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Key Industry Trends

Health Care: HCEs Adapt to Increasing Costs

Construction: How Decline May Affect CPAs and Contractor Clients

Health Care: HCEs Adapt to Increasing Costs

By Jeff Goolsby, CPA

Those who work in the health care industry know well that the only constants are regulation and change. Health care reform[1] dominated the national landscape and the focus of our legislators in Washington, D.C. in 2009. Spending on health care currently represents approximately 17 percent of the overall economy.

The health care industry often has been referred as "recession proof." However, the three major health care credit rating agencies (Fitch, Moody and Standard & Poor's) have forecast negative industry trends for 2010. The industry will continue to be challenged as costs increase and federal and state reimbursements for health care struggle to keep pace.

Despite this, health care entities (HCEs) have demonstrated an amazing ability to adapt to an ever-changing environment. Here are some of the key trends that will impact HCEs in 2010 and beyond.

The Uninsured Place Burden on HCEs

At the heart of the debate on health care reform is how to address the 46 million uninsured Americans.[2] Based on the latest data, not-for-profit (NFP) hospitals[3] reported that uncompensated care represented 7 percent of total revenues in 2006. Of those who have health care insurance, 60 percent obtain their coverage through an employer-sponsored plan. Thus, as unemployment increases in the United States, so does the number of uninsured.

Also, to control their own cost, many employers continue to shift the burden to employees through high-deductible plans. HCEs continue to experience a rise in the number of "underinsured" seeking care. The "underinsured" have *some* health coverage, but cannot pay their >>> PAGE 8

[1] At publication, both houses of Congress had passed separate health care reform bills and were in the process of drafting a uniform final bill.
[2] Census Bureau's report *Income Poverty and Health Insurance Coverage in the United States 2007*
[3] Internal Revenue Service *Report on Nonprofit Hospitals February 2009*

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patient-responsibility portion. During 2009, Florida hospitals reported a sharp rise in the amount of uncompensated care from these two groups.

The emergency room continues to be the primary source of charity care and bad debt write offs. As a result, many hospitals have opened less expensive urgent care centers and offered walk-in clinical services. Also, many private insurance carriers have increased co-payment requirements to discourage emergency room use. And some HCEs have focused on their pre-qualification procedures, including credit verification, before accepting patients for non-urgent care.

Reimbursement Issues Are Key

A key driver of the proposed reform is the rise in costs from the continued increase in the average age of our population. The U.S. Census Bureau estimates that there are 40 million Americans older than 65. That number is projected to grow to more than 70 million people by 2030. Thus, the Medicare and Medicaid programs continue to become a larger piece of the health care pie and total governmental spending.

This is particularly true in Florida, which has the nation's highest percentage of residents older than 65. Federal and state governments, along with insurance carriers, continue to adjust the reimbursement methodologies and rate schedules to compensate for this increasing demand for services.

Reimbursement for HCEs historically has been fee-for-service based, rather than value-based. The new trend is toward promotion of quality through new outcome-based initiatives.

Pay for performance (P4P) provides financial incentives to hospitals, physicians and other HCEs based on specific quality measurements. To date, the most significant impact has been to reduce payment for HCEs who have failed to promptly report required performance metrics. In the future, P4P is expected to result in higher reimbursement rates for HCEs that achieve better quality ratings.

Also, the Centers for Medicare & Medicaid Services (CMS) have expanded the practice of creating disincentives for medical errors. Beginning in 2008, hospitals were required to document the patient's diagnosis at the time of initial admission. Under CMS' Hospital-Acquired Conditions Policy, hospitals receive no payment for certain reasonably preventable conditions that occur after initial admission.

Other insurance carriers also have adopted their own list of events that will not be reimbursed. Hospitals have revisited the quality of care and their documentation practices to minimize these so-called "never events."

In previous years, scheduled cuts in Medicare payments for physician services have been averted through temporary federal legislative action. The 10 percent cut in physician rate schedules that was to take effect in 2008 has been delayed until 2010. Unless further postponed, these cuts – now totaling 21 percent – will take effect along with the expiration of several Medicare and Medicaid physician incentive programs.

In 2009, Florida joined other states and instituted a provider quality assessment for skilled nursing facilities (SNFs). Under this program, SNFs pay an established fee back to the state on all non-Medicare patient days. Together with federal matching funds, the assessment has been used to mitigate cuts to the state's Medicaid rates paid to SNFs.

Most SNFs in Florida have benefited from this policy. However, because of its large elderly population, Florida is near the federal matching limit for these assessments. As a result, Gov. Crist's current budget proposal would result in a significant Medicaid rate decrease for 2010. If the proposal becomes part of the new budget, it would take effect July 1.

HCEs continue to closely monitor funding from Medicare and Medicaid programs. Most predict that funding cuts will continue, or that increases will fall further behind the actual costs to provide services. Currently, both congressional reform bills include large cuts in Medicare during the next 10 years.

