

An iceberg floating in the ocean. The tip of the iceberg is above the water line, while the much larger base is submerged. A yellow price tag is attached to the submerged part of the iceberg.

Iowa Hospital Association Annual Meeting

The Hidden Price Tag: How Poor-Quality Drains Hospital Revenue

Doug Johnson, RN, LSSBB, CPHQ

October 6, 2026



Consulting
Remedy

The Great Divide



Leadership & Management

Hospital CEOs again cite financial, workforce challenges as top concerns

Below are the ranked concerns, with lower mean scores indicating greater urgency:

- Financial challenges — 2.2
- Workforce challenges (e.g., personnel shortages) — 3.6
- Governmental mandates — 4.5
- Access to care — 5.3
- Behavioral health, addiction and mental health issues — 6.0
- Patient safety and quality — 6.2
- Technology — 6.4
- Patient satisfaction — 7.1
- Physician-hospital relations — 8.0
- Population health management — 8.8
- Reorganization (e.g., mergers, acquisitions, restructuring, partnerships) — 8.9

What are your pain points when it comes to Quality or the Quality Department?



Questions

- Is your Quality department considered an **OVERHEAD** department?
- Are you involved in the individual line item **COSTS** in the Quality budget?
- Do your Process Improvement Projects project the expected ROI **BEFORE** implementation?
- Are you able to **CASCADE** the cost and ROI implications to front line employees?

Cost of Poor Quality

Cost of poor quality, or COPQ, is both the **direct** and **indirect** costs associated with the defects generated by a process. The cost varies depending on how far the product or service goes along the process before being detected. (*iSixSigma*)

Discussion:

How does poor quality cost the healthcare organization?

What are some examples of poor quality leading to cost?

The LOCK...



Companies that Experiences Significant Quality Issues



What Do They Have In Common?

- Product quality failures (e.g., outdated or unsafe products)
- Operational quality failures (e.g., poor service, weak processes)
- Data and reporting quality failures (e.g., Enron)
- Innovation quality failures (e.g., Kodak, Blockbuster)
- Customer-experience quality failures (e.g., Toys “R” Us, Circuit City)

Why This Matters to Healthcare

- Quality failures directly impact patient safety, reimbursement, and reputation
- CMS, OIG, and state regulators increasingly tie quality to financial penalties
- Rural hospitals face amplified risk due to staffing, turnover, and resource constraints

Hospital Quality Failures

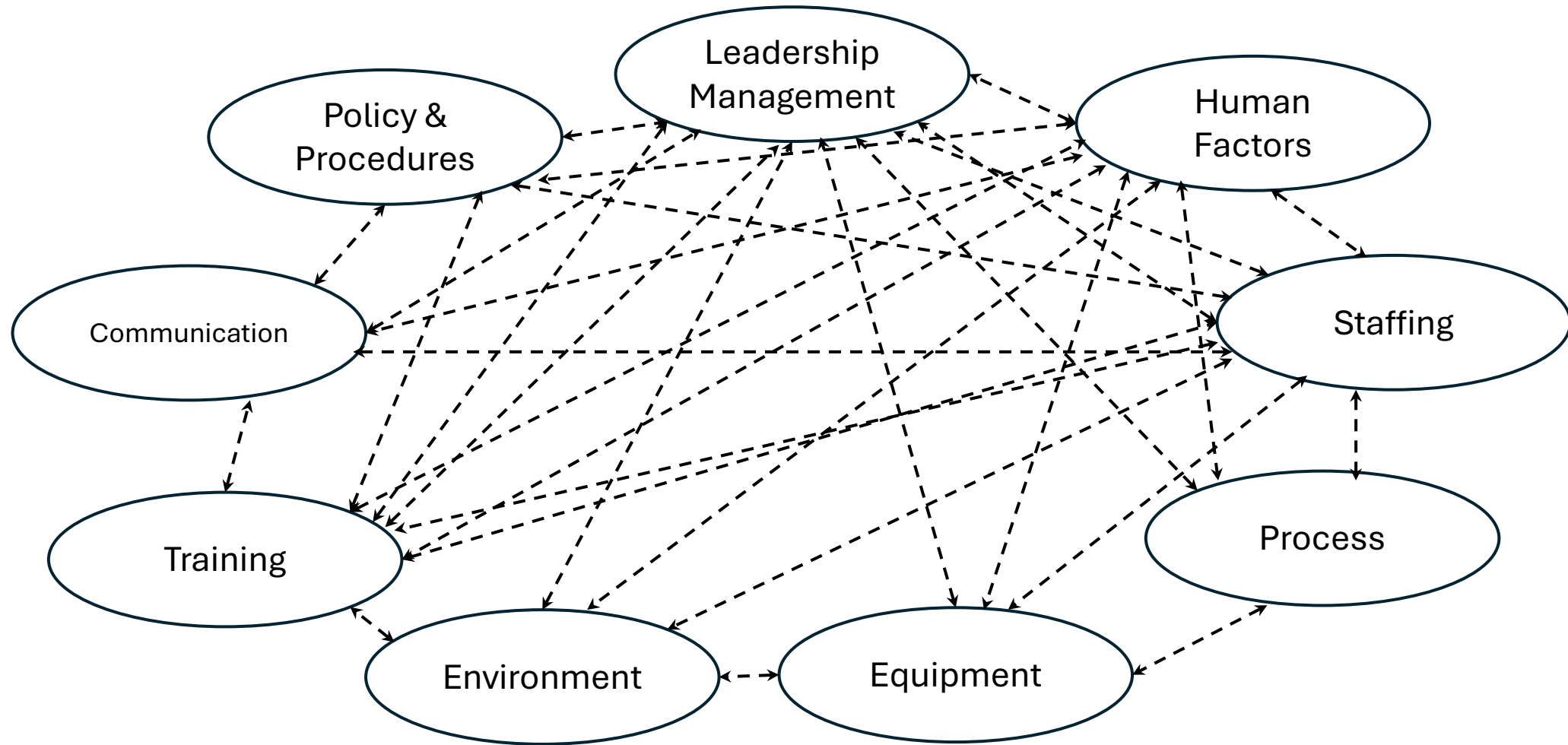
- 10–12% of hospitalized patients in high-income countries experience adverse events
- 134 million adverse events globally each year
- 2.6 million deaths linked to poor quality care

