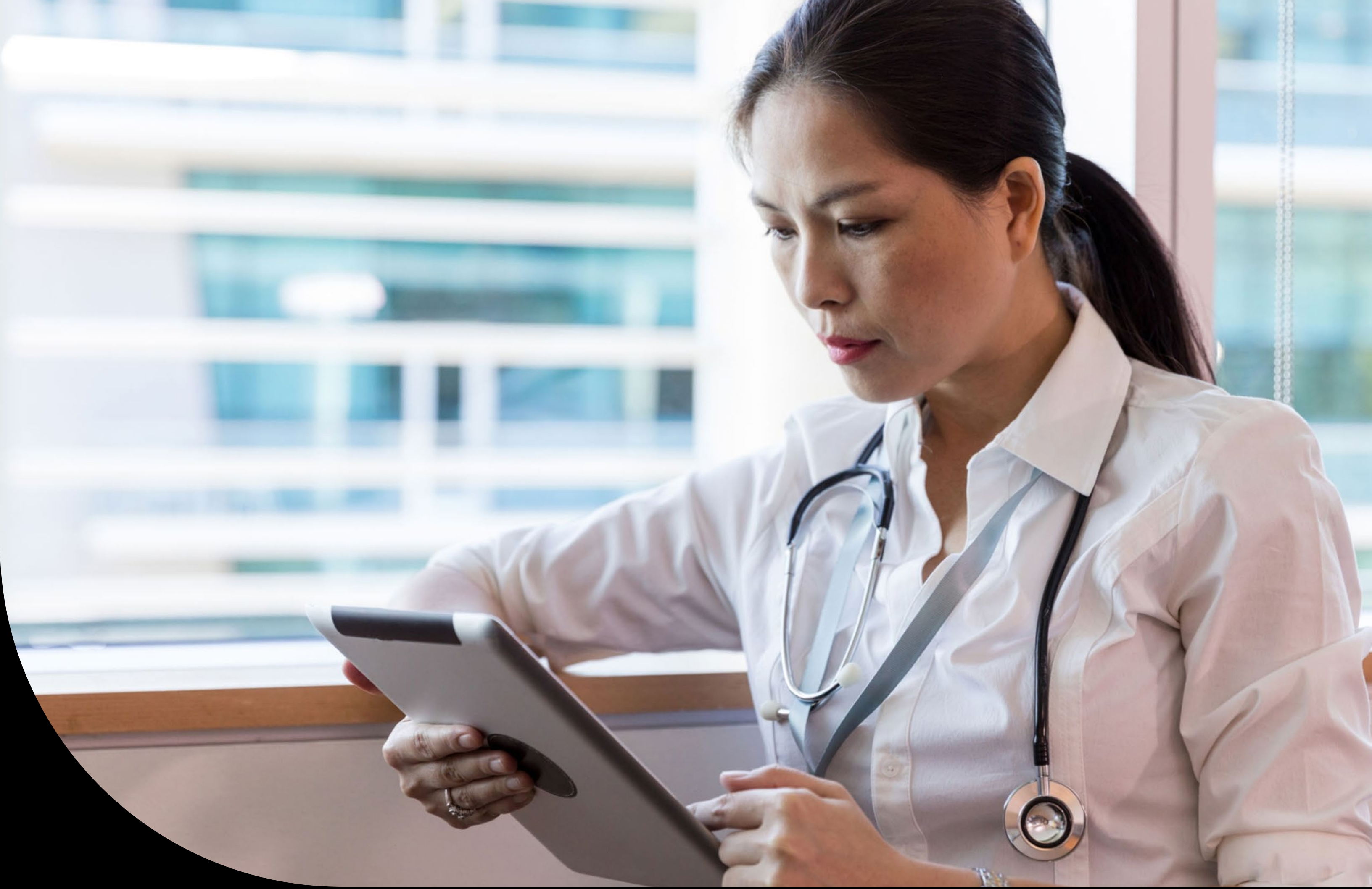

White paper

Financial Consolidations for Multi-Entity Healthcare Organizations

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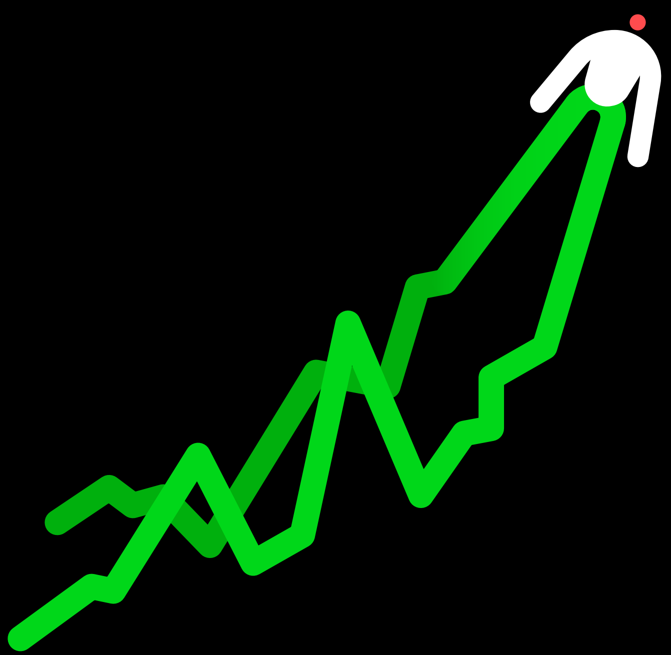

The challenge for multi-entity healthcare organizations

In virtually any healthcare organization, corporate accounting is the custodian and curator of financial data to monitor and manage the organization and drive it forward to new levels of success. But as any controller or CFO of a multi-entity healthcare organization can tell you, financial consolidations remain one of the key hurdles. The time-intensive nature of information assembly, validation, and reporting for many accounting groups can sometimes be measured in weeks—rarely just days.

Consolidations—grouping together all related organizations under a single parent company's control—is an essential requirement to create a single "operational" view of the entire organization.

Whether it's a multi-practice clinic, a group of long-term-care providers, a network of hospitals, or a chain of imaging centers, stakeholders want and need to understand various lines and businesses, allocate capital and fund the organization. Consolidation eliminates all inter-group activities and balances to report transactions with external third parties as if the entire group of companies was operating as a single entity.

Different legal entities (clinics, diagnostic centers, medical labs, and practices) are created by a parent company for a range of reasons and purposes. Some are legally driven to limit liability exposure, while others are created to optimize the tax profile or through strategically driven initiatives like mergers, and acquisitions.

The challenges of consolidation today
Consolidations are a staple of accounting of course, but their intensity and complexity have changed as the healthcare industry continues to undergo significant changes. Today, CFOs must contend with factors such as:

- Expansion of facilities and service lines across regions and states.
- The varying and changing nature of accounting rules as regulatory frameworks evolve.
- Emphasis on growing the business through both organic new ventures or by acquiring others.
- Increasing inter-relationships and inter-company activities between entities within the parent company.

The timelines for consolidation are compressing and are driven by factors such as:

- Tighter reporting deadlines and the desire to improve the timeliness and transparency of reporting to stakeholders.
- Transparency of information for industry and government regulators.
- The need for a well-documented and well controlled consolidation process that preserves and enhances financial reporting integrity.

The consolidation process