Increased Regulation Challenges Not-for Profit Providers

Several years ago, CMS launched a Recovery Audit Contractors (RAC) Pilot Program in Florida and several other states. The RAC Program was targeted at identifying errors in Medicare billings.

CMS announced in June 2008 that the RACs had recovered more than $1.03 billion in improper Medicare payments made to HCEs during the initial three-year demonstration period. Most of the recoveries were from improper clinical documentation and improper coding. CMS has made the RAC Program permanent and is expanding it nationwide, along with new recovery programs for Medicaid. These programs underscore the complexity of the billing process and the burden on HCEs to properly bill and document services rendered.

The revamped Form 990, Return of Organization Exempt from Income Tax, places greater scrutiny on NFP HCEs. The expanded form asks all NFP organizations for more information about compensation; corporate governance; use of proceeds from tax-exempt financing; and charitable missions. Beginning in 2009, licensed NFP hospitals were required to disclose specific details about community benefit and bad debts.

Activities that qualify as charity care and bad debts generally are based on specific organizational policies that differ between HCEs. Nonetheless, the new form requires NFP hospitals to report the value of charity care provided. This will allow the Internal Revenue Service (IRS) to accumulate data and develop benchmarks between NFP hospitals. The IRS, along with federal and state legislators, likely will develop criteria to measure whether an NFP hospital is fulfilling its charitable mission.

Regardless of the outcome of proposed reforms, the health care industry will continue to evolve and change. The continued increase in the average age of the population will result in additional health care spending. >>>

To keep health care affordable, greater emphasis will be placed on maximizing cost containment and innovation. Through new quality metrics and reporting, HCEs will be more transparent to our consumer-driven economy. HCEs will need to be flexible to meet the increasing demand for high quality services. **FCT**

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Health Care Industry Trends Have Implications for CPAs

By Jeff Goolsby, CPA

As the health care industry changes, there will be more demand on health care entities (HCEs) to comply with additional regulations, and with the public's call for increased accountability. The focus will be on improved governance, compliance, stewardship and transparency of HCEs. CPAs who work in health care-related fields are well-positioned to be leaders for their organizations in meeting these challenges.

Here are areas where CPAs have the opportunity to serve in a larger role for HCEs.

Corporate Governance

In December 2009, the Internal Revenue Service (IRS) defined good governance to include "an engaged, informed and independent board; defined policies and practices; and transparency." Corporate governance often is defined as the rules, processes and laws that determine an organization's direction and performance. Generally, corporate governance should promote ethical behavior and business practices.

Reliable financial reporting is a cornerstone of a properly functioning corporate governance system. CPAs, as accountants and auditors, are the primary providers of this information to internal and external stakeholders. New rules that focus on HCEs' quality and transparency will result in new financial and non-financial measurements. CPAs can serve an important role in their organizations by developing systems that effectively and efficiently capture this information.

For example, the new Form 990, Return of Organization Exempt from Income Tax, has changed the way all not-for-profit (NFP) organizations report their activities. Specific information is required regarding NFP activities, including a focus on the fulfillment of the charitable mission and the organization's governance policies. The IRS has published a Governance Check Sheet, available at www.irs.gov, for their field agents to collect information about the NFPs' governance and internal controls and identify non-complaint organizations.

CPAs should familiarize themselves with the new reporting-form requirements and checklist to ensure their HCEs have adopted the requisite policies for good internal control. CPAs also should focus on accurately reporting HCEs' information to the IRS.

Compliance Programs

The Centers for Medicare and Medicaid Services (CMS), together with other governmental agencies, have expanded efforts to crack down on Medicare and Medicaid fraud, waste and abuse. The Recovery Audit Contractors (RAC) Program is just one of many new audit programs CMS is launching. All the new programs focus on eliminating overpayment and investigating possible sources of fraud.

HCEs should have programs designed to assure and monitor compliance with organizational policies and other applicable laws and regulations. Also, HCE employees should have mechanisms to report unethical behavior or business practices (e.g. an employee hotline). A formal process should be established to evaluate and monitor the performance of external service providers.

A compliance program is an important component of an HCE's internal control structure. CPAs should actively review and make recommendations to strengthen HCE compliance programs. CPAs also can play a vital role in scoping and/or performing internal compliance audits.

Cost Containment and Fraud Prevention

The increasing demand for health care services will alter reimbursement methodologies and rate schedules for HCEs. Over time, revenue for health care services likely will decline, placing more responsibility on HCEs to control costs. CPAs can play a vital role in helping HCEs identify areas for potential cost savings and negotiation with payors and vendors.

Fraud generally increases in tough economic times because of increased pressure to meet expectations and budgets. HCEs may face pressure to misstate results and other measures in order to meet debt-covenant requirements and other new quality metrics. HCEs also could be the target of employees who misappropriate assets. To minimize HCEs' risks in these areas, CPAs must be diligent in reviewing programs and safeguards. **FCT**