

Accounting and Audit Risks:

Assessing your risks in a changing landscape

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Presenters



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A Plante Moran audit partner and health care practice leader in Northern Ohio, Yvonne specializes in serving healthcare and not-for-profit entities, particularly, hospitals, senior care facilities, therapy providers, home health, intermediate care facilities, HUDs, and charitable organizations. She is known for her strong technical expertise and ability to work through complicated analyses as new issues and opportunities arise. Her 25 years of public accounting experience include a focus on audit, benchmarking, projections, start-up operations, strategy, and business combinations. Recently, she has assisted clients with acquisition analyses and accounting for business combinations. Yvonne has been a speaker on audit and board governance topics for various health care and not-for-profit organizations.

Our Discussion Today



Our Discussion Today

Assessing Audit Risks:

- I.The Risk Environment
- II.Evolving Healthcare Economy
- III.Next Steps

The Risk Environment

Environment Requiring Risk Assessment

Current events that may have been unexpected five years ago:

- Diminished ranks of independent physician practices
- Consolidation efforts / creation of large health systems
- Accountable care organizations
- Bundled payments
- Insurance exchanges
- Value-based purchasing
- Non-traditional care venues
- Limited access to capital

Business Risk Characteristics



Source: www.coso.org

Business Risk

CEO LIST OF CONCERNS	2013	2012	2011
Financial challenges	2.4	2.5	2.5
Healthcare reform implementation	4.3	4.7	4.5
Governmental mandates	4.9	5.0	4.6
Patient safety and quality	4.9	4.4	4.6
Care for the uninsured	5.6	5.6	5.2
Patient satisfaction	5.9	5.6	5.6
Physician-hospital relations	6.0	5.8	5.3
Population health management	7.6	7.9	—
Technology	7.9	7.6	7.2
Personnel shortages	8.0	8.0	7.4
Creating an accountable care organization	8.6	8.6	8.4

The average rank given to each issue was used to place issues in order of concern to hospital CEOs, with the lowest numbers indicating the highest concerns. The survey was confined to CEOs of community hospitals (nonfederal, short-term, nonspecialty hospitals).

Source: American College of Healthcare Executives' Annual Survey (published 1/13/14)

Risk Impact Matrix

Service Lines / Product Lines

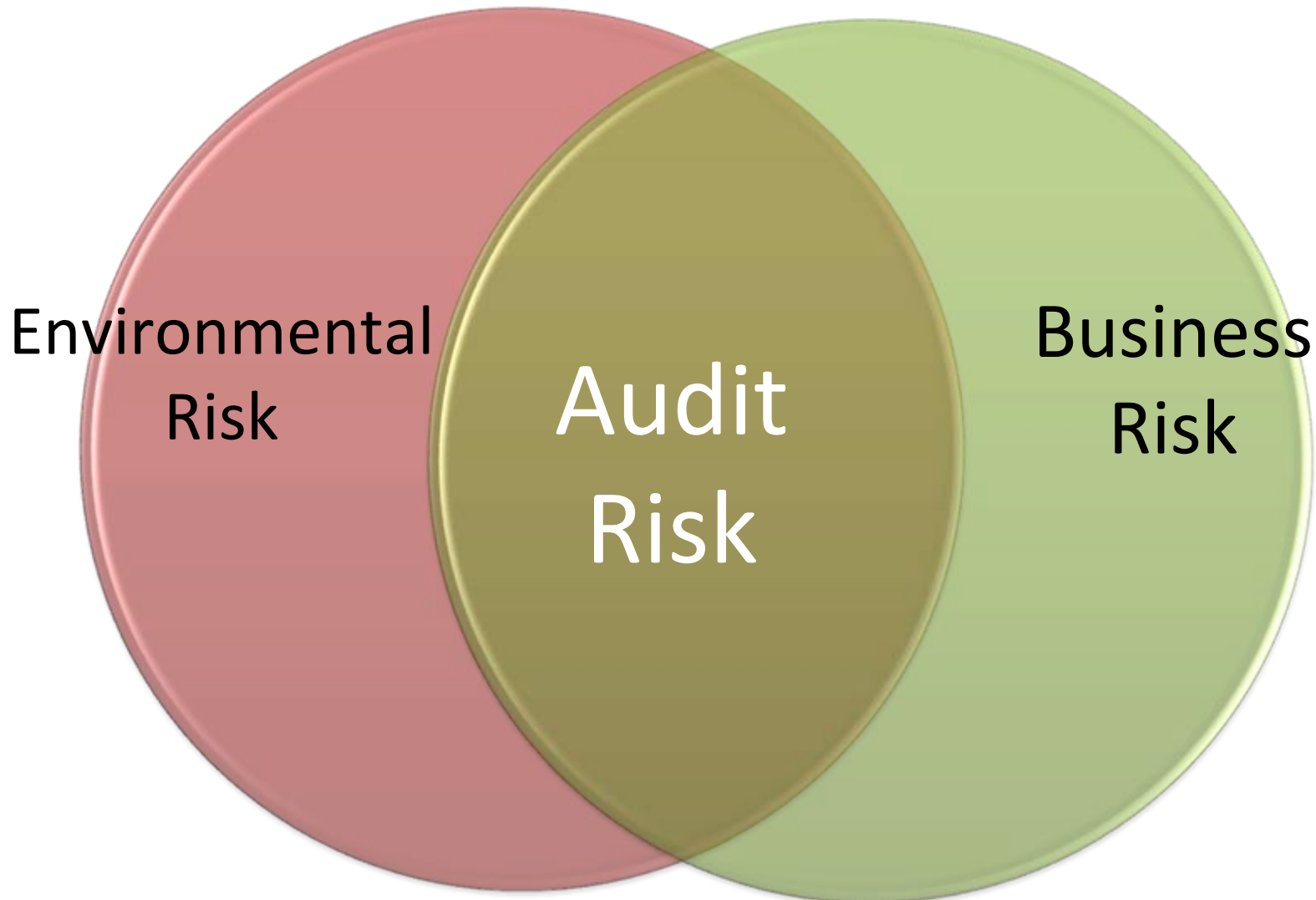
	Orthopedics	Oncology	Psychiatry	General Surgery	Neurology	Cardiology	Trauma
Payor mix changes							
New legislation							
New technology / pharmaceuticals							
Quality							
Reimbursement							
Non-traditional entrants							

