

Considering Hospital Employment? *Continued from Page 4...*

costs of medical equipment. An employment arrangement can also ease concerns about practice expenses, salary arrangements, and decreasing reimbursement levels.

What's In It For The Hospital?

There is extreme competition among hospitals in today's market. The ability to provide a full spectrum of patient services within a health care facility is a key marketing tool providing differentiation. One strategy utilized by hospitals to achieve this goal is to hire physicians practicing in a variety of specialties.

Having a large contingent of physician employees also provides an in-house referral base and may prevent groups of doctors from opening up entities, such as ambulatory surgery centers, that compete with the hospital. In addition, having doctors on staff theoretically aligns the interests of both parties. This common purpose should prove beneficial if health care reform introduces the concept of bundled payment paid to both physicians and hospitals, whether or not it is accomplished through an accountable care organization (ACO).

How Much Is My Practice Worth?

There was a time when hospital groups would pay inflated prices for physician practices, attributing much of the financial consideration to payments for goodwill. Unfortunately, physicians no longer can expect to receive this type of arrangement. The federal Stark Law and anti-kickback statute require that the price paid for a physician practice be commercially reasonable and consistent with fair market value (as the government defines that term). If the hospital is part of a system that is a 501(c)(3), obtainment of an independent external valuation confirming the value of the practice is highly recommended. To such an extent it is also important to include any contemplated physician compensation in the analysis. This is important to insure that compensation complies with the applicable Stark exemption and anti-kickback safe harbor.

Thanks to the government's highly-publicized and successful crackdown on health care fraud, providers that fail to comply with these laws can find themselves defendants in qui tam whistleblower lawsuits, sometimes brought by the employed physicians themselves. An Iowa hospital settled for \$4.5 million for paying its employed physicians excessive compensation as their doctors were among the highest paid employed physicians in the nation. Additionally, a hospital in Maryland paid \$22 million to settle allegations brought

by a group of cardiac surgeons that the compensation paid them under their professional services agreements was well above fair market value.

The amount paid for a practice is now typically based on any uncollected accounts receivable and the value comprised by inventory and furniture/fixtures. Ongoing salary is often determined by netting practice expenses from the revenues earned by the physician. Both the Stark Law and the anti-kickback statute allow for some type of performance bonus, but it must be calculated in accordance with the laws' fairly strict parameters.

Sign Me Up?

Giving up practice ownership for employment is not an easy decision. The following is a partial list of questions and comments for consideration in order to determine if an employment relationship may work for you:

- Are you ready to give up the autonomy of an independent practice?
 - **Confirm that your business and clinical philosophies align with those of the hospital. Consider the hospital's (or hospitals' if evaluating more than one potential buyer) location and patient base, financial health, market share, relationships with physicians, payor mix and compliance history in this analysis.**
- Is the practice in good condition to be sold from both a financial and legal standpoint?
 - **Be prepared to go through a due diligence process.**
 - **Address any joint ventures or relationships that need to be unwound.**
- What will your arrangement with the hospital look like?
 - **It is important that the agreement tie to the valuation and that the valuation expert understands all the conditions of the proposed agreement and considers all the business implications.**

Financial consultants and counsel play an imperative role in hospital/physician transactions. From understanding the potential arrangement and structure, to making sure that the agreement follows regulatory guidance, and addresses any issues that may prevent the parties from going forward at the very beginning. External help is additionally important so that appropriate contingencies can be built into a strategy.

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Providing Value to the Health Care Industry

Today's health care industry is a fast-paced environment where regulatory issues, competition and rapidly changing consumer expectations converge. Managing risks and realizing opportunities become a more important focus as providers decide how they will adapt and evolve their business models for long-term survival. UHY LLP recognizes the importance of adding value to our delivery of professional services to health care organizations. Our National Health Care Group has significant experience serving health care clients and we bring this understanding of your industry together with innovative solutions that have a positive impact on the bottom line.

UHY LLP's National Health Care Group understands the many challenges facing health care providers and facilities. Governmental pressures, regulations, contracting issues, staff shortages, patient satisfaction, and public responsibility affect all aspects of the business. Ensuring that today's actions will achieve long-term strategic goals can be a significant challenge for any health care organization. Many health care facilities lose their ability to consider the "big picture" as they are overwhelmed with urgent issues.

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Health Care *Insider*

Insights & Observations for the Health Care Industry

Volume 3 :: Issue 2

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Business Transformation in Health Care

Unresolved industry and policy issues have forced health care organizations into a reactive mode. However, with a fresh legislative agenda in 2012, the health care industry may see an unprecedented opportunity for transformation and innovation. Success will depend greatly on the ability to adapt, squeeze costs, manage relationships in order to gain the most value, understand health reform and its impact, and embrace regulatory changes and consumer demands.

As the government takes a more active role in health care, health care leaders will be forced to look outside of their organizations for new opportunities. Policy-driven cost management initiatives will force the health industry to further improve efficiency and look for innovative ways to cut costs. Since the recession has already impacted budgets the last couple of years, any governmental intervention on managing costs will have an even larger impact on the health care organization. As the industry seeks to reduce costs and squeeze out inefficiencies, there will be a need for business transformation and the reevaluation of existing value drivers.

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Interoperability

Growing diversity in health care organization infrastructures is placing new demands on IT managers, physicians and staff. Administrators are faced with the question: "What is the most cost-effective and efficient way to get information from its source to the point of care?" This is especially relevant in hospitals as there are many disparate systems – e.g., