories, funding level definitions, and key performance indicators. Categories should be defined for various types of funding and should be as prescriptive as possible. This helps users understand exactly what funding may be used for and leaves nothing open to interpretation. The goal is to design a model that is transparent, equitable, and easily understood.

Funding level definitions provide the methods by which funding amounts are calculated. When practical, the funding criteria should be incentive-based, in order to drive outcomes that are beneficial to the enterprise.

Key performance indicators (KPIs) for each funding category should be defined and linked to funding provided in order to measure effectiveness and drive accountability. Financial KPIs can be used to determine whether the funding provided is being spent efficiently. Operational KPIs should be used to measure the effectiveness of a function, department, or individual's operations. Both types of KPIs should be directly linked to the strategic goals of the enterprise in order to drive behaviors that align with these objectives.

Example—Funds flow model components

Funding category: Educational allowance

Funding for continuing medical education may be used for books, dues, travel, professional certifications, boards, and society memberships. These dollars may not be used for any compensation purposes.

Funding-level definition

Each clinical department in the medical school will receive $5,000 per MD and PhD FTE. The funding will be distributed semi-annually on July 1 and December 1, based on the FTE count on those dates.

Operational KPIs

- Number of professional certifications held
- Participation in national professional societies, officer committees

Financial KPIs

- Educational allowance funding as a percentage of total physician education-related expenses by department
- Cost per CME hour

Achieving sustainability

In order to be effective, the funding amounts determined through the model should be integrated with the annual budgeting process so that funding needs are known as far in advance as possible and planned for accordingly. From an operational perspective, policies and procedures should be established for how funding is requested, how it is approved, and how it is disbursed. Within the accounting function, processes should also be developed to accurately record and track funding inflows and outflows and fund balances at period end. Throughout the business cycle, internal controls should be designed and implemented to prevent and detect instances of non-compliance with established policies and procedures. Last but not least, a governance committee should be established to oversee and maintain the integrity of funds flow processes. Only if all these factors have been considered can an AMC achieve an effective and sustainable funds flow model.

Recommended first steps

1. **Assemble a team** of leaders from across all organizational entities
2. **Define funds flow goals** that align with the organizations visionand strategic goals
3. **Eliminate "sacred cows"** that may prevent effective funds management
4. **Collect the data that** is necessary to truly understand current state and may be found in disparate sources
5. **Follow the money** to gain a transparent, comprehensive view of the true nature of funding sources and uses

The bottom line

An AMC's traditional methods of sustainability are becoming limited as the health care market evolves. Alternative payments, managed care models, preventative medicine, wellness initiatives, and a generation of cost-conscious consumers is disrupting many AMCs' primary revenue channels. An understanding of the evolving marketplace is critical to securing future sustainability.

AMCs are at a point where industry pressures are forcing them to adapt in order to ensure long-term viability. Effective implementation of a funds flow model can promote discipline throughout an organization. This should better equip an AMC to face the current challenges while meeting the objectives of the enterprise as a whole.

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