Impact Scale

- Critical
- High
- Medium
- Moderate

Source: Adapted from Oxford Analytica and Ernst & Young, Top 10 Business Risks for 2010

Accounting and Audit Risk



Accounting and Audit Risk

Additional Factors in Evolution of Accounting and Audit Risk

- Huge advances in technology
- Mergers/Consolidations
- Creative joint ventures and/or physician agreements
- Physician referral issues
- Risk based contracts
- Contractual model variables have increased substantially
- Malpractice
- Debt covenant violations
- RAC/OIG/Third party audits
- Conversion from governmental to NFP (typically acquisition-related)
- Affordable Care Act
- GASB changes to pension reporting
- Fair value reporting

Accounting and Audit Risk

Bad debts are going away!!! Really???

- Access to health care for the uninsured
- Bad debts have grown over 5 percent annually
- Shift in bad debts
- Increase in patient pay after insurance
- Point of sale system
- Large number of small transactions
- Cost-benefit analysis
- Impact of pending revenue recognition rules
 - Terminology to 'price concession' versus bad debt
 - Bad debt moving back to operating expense BUT...
 - Bad debt concept may differ from current interpretation

Accounting and Audit Risk

Recent or Anticipated Accounting Standards

- **SERVICES RECEIVED FROM PERSONNEL OF AN AFFILIATE** - Amendments in ASU 2013-06, *Not-for-Profit Entities (Topic 958)*, provide guidance for not-for-profit entities to apply in recognizing and measuring services received from personnel of an affiliate. Prospectively for years beginning after June 15, 2014.
- **REVENUE** - In November 2011, the FASB and the IASB issued a second exposure draft for the Revenue from Contracts with Customers project. Under the second exposure draft, entities would apply a five-step revenue recognition model, which consists of 1) identify the contract; 2) identify the separate performance obligations; 3) determine the transaction price; 4) allocate the transaction price to separate performance obligations; and 5) recognize revenue as performance obligations are satisfied. Final draft expected in May 2014 and to be effective for years beginning after December 15, 2016

Accounting and Audit Risk

Recent or Anticipated Accounting Standards

- **GOING CONCERN** - On June 23, 2013, the FASB has issued a proposed Accounting Standards Update (ASU), *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption*, that is intended to improve disclosures of uncertainties. Responsibility for assessment placed on management now. Not final yet.
- **CIRCULAR A-133** - In late December 2013, the Office of Management and Budget (OMB) issued a document which outlined changes to the Circular A-133 along with other significant grant reforms. The three main areas of reform were to the administrative requirements, cost principles, and audit requirements, which included an increase in the single audit requirement threshold from \$500,000 to \$750,000 of federal expenditures during the fiscal year. Effective of fiscal years beginning on or after January 1, 2015.
- **LEASES** - the saga continues

Evolving Healthcare Economy (And The Risk It Creates)

Evolving Healthcare Economy

Healthcare Economy

- Rapid awareness that inpatient volume is not true market share
- Direct healthcare economy today is premiums paid and out of pocket
- Focus is on controlling premium increases at the expense of:
 - Out of pocket expenses
 - Provider payments
- Beneficiary engagement will grow exponentially