The traditional approach to consolidation, still used by many healthcare organizations, combines old fashioned manual labor, semi-structured processes, and a range of different technologies to bring together data and information. In many healthcare organizations, financial consolidation roughly follows a pattern that comprises the following four steps.

The consolidation process

1. The close follows a detailed calendar with target dates for each business unit to close their books and submit results to the corporate accounting group. Many business units (e.g. a particular hospital or specific practice group) need a week or more to close their books, which means the corporate accounting group is unable to start the close until a week or more after the period-end date.

2. Many corporate accounting teams receive results from each business unit through indirect mechanisms such as spreadsheets or by email. Such a process not only requires extensive manual rework to harmonize the various results, but may also be unprotected and out of compliance with HIPPA. The team must then place the data into consolidated accounts that conform to accounting policies and account grouping structures–a painstaking, laborintensive process.

3. Some accounting groups set up a consolidation entity inside the financial reporting system to separately house the consolidation and elimination journal entries. However, others rely on a simple spreadsheet for this purpose. Whether it's journal entries or separate columns and/or rows, the intercompany activities and the investment/ equity accounts get eliminated, and the books for any acquisition related balances (e.g. goodwill) adjusted.

4. The consolidated accounts are manipulated to put them into a financial reporting framework. This is often the beginning of the "last mile of financial reporting."

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Unfortunately, as any healthcare CFO can tell you, even with excellent communication, process, and structure, this multi-stage consolidation process is time-consuming and error-prone. In a recent study by Financial Executives Research Foundation and Robert Half, 58% of companies manually reconcile accounts. Only 22% of companies in the US use software to reconcile accounts.[1]

Significant difficulties arise when you must respond to late entries or other adjustments—necessitating a repeat of this process. As a result, consolidated results are often unknown until the very end of the close process.

It's clear that healthcare organizations need a smarter way to consolidate their financial results with greater speed and lower risk. Unfortunately, spreadsheets and manual procedures have held back many finance teams from playing greater strategic roles in their organizations. While the manual processes and spreadsheets of the past may be comforting and familiar to many finance people, they no longer support the fast pace of today's healthcare industry.