Lesson: Quality failures are not rare — they are systemic

Common Patterns Across All Industries

- Leadership incentives misaligned with safety
- Underreporting and weak controls
- Overconfidence in regulators to catch problems
- Workforce shortages and inconsistent/lack of training
- Outdated IT and fragmented systems

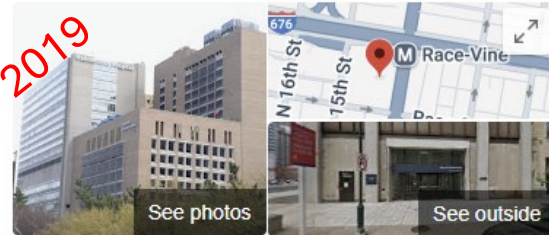
Common Themes...but no Silver Bullet



The Cultural Drivers

- “We’ve always done it this way”
- Fear of speaking up
- Pressure to meet deadlines or budgets
- Lack of transparency
- Siloed departments and poor communication

Hospital Closures

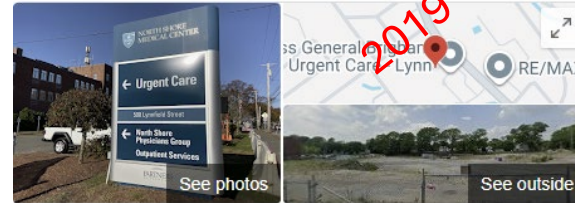


Hahnemann University Hospital

3.3 ★★★★★ 269 Google reviews
Hospital in Philadelphia, Pennsylvania

Permanently closed

- ✓ Chronic patient safety problems
- ✓ CMS penalties for readmissions and HACs

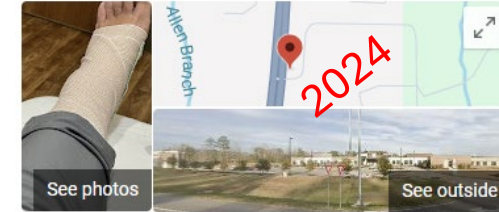


North Shore Medical Center Union Campus

2.4 ★★★★★ 44 Google reviews
Medical center in Lynn, Massachusetts

Permanently closed

- ✓ Repeated low performance on CMS quality metrics



Thomasville Regional Medical Center

2.7 ★★★★★ 23 Google reviews
Hospital in Thomasville, Alabama

Permanently closed

- ✓ Severe staffing shortages
- ✓ Inability to maintain service lines
- ✓ Difficulty meeting regulatory standards



- ✓ CMS decertification for patient-safety violations
- ✓ Medication management failures

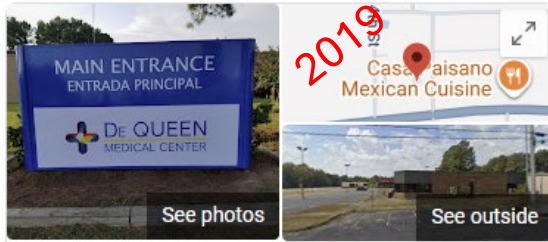


- ✓ Persistent low CMS star ratings
- ✓ Chronic infection control issues
- ✓ Staffing issues