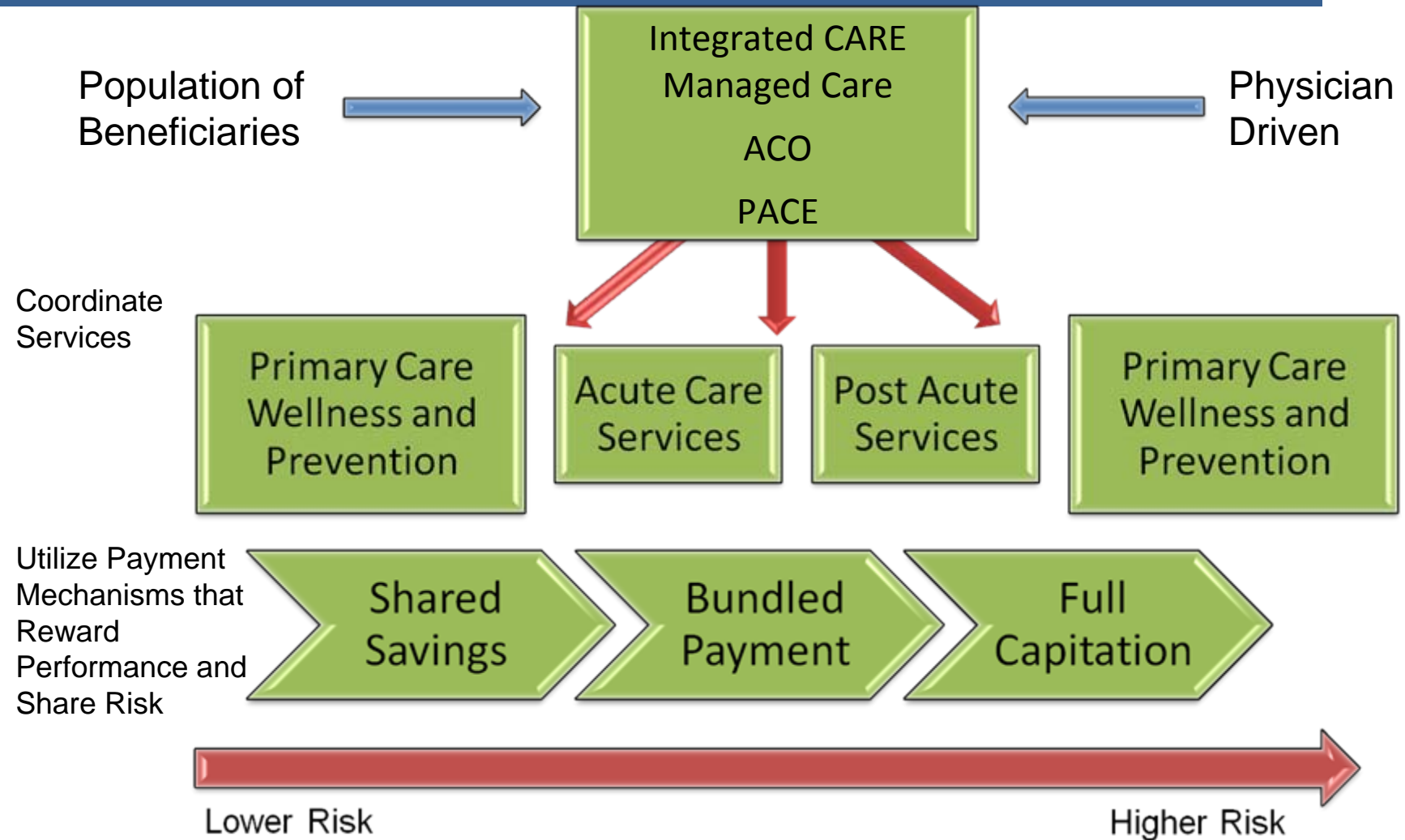
Evolving Healthcare Economy

Population Health Management



Evolving Healthcare Economy

Insurance Type Models of Care



Evolving Healthcare Economy

ACOS vs MCOs

Managed Care

- Care coordination by physician-led team
- Patient choice restricted to established managed care network