1. *2017 Benchmarking the Accounting and Finance Function, Financial Executives Research Foundation and Robert Half.*

Consolidations: the next generation

The new way to consolidate comes from leveraging leading cloud financial management systems. The characteristics of this type of configuration include four critical differences from other traditional, on-premise solutions.

1. The scalable accounting foundation enables automation
Healthcare firms are often adding virtual and physical entities to their corporate structures. However, traditional accounting and finance systems struggle to add these entities. On-premise solutions cannot replicate the systems and processes for new entities and across geographic jurisdictions.

Cloud-based financials alleviate this shortcoming, enabling you to add new business units seamlessly and without any additional investments in hardware, software, or configuration. When one integrated system gets leveraged, training and user resources are readily available to support the implementation.

When all business units—regardless of location, old and new—use the same system, you achieve significant productivity gains. Automation means you can redeploy corporate accounting staff to more strategic activities. Finance's role changes from a mere preparer to the analyzer and reviewer. It creates a shift in mindset and positions finance to add value to information and move beyond simply reporting it.

2. Supporting faster growth
Many healthcare firms are moving quickly to capitalize on growth and M&A opportunities. Finance must be agile enough to support rapid changes by establishing books and records that align with the rest of the company. A turnkey solution can get systems and processes up and running to generate valuable information to support all of the decisions that happen when a new entity is created or acquired. At the same time, the corporate accounting group wants and needs to roll-up a new entity without missing a beat.

Cloud financial management systems are ideal for ramping up new entities. Existing practices, perhaps with similar business models, can be used to quickly configure the accounts of new entities. Report writers can adjust to the reporting needs and meet different GAAP and healthcare-industry requirements. You can adapt the chart of accounts to meet the needs of the new business unit.

At the same time, because one system forms the backbone of the organization's systems and processes, you have the luxury of centralizing core finance functions, such as accounts receivable or accounts payable. That translates into a significant opportunity to leverage one database of customers and vendors across the consolidated organization.

3. Managing the consolidation process
Cloud-based financials allow for all consolidation information to be fully integrated at any point in time. This puts all the data from every geography, business line, specialty, or other segments at the fingertips of the corporate accounting staff. This can virtually eliminate the back-and-forth emails between corporate accounting and the various business units. The corporate accounting staff has drill-down transparency into the data of each business unit to enhance its own understanding of the financials as the results roll-up.

Leading cloud-based finance systems also have collaboration and documentation tools built in, such as chat functions and electronic notes that can be documented and attached to relevant accounts and reports. Say goodbye to cumbersome binders or file directories full of spreadsheet backups.

Leading cloud financial management systems centralize the set up and management of inter-entity relationships. Bringing greater visibility to inter-corporate transactions between entities. Since the data is housed inside a single system, the elimination and consolidation entries can be automated. Intercompany accounts are automatically reconciled and elimination entries posted to deal with intercompany transactions and balances. This mitigates the risk of missed postings of inter-company transactions on one side or the other.

4. Better insight
Traditional consolidation processes often create a data gap between systems and spreadsheets that inhibits transparency, limits insight, and creates a latency between when activities happen and when they get reported.

Cloud-based financials eliminate the gaps between the consolidation and the data—which has a profound outcome. Real-time consolidated financial information becomes available to decision-makers at the push of a button. This eliminates the "black box" of accounting that often arises when the executives must wait weeks to see consolidated financial results, which can disrupt and delay important decisions.

Conclusion

Addressing the challenges of consolidation using a single, cloudbased financial system tool can propel your healthcare organization forward. The benefits of automating the consolidation process include:

- Accelerating the integration of new entities and solutions within your organization.
- Improved control and opportunities to leverage one financial management system across the enterpirse to centralize core processing functions.
- Drill down insight from the consolidated perspective into each operating entity.
- Greater coordination throughout the closing process between business units and corporate accounting.
- Real-time consolidated results from across the enterprise at any time without waiting for period ends.

More than ever, finance is data rich, but time poor. A truly integrated cloud-based financial system can automate the consolidation process, reintroducing quality and trust. Senior healthcare executives can view timely information with confidence, which enhances finance's credibility and opens the door to new opportunities to add incremental value.

About
Sage Intacct

Sage Intacct is the AICPA's preferred provider of cloud financial applications. Our modern, true cloud solution, with open APIs, gives healthcare businesses the connectivity, visibility, and efficiency they need to drive financial performance. At Sage Intacct, we help organizations strategically grow their business through detailed insights to support critical decisions.