MUSCOGEE (CREEK) NATIONAL COUNCIL

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Speaker: Lucian Tiger III

Second Speaker: David Hill

October 4, 2016

Muscogee (Creek) Citizens,

On behalf of the National Council, I would like to address recent events that have affected the Nation's Department of Health ("DOH"), employees and citizens by providing the DOH Operations Review and Corrective Actions, assessment of the Permanent Fund and Margaritaville Casino Resort construction. First and foremost, it is important to understand the National Council, as the legislative branch of the Nation, does not hire and fire employees of the Nation whether in the DOH or not. When the National Council approved legislation regarding DOH and its budget, it was presented to the National Council as a necessary reorganization of the DOH.

In short, the DOH cannot fully support its costs with the revenues coming into the system. The DOH Income Sheet for FY 2015, per the REDW audit firm, was presented to the National Council August 19, 2016. DOH 2015 revenues were $90.6 million with expenses totaling $118.5 million. FY 2014 revenues were $81.2 million and expenses were $96.7 million. FY 2013 revenues were $65.8 million and expenses were $74 million. As of January 2016, DOH owed the Nation approximately $13 million for fringe benefits for health employees that DOH did not have the funds available to pay. The Operations Review and Corrective Actions were presented to the National Council August of 2016.

OPERATIONS REVIEW

- In 2013, the DOH acquired three hospitals and one skilled nursing facility in Okmulgee; however, the DOH was not prepared to properly operate the facilities or to properly evaluate all necessary issues that stemmed from purchasing the facilities.
- The three hospitals acquired are licensed and reimbursed differently for the services rendered at each location.
- When the DOH acquired these facilities, there were no information systems and therefore needed to acquire informational technology to support these operations.
- The DOH lacked management staff with significant hospital operations experience nor post acute or skilled experience.
- While the acquisitions were challenging by themselves, the DOH was also fully engaged in building a replacement hospital in Okemah.

- The hospital acquisitions as well as the overall changes in the population characteristics have changed the DOH's revenue stream dramatically.
- While the DOH receives funding from grants, tribal allocations and other sources, but over 90% of their funds are provided by IHS or third party funds.
- In FY 2012, IHS and third party funds were $37,676,000 and $15,059,691 respectively.
- In FY 2016, IHS and third party funds are projected to be $34,805,799 and $46,413,233.
- Third party funding (commercial, insurance, Medicare and Medicaid) has tripled in four years, making the DOH's funding more dependent of federal and state reimbursement policies and directly tied to patient volumes.
- This level of variability is not consistent with the DOH's history.
- Variability of the revenue stream increases the need for expenses to be matched to revenues; this is especially true in the hospitals.
- Unfortunately, the DOH does not track productivity in any environment in which they manage. While payroll data has been available to management historically, the DOH continued to add personnel and payroll expense.
- The DOH payroll by pay period was approximately $1,250,000 on September 30, 2014, $1,860,000 on September 30, 2015 and $1,900,000 on December 30, 2015.
- The DOH did not have a clear reimbursement strategy in place.
- Currently, only Creek Nation Community Hospital (Okemah) files a Medicare cost report, which does not fully reflect all overhead costs.
- The DOH will benefit from filing a home office cost report to more accurately reflect and capture overhead costs per Medicare regulations.
- The DOH did not give any consideration to reimbursement in planning for construction or acquisitions.
- The DOH needs to evaluate how to convert the Medical Center to Critical Access status.
- The DOH also needs to evaluate if converting some of the clinics to Federally Qualified Health Clinics will result in greater reimbursement at each individual location.
- The DOH did not have any form of branding for all of the locations providing service to citizens of the Nation.
- The DOH operates the same number of locations with a similar mix of services as Hillcrest and St. John's, yet no referral center knows about the levels of care provided.
- The DOH has a complete array of post acute care services including LTACH, Skilled and Gero-Psych, yet not one referral service polled selected them as a referral destination when asked.
- The DOH must create a unified branding and marketing plan.
- This plan should allow any and all referral sources to recognize the services offered and locations.
- The DOH Human Resources ("HR") did not aggressively manage recruitment, advertising or costing of benefits.

- HR had no mechanism to track their performance in regards to recruiting new staff to the department resulting in excessive recruiting times to fill critical clinical positions.
- HR only accessed the labor market via the DOH's website where all jobs in the department are posted.
- HR did not manage employee compensation nor track the adequacy of wages as compared to the healthcare marketplace.
- Historical benefit costs had not been considered as third party revenue has become a much larger portion of total revenue.

CORRECTIVE ACTIONS

- The DOH made operational improvements in the 3rd and 4th quarters of FY 2016.
- Labor costs have been reduced across all locations by reducing the overtime rate from 2 to 1.5 times the employee's hourly rate.
- Overtime is now strictly controlled by requiring management approval and being tracked each payroll cycle.
- Shift differentials were changed from being based on flat rates to being based on the employee's hourly rate.
- These changes in employee compensation has resulted in a significant reduction in average payroll costs per pay period from a high of $1,993,548 to a low $1,800,519 providing an annualized savings of approximately $4,900,000 as previously reported in the 3rd quarter report.
- The Revenue Cycle Team was established to review existing process and procedures and identify and implement corrective actions.
- The Revenue Cycle Team identified the lack of accuracy in the patient registration across all of the DOH locations.
- New processes have been developed and implemented with training for all patient registration staff.
- Pharmacy staff changed the formulary structure resulting in improved collections for medicines dispensed by the pharmacy at all locations.
- These changes and many others resulted in monthly collections increasing from $3,078,909 in January to $4,891,193 in May.
- The improvement in Revenue Cycle management has increased the average collections per quarter to $13,744,185 in the 3rd quarter. This is a 35% increase over the 1st quarter.
- The DOH also experienced a 14% increase in patient visits.
- The DOH has continued to reduce overhead expense by merging Finance, Human Resources and Information Technology into the existing Tribal Departments.
- These mergers will provide the DOH with a savings of $6,047,748 annually.
- The DOH fleet of GSA vehicles was also reduced producing a savings of nearly $100,000 annually.

- The DOH offices are being relocated to the Alexander Building, thereby eliminating lease expenses of $250,000 annually. The DOH has engaged HealthCare Strategies to construct a Home Office cost report that will result in an estimated improvement of $1,000,000 in Medicare reimbursement.
- The FY 2017 Budget examined numerous programs with poor performance: 1) Rehab Hospital; 2) Audiology; 3) Podiatry; 4) Orthodontics; 5) Dialysis; 6) Home Health.
- All of these programs were losing money and can be provided as needed to the citizens of the Nation via Contract Health or by other providers.
- The budgeted changes COULD impact 139 positions across DOH.
- Mergers of management staff for both locations and departments are included in this budget.
- The budget has assumed moving contract health volumes inside the DOH instead of outsourcing certain services.
- All medical records, scheduling, coding, billing and collection activities are centralized in this budget.
- Operations in the Wetumka clinic will be reduced to two days per week. The reason for the cuts at Wetumka clinic is due to the financial loss of $50,000 monthly/$600,000 annually. By reducing the days of operation from five to two, will allow the clinic to break even.
- Mammography services will be centralized at the Okmulgee Medical Center.

PERMANENT FUND

The Nation's Permanent Fund is currently $302 million. Interest of the Permanent Fund is used for Special Appropriations/Donations. The National Council appropriated approximately $4,993,296 in FY 2016 from Interest on Permanent Fund. It has been suggested that the Nation use the Permanent Fund to get DOH out of debt. This is not possible due to language in construction agreements for the Okemah Hospital, Eufaula Clinic and the Margaritaville Casino Resort. The language in the construction agreements state the Permanent Fund cannot go below $200 million. The Eufaula Clinic and DOH will require most of the $90 million revolver with Merrill Lynch. The Okemah Hospital loan will be approximately $50 million to $56 million once completed. These two projects will total approximately $140 million. That would bring the balance of the Permanent Fund well below $200 million.

MARGARITAVILLE CASINO RESORT

There have been many questions raised regarding why the Nation is expending funds to construct Margaritaville Casino Resort. This is a $375 Million project with an interest rate of approximately 1%. Gaming is a vital part of funding for Muscogee (Creek) Nation and its Citizens.

The Fiscal Year 2015 distributions from gaming to the Nation were approximately $103 Million. This money is used to fund the programs throughout the Nation. This amount reflects more than 1/3 of the Nation's annual budget for FY 17 which is $282,558,607.

The expansion was needed to continue to promote growth in gaming with an addition of Hotel, Swimming Pool, Spa, Concert Venue and additional gaming in order to stay ahead of the competition. After Margaritaville Casino Resort is in operation for five years, the projected distribution from gaming to the Nation for FY2021 will be approximately $150 million. The expansion was necessary in order to keep up with the growth of the citizenship of our Nation and continue the programs and services for our citizens.

LEGISLATIVE BRANCH

The National Council and the Executive Branch are separate branches of government. The National Council legislates, appropriates and approves the annual budget of the Nation. The National Council does not make personnel decisions and is not responsible for decisions made by administration. The National Council passed the Comprehensive Annual Budget for FY 2017 knowing that it COULD impact up to 139 positions within DOH.

In closing, although it was a difficult decision to make, it is our job as Representatives to do the best we can for all citizens when it comes to the finances of the Nation.

Sincerely,

Lucian Tiger III

Lucian Tiger III, Speaker
National Council
Muscogee (Creek) Nation