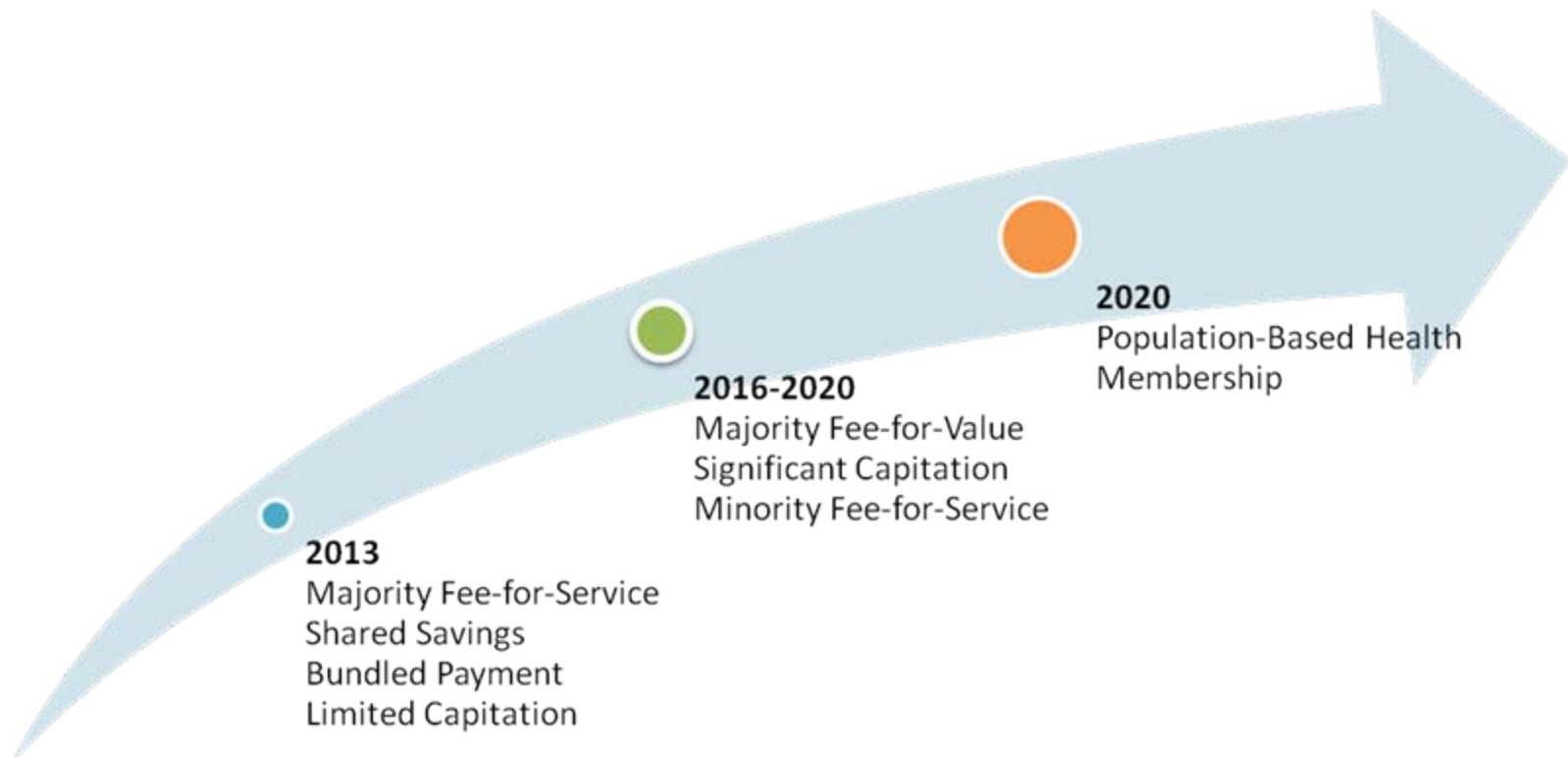
Accountable Care/Medicare Shared Savings Plan MSSP

- Care coordination by physician-led team
- Patient choice not restricted; but provider network used by patient “influenced” by ACO

Both have primary incentive to control utilization

Evolving Healthcare Economy

Movement to Membership: Next Stop, Bundled Payment



Evolving Healthcare Economy

Commodity Entity or “At-Risk”

Bloomberg

Insurers Pay Hospitals Twice Rate of Rivals in Some Areas

Residents of Kansas City, Missouri, and Indianapolis with private health plans face wide disparities in how much they pay for hospital care, depending on where they go for help, a study found.

The highest-priced hospitals in 13 cities studied are typically paid 60 percent more for inpatient services and almost double for outpatient care than the lowest-priced hospitals in the same communities, according to a study released today by the Center for Studying Health System Change. Hospitals with more market power have greater muscle in negotiations with insurers and can extract higher prices, the group found.

Many patients are unaware of the prices private insurance plans pay to medical providers. Scrutiny of costs is growing as the 2010 Affordable Care Act seeks to expand coverage nationwide while lowering treatment costs. Health-care spending in the U.S. reached almost \$2.6 trillion in 2010, more than 10 times what was spent in 1980, according to the Kaiser Family Foundation.

Evolving Healthcare Economy

Commodity Entity or “At-Risk”

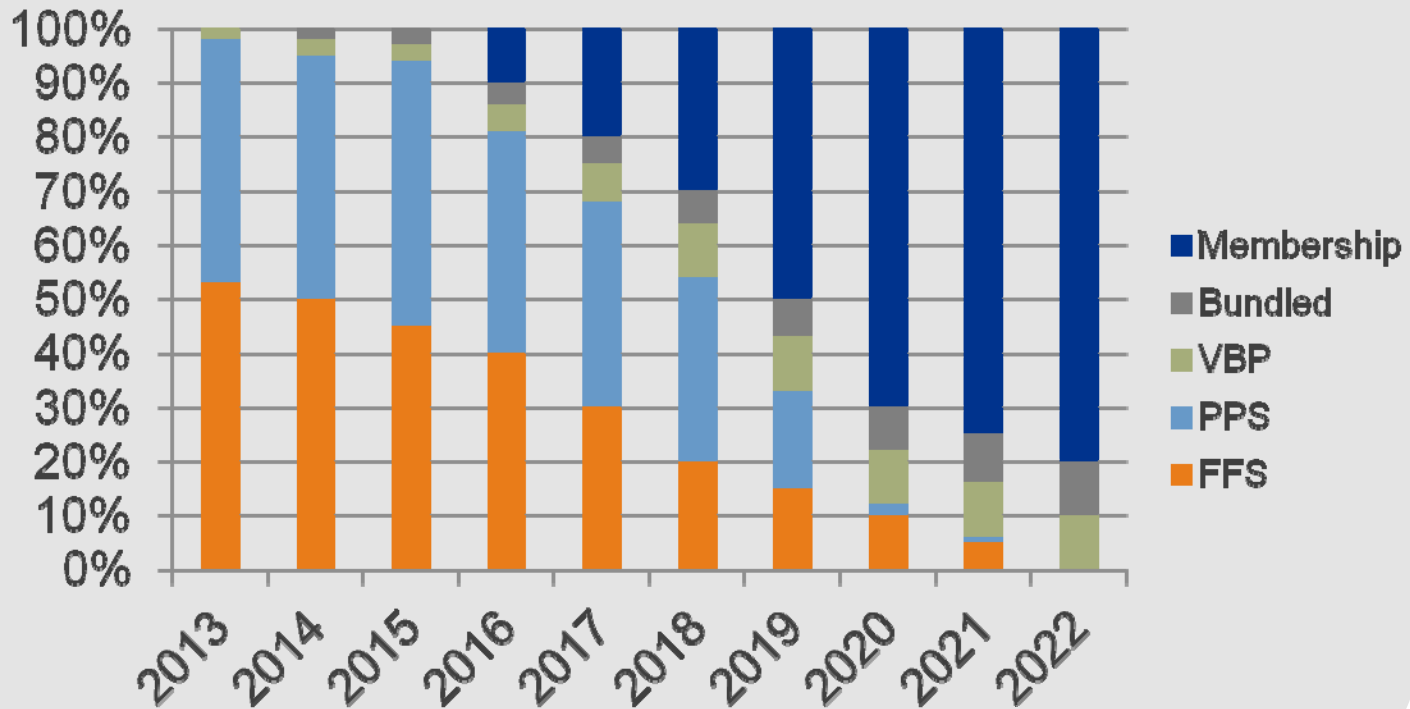


Priority Health Says Health Care Price Comparison Tool Will Save Consumers Big Bucks

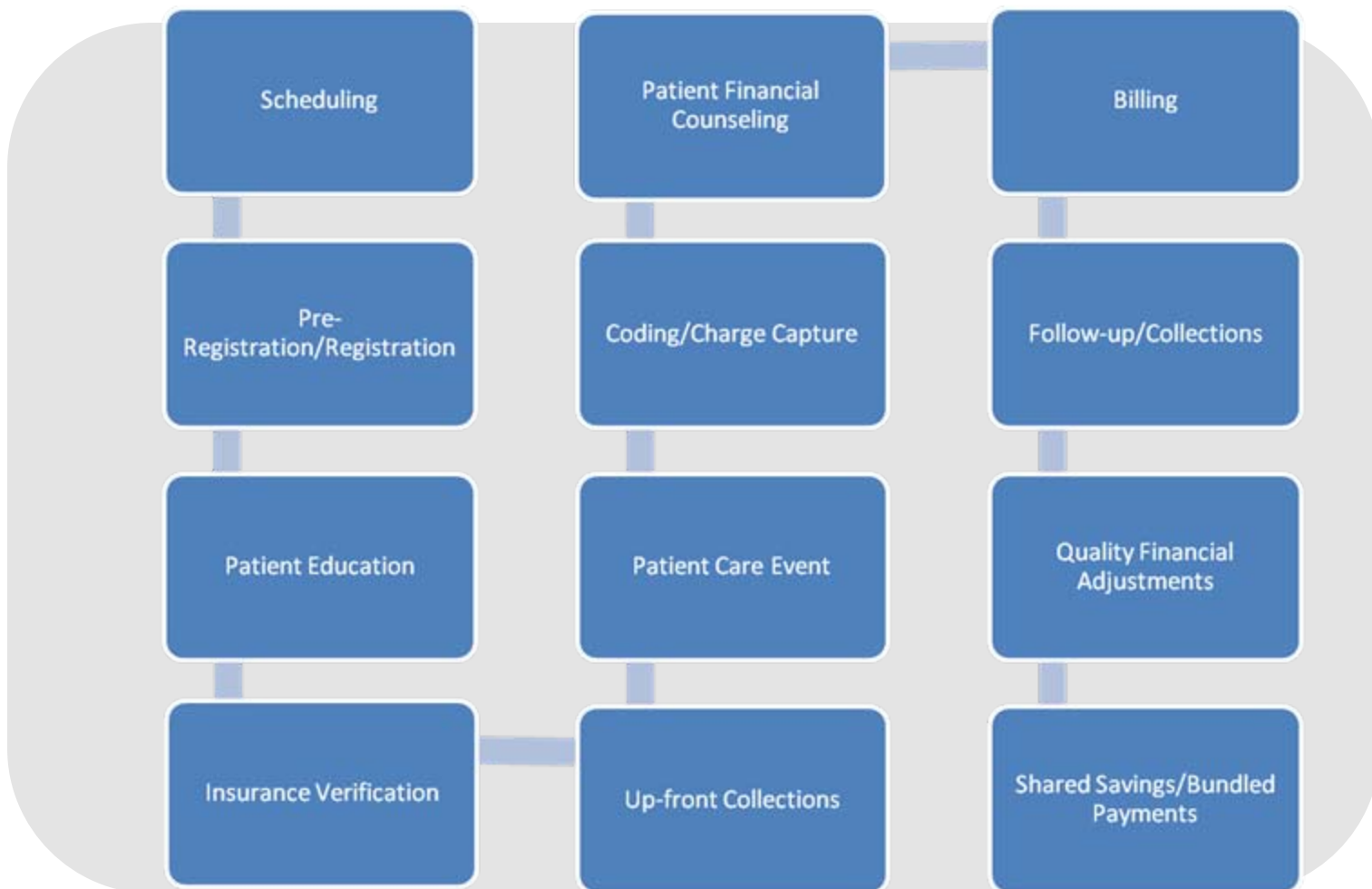
DETROIT, MI. (Aug. 22, 2013) - “We can’t continue to ask individuals to take on more responsibility for health care costs without giving them the resources they need to manage those dollars,” said Michael P. Freed, president and CEO for Priority Health. “Priority Health is in a unique position to pull back the curtain on health care costs and provide our customers with the information they need to make informed health care decisions.”