- ✓ Operational strain that threatened safe care

Hospital Closures



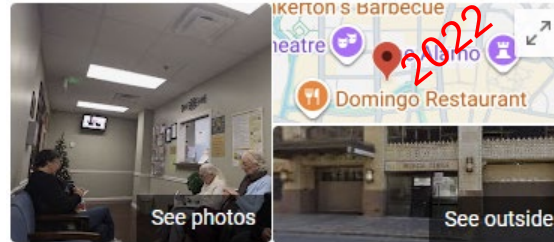
De Queen Medical Center

1.6 ★★★★★ 7 Google reviews

Hospital in De Queen, Arkansas

Permanently closed

- ✓ Regulatory deficiencies and loss of patient volumes



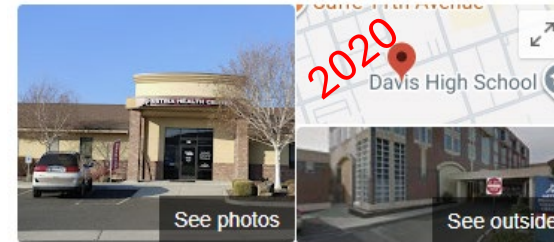
Nix Medical Center

3.3 ★★★★★ 3 Google reviews

Hospital in San Antonio, Texas

Permanently closed

- ✓ Declining quality scores and unsustainable operations



Astria Regional Medical Center

3.6 ★★★★★ 19 Google reviews

Hospital in Yakima, Washington

Permanently closed

- ✓ Staffing, quality metrics, and financial losses



Shands Lake Shore Regional Medical Center

2.9 ★★★★★ 71 Google reviews

Hospital in Lake City, Florida

Permanently closed

- ✓ Quality related service cuts and staffing



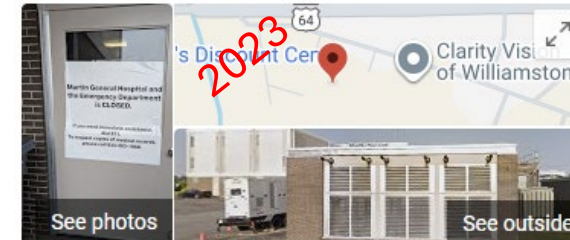
Jellico Regional Hospital

3.8 ★★★★★ 28 Google reviews

Hospital in Jellico, Tennessee

Temporarily closed

- ✓ Failed to meet regulatory and safety requirements



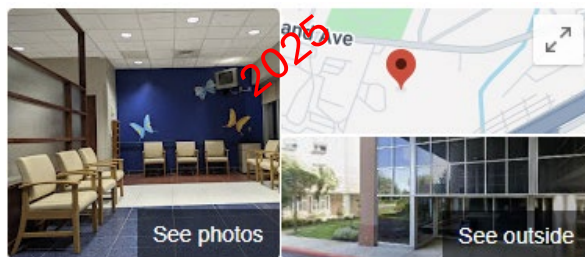
Martin General Hospital

2.0 ★★★★★ 52 Google reviews

Hospital in Williamston, North Carolina

Permanently closed

- ✓ Inability to maintain safe staffing and service lines



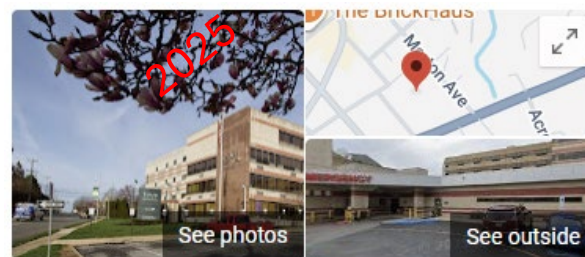
Crozer-Chester Medical Center

3.4 ★★★★★ 1,831 Google reviews

Medical center in Upland, Pennsylvania

Permanently closed

- ✓ 2 Star hospital
- ✓ \$4M HAC Penalty



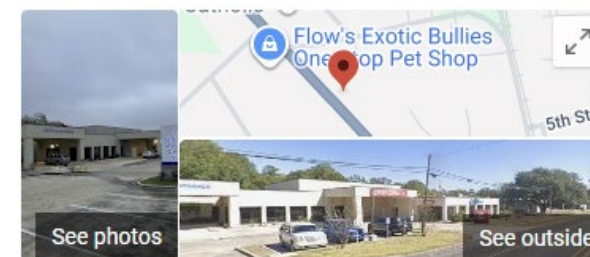
Taylor Hospital

4.1 ★★★★★ 1,765 Google reviews

Hospital in Ridley Park, Pennsylvania

Permanently closed

- ✓ Financial Reasons



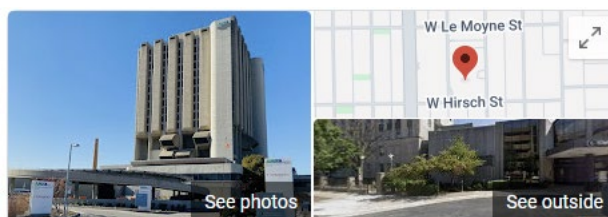
Mid Coast Medical Center - Trinity

3.5 ★★★★★ 6 Google reviews