Healthcare Blue Book uses Priority Health contracted fees to determine a “fair price” for health care services. The easy-to-understand results provide members with a traffic light visual to help them identify price ranges for facilities in each of Michigan’s geographic regions. Costs are assessed, by market, on a scale: at or below fair price (indicated by green), slightly above fair price (yellow) or among the most expensive (red).

Evolving Healthcare Economy



Evolving Healthcare Economy - Revenue Cycle Considerations

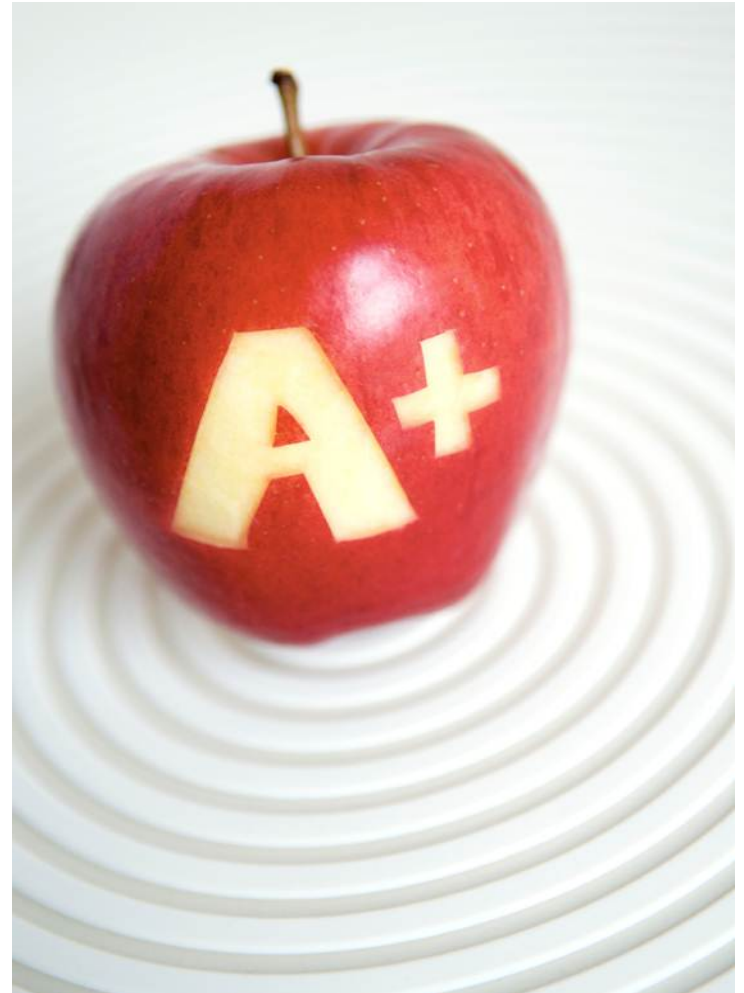


Evolving Healthcare Economy - How Can Payments Be Open To Risk?

Quality

- Timeliness of care administration
- Application of evidence-based medicine
- Safety
- Accuracy

www.qualitynet.org



Evolving Healthcare Economy - How Can Payments Be Open To Risk?

Satisfaction

- Clarity of communication
- Respect
- Ability to access services
- Responsiveness
- Concern

www.hcahpsonline.org



Evolving Healthcare Economy - How Can Payments Be Open To Risk?

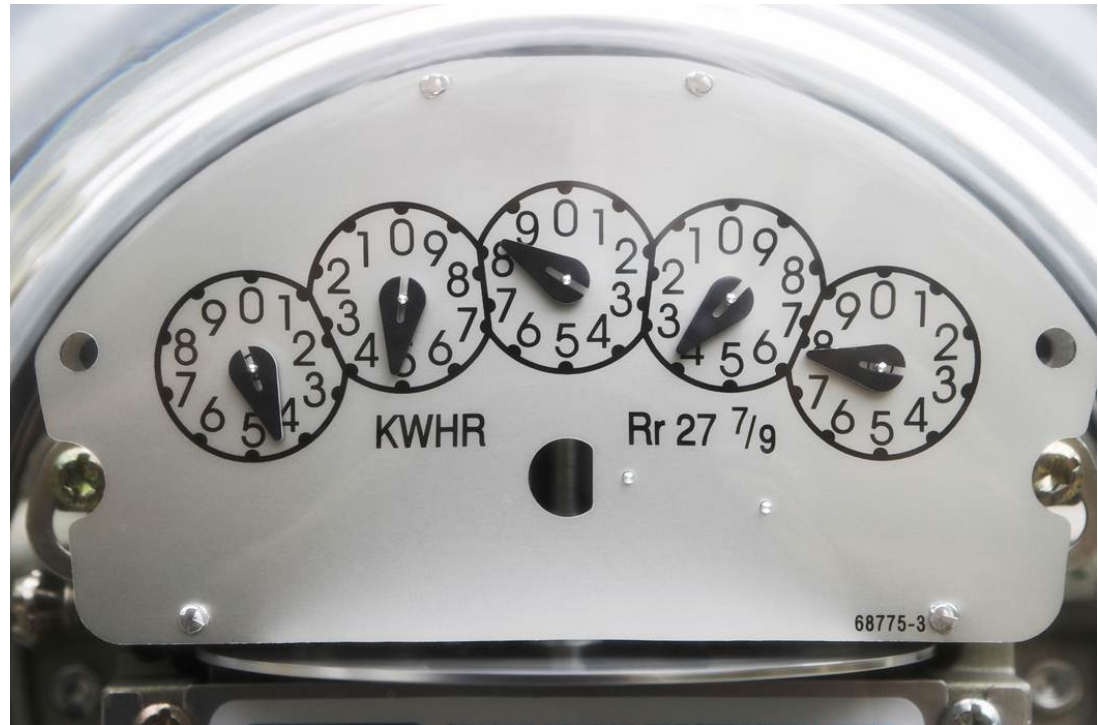
Utilization

- Duplication
- Unnecessary
- Preventable
- Fraud

www.ncbi.nlm.nih.gov

www.hin.com

www.raconline.org



Evolving Healthcare Economy - How Can Payments Be Open To Risk?