Hospital in Trinity, Texas

Permanently closed

- ✓ Financial Reasons



Saint Elizabeth Hospital - Chicago

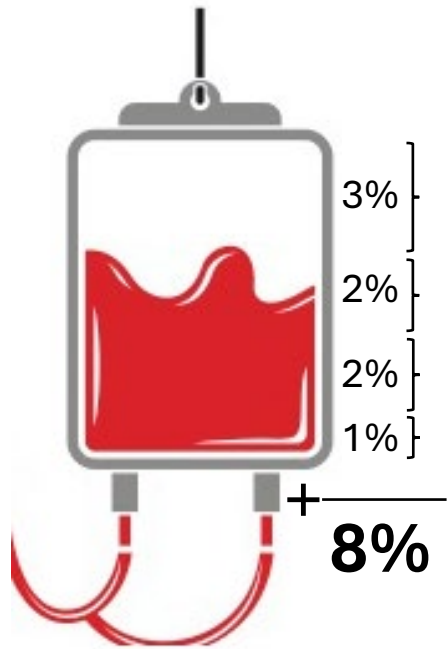
2.6 ★★★★★ 47 Google reviews

Hospital in Chicago, Illinois

Temporarily closed

Cost of Poor Quality

- Public Reporting of Data
- Medicare Payment Penalties



Readmissions Reduction Program

HVBP Hospital Value Based Purchasing

IQR/MU Inpatient Quality Reporting/Meaningful Use

HAC Hospital Acquired Conditions

Average Medicare Revenue: \$147,000,000
- \$12,000,000

Hospital

Hospital 
XYZ

Overall star rating:



Patient survey rating:



Infections

Healthcare-associated infections, or HAIs, are infections that people get while they're getting treatment for another condition in a healthc... [Read more](#)

Central line-associated bloodstream infections (CLABSI) in ICUs and select wards
⬇ Lower numbers are better

0.543
Better than the national benchmark
National benchmark: 1.000

Catheter-associated urinary tract infections (CAUTI) in ICUs and select wards
⬇ Lower numbers are better

0.713
No different than national benchmark
National benchmark: 1.000

Surgical site infections (SSI) from colon surgery
⬇ Lower numbers are better

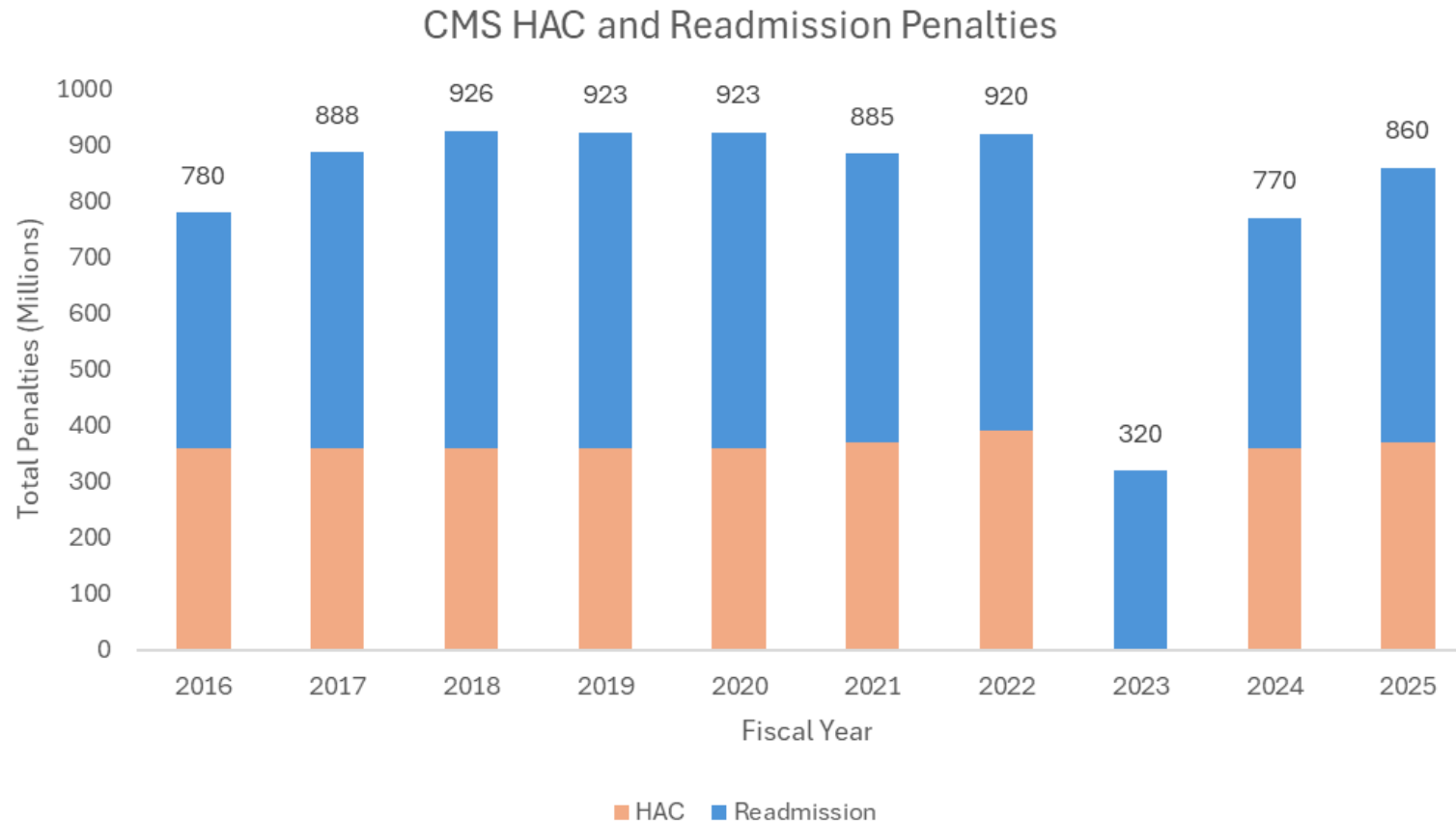
2.707
Worse than the national benchmark
National benchmark: 1.000

Surgical site infections (SSI) from abdominal hysterectomy
⬇ Lower numbers are better

0.825
No different than national benchmark
National benchmark: 1.000

CMS Penalties

The Hospital Readmissions Reduction Program (HRRP) penalizes up to **3%** of Medicare payments for excessive readmissions. The Hospital-Acquired Condition (HAC) Reduction Program applies a **1%** penalty to the worst-performing 25% of hospitals.

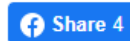
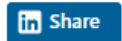


Cost of Poor Quality

BECKER'S **Hospital CFO Report**

38 top-rated hospitals hit with Medicare penalties

Ayla Ellison (Twitter) - 2 days ago [Print](#) | [Email](#)



CMS will trim 764 hospitals' Medicare payments in fiscal year 2022 for having the highest rates of patient injuries and infections. Thirty-eight of those hospitals are simultaneously ranked as the best in the country by CMS, according to *Kaiser Health News*.

The [Hospital-Acquired Conditions Reduction Program](#) aims to prevent harm to patients by providing a financial incentive for hospitals to prevent hospital-acquired conditions. Under the program, a hospital's total score is based on performance on several quality measures, including rates of infections, blood clots and other complications that occur in hospitals and might have been prevented.

Each year, Medicare cuts payments by 1 percent for hospitals that fall in the worst-performing quartile. The fiscal year 2022 penalties are based on patients who stayed in the hospital between mid-2018 and 2019. CMS excluded 2020 data from the calculations in response to the COVID-19 public health emergency.

This year's list of penalized hospitals includes 38 hospitals that have five stars, the highest rating, on Medicare's Care Compare website, according to *Kaiser Health News*. The hospitals received five stars for "overall quality" based on dozens of metrics, including infection rates, readmission frequencies and death rates.

2/9/2022

Examples of Cost of Poor Quality

Stage 3 Pressure
injury

\$43,180 Cost to the
Hospital¹

\$300,000 Average Legal
Settlement²

Inpatient Fall

\$32,292 Cost to
the Hospital³

\$100,000 – \$300,000
Average Legal
Settlement⁴

¹<https://onlinelibrary.wiley.com/>

²<https://nycbedsorelawyer.com/>

³<https://www.centerfortransforminghealthcare.org/>

⁴<https://www.losangelespersonalinjurylawyers.co/>

The ROI on quality: 7 stats to know

Health systems can achieve significant returns on investment by prioritizing quality and patient safety, according to a June 2 [report](#) from the National Association for Healthcare Quality.

1. Christus Health

Since adopting the quality framework three years ago, Christus Health has:

- Avoided **\$3 million** in costs related to harm metrics
- Gained more than **\$15 million** annually from pay-for-performance incentive programs
- Reported a return more than **20 times** its annual investment

2. Kaiser Permanente Northern California

Now in its third year of program implementation, with more than 170 staff members standardizing quality work across the market, Kaiser has achieved:

- A **194%** improvement in cost avoidance from quality work over the past two years
- More than **\$6.5 million** in savings from quality improvements
- A **92%** reduction in Hospital-Acquired Condition Reduction Program penalties

3. Brown University Health

The health system has rolled out standardized safety and quality training to more than 10,000 team members as part of the Workforce Accelerator. Since 2022, it has reduced HAC penalties by **\$3.2 million**.

Quality is healthcare's most underestimated financial lever

A Vizient analysis of national performance data shows that clinical reliability is one of the clearest predictors of long-term financial resilience.

Hospitals in Vizient's top tier for quality performance reported an average operating margin of 6.3% in late 2025, while hospitals with the lowest quality posted a -3.6% operating margin, according to a [Vizient study](#) published March 16.

By [Madeleine McDowell](#) 6 min read | Mar 15, 2026

An analysis of organizations across the Vizient® Quality and Accountability (Q&A) Scorecard found marked differences in financial performance between high performers and their peers whose quality lags by comparison.

Quintile (higher = better)	Average PCO operating margin*	Average direct cost index	Average commercial rate as % of Medicare
Top quintile	6.3%	0.95	257%
Middle three quintiles	-0.2%	1.04	228%
Lowest quintile	-3.6%	1.15	211%
Sample size	1,033	1,088	192

Source: <https://www.vizient.com/insights/articles/quality-is-healthcares-most-underestimated-financial-lever>

Quality-Cost Optimization Assessment

presented to:

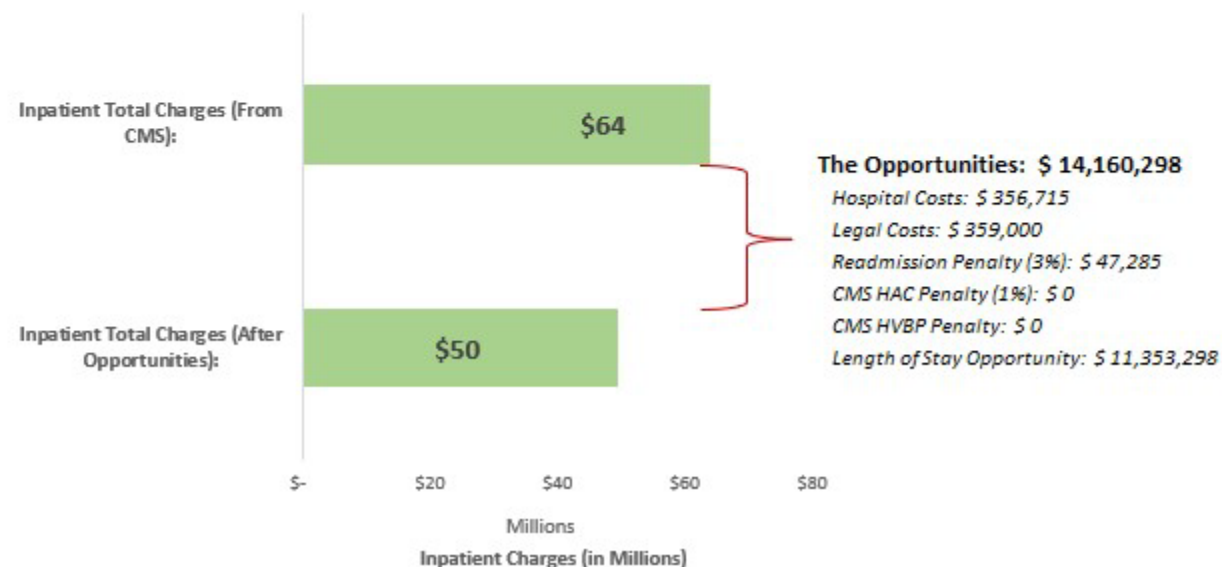
XYZ Healthcare Organization

Complications and HACs Costs		Reductions
Hospital Costs:	\$ 356,715	\$ 63,455,255
Legal Costs:	\$ 359,000	\$ 63,096,255
Penalties and Other Costs Based on Performance		Reductions
Readmission Penalty (3%):	\$ 47,285	\$ 63,048,970
CMS HAC Penalty (1%):	\$ -	\$ 63,048,970
CMS HVBP Penalty:	\$ -	\$ 63,048,970
Length of Stay Opportunity:	\$ 11,353,298	\$ 51,695,672
Left Without Being Seen Opportunity:	\$ 2,044,000	\$ 49,651,672

Total Opportunity Costs:	\$ 14,160,298
Inpatient Total Charges (After Opportunities):	\$ 49,651,672
Inpatient Total Charges (From CMS):	\$ 63,811,970

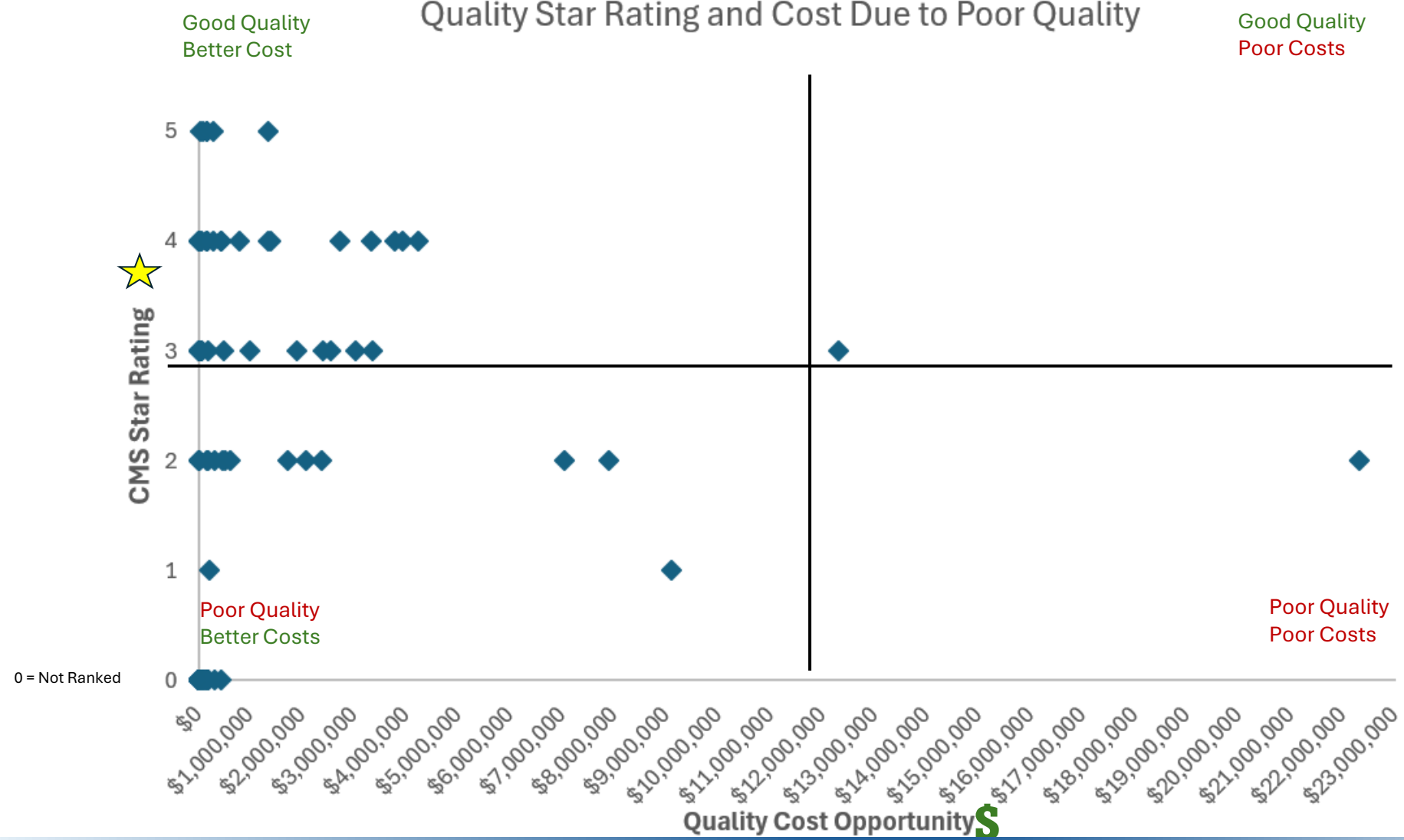
Opportunity Percent of Charges	22%
---------------------------------------	------------

Revenue Loss From Complications, HACs, and Inefficiency



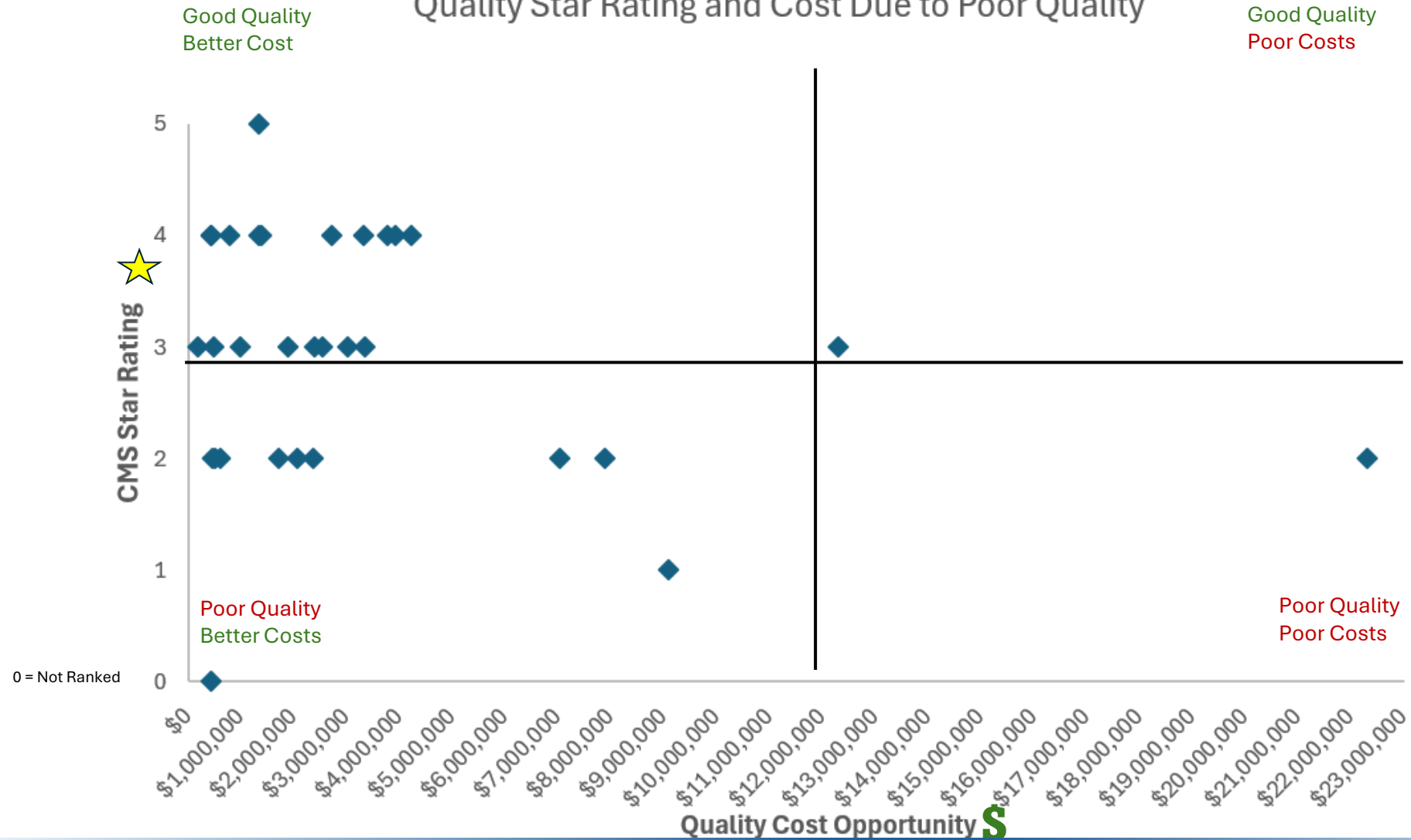
Iowa 2026

Quality Star Rating and Cost Due to Poor Quality



Iowa 2026 ACH

Quality Star Rating and Cost Due to Poor Quality



How Can We Use Those Funds?

EMPLOYEE SATISFACTION

>\$1M Opportunity

State	Beds	Hospital Overall CMS Star Rating	Number Employees	Total ROI Opportunity (Minus LOS)	Inpatient Charges	Medicare Percentage
MN	583	4	5265	\$ 8,856,545	\$ 2,521,858,516	30%
AZ	270	2	1170.4	\$ 3,345,676	\$ 2,514,162,305	24%
AZ	134	2	431.01	\$ 1,683,608	\$ 606,933,781	19%
AZ	120	2	363.9	\$ 1,588,053	\$ 584,229,806	25%
AZ	191	2	960.1	\$ 3,706,477	\$ 2,006,180,758	19%
TX	26	Not Available	192.92	\$ 1,078,967	\$ 693,875,894	15%
OH	189	3	1682.97	\$		
NY	83	4	656.7	\$		
TX	208	3	767.05	\$		
FL	330	4	2590.73	\$		
FL	154	4	818.64	\$		
FL	197	5	901.73	\$		
GA	69	3	918.51	\$		
FL	193	2	916.87	\$		
FL	109	4	634.7	\$		
FL	136	3	740.22	\$		
FL	423	4	1727.84	\$		
FL	2812	3	25192	\$		

...2,063

...21

Iowa

State	Beds	Hospital Overall CMS Star Rating	Number Employees	Total ROI Opportunity (Minus LOS)	Inpatient Charges	Medicare Percentage
IA	189	3	1300	\$3,328,622	\$351,296,432	28%
IA	113	3	1397	\$2,992,734	\$89,129,169	11%
IA	141	5	452	\$1,326,542	\$245,635,073	23%
IA	66	3	497	\$963,445	\$120,910,820	41%
IA	322	2	1391	\$7,875,418	\$590,928,985	27%
IA	33	2	247	\$479,643	\$41,339,607	36%
IA	44	2	223	\$436,886	\$23,448,551	52%
IA	150	4	1072	\$3,752,012	\$307,400,208	37%
IA	216	4	102	\$3,908,555	\$403,342,491	32%
IA	107	4	587	\$1,324,313	\$94,943,611	43%
IA	591	1	4620	\$9,067,219	\$1,766,200,896	25%
IA	142	3	891	\$1,873,814	\$259,566,248	55%
IA	48	4	155	\$422,291	\$13,284,269	38%
IA	199	2	1761	\$7,021,866	\$513,019,059	44%



Hospital A:

Cost of poor quality: \$7,875,418
Cut in half: \$3,937,709
Number of employees: 1391

BONUS: \$2,830!

Hospital B:

Cost of poor quality: \$3,908,555
Cut in half: \$1,954,277
Number of employees: 102

BONUS: \$19,082!

How Can We Use Those Funds?

NEW SERVICES TO COMMUNITY

<101 Beds AND >\$1M Opportunity

State	Beds	Hospital Overall CMS Star Rating	Total ROI Opportunity (Minus LOS)	Inpatient Charges	Medicare Percentage
NY	83	4	\$ 1,356,750	\$ 81,741,477	44%
GA	69	3	\$ 3,501,067	\$ 317,788,129	39%
CA	84	3	\$ 2,075,573	\$ 420,273,955	52%
MD	28	2	\$ 1,930,260	\$ 36,266,718	54%
NJ	61	3	\$ 3,599,393	\$ 402,839,732	51%
AR	49	Not Available	\$ 2,469,928	\$ 76,607,931	54%
OK	44	5	\$ 1,969,800	\$ 113,433,865	44%
OK	81	3	\$ 1,066,927	\$ 144,957,540	54%
KS	86	4	\$ 1,063,061	\$ 111,617,940	48%
WI	43	3	\$ 2,578,955	\$ 85,994,283	32%
AL	66	3	\$ 1,081,175	\$ 101,608,892	41%
NY	85	2	\$ 2,197,541	\$ 129,727,652	41%
WI	75	5	\$ 2,131,470	\$ 224,961,450	32%
WI	74	4	\$ 3,392,823	\$ 380,400,605	30%
WI	37	5	\$ 1,234,533	\$ 105,708,749	44%
SD	53	5	\$ 1,061,421	\$ 352,991,578	59%
SD	50	5	\$ 1,157,132	\$ 176,300,174	57%
AZ	89	3	\$ 1,626,940	\$ 222,785,839	19%
MO	68	4	\$ 1,331,706	\$ 150,962,121	29%

...326



Hospital C:

Number Beds:

62

Closest Referral Hospital:

179 miles

Cost of poor quality:

\$1,782,523

Cost of Cath Lab:

~\$1.2M

Annual Revenue*

\$2.6 – 4.2M

**Estimate with 5 procedures a week*

Questions/Discussion



Doug Johnson, RN, CPHQ, LSSBB

505.280.8248

Doug@ConsultingRemedy.com