Stratification

- Cultural
- Ethnic
- Genetic
- Socio-economics

www.ama-assn.org

www.ahrq.org



Evolving Healthcare Economy – Shared-savings

Risk-based payments

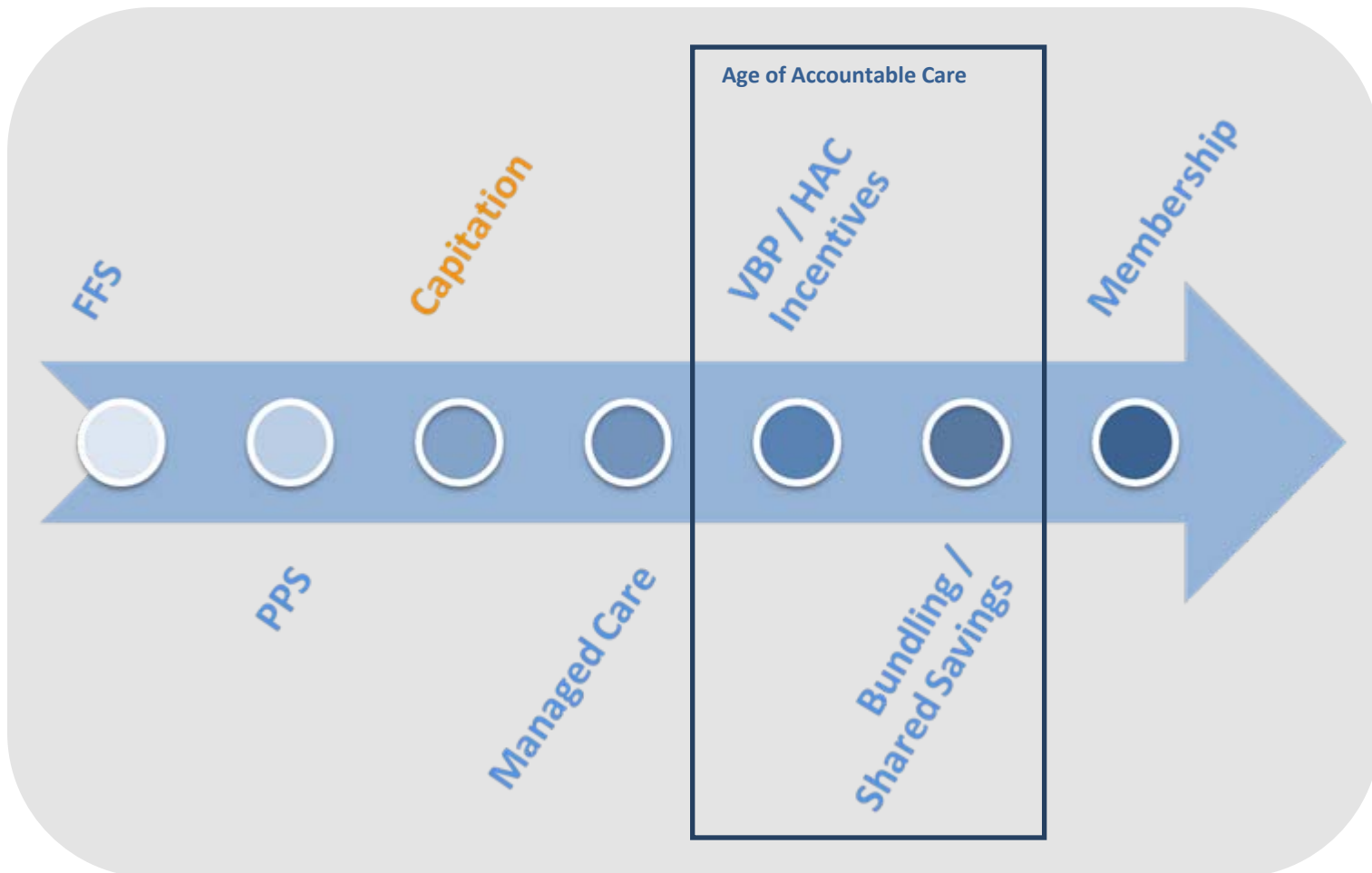
- Coordination and cooperation of care
- Take the place of, or supplement, FFS
- No guarantee of shared savings
- What is the model, really:
 - A risk pool
 - A performance-based incentive
 - An insurance contract
 - Other?

Evolving Healthcare Economy – Bundled Payments

Performance accountability for care

- Linkage of payments for multiple services during an episode
- Include standard discount to Medicare
- Different models based on episode:
 - Retrospective Acute Care Hospital Stay Only
 - Retrospective Acute & Post Acute Care Episode
 - Retrospective Post Acute Care Only
 - Prospective Acute Care Hospital Stay Only

Evolving Healthcare Economy – Progression of Healthcare Payments



Your Next Steps

Understand Your Revenue Cycle

Sounds simple enough

- Revenue cycle assessment:
 - Operationally
 - Technologically
- Focus on efficiency, but not at the expense of:
 - Effectiveness
 - Opportunities to collaborate with payors

Data Analytics

Information

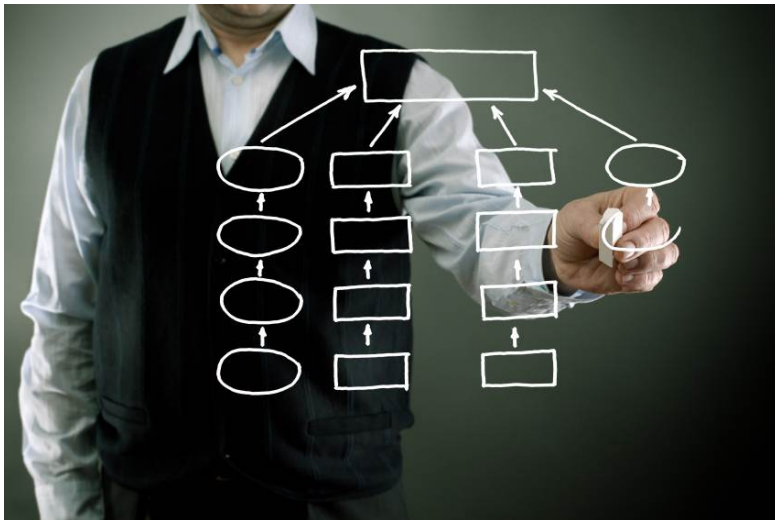
- Total claims experience
- Clinical data
 - Health status
 - Outcomes
- Provider utilized



Data Analytics

Care Planning / Predictive Modeling

- Identify risk at the patient level, not just a population
- Identify “best practices” from large clinical databases
- Provider agreement & compliance



Gartner Research forecasts that by 2016, 70% of the world's most profitable companies will manage business processes by using real-time predictive analytics

Q&A

Thank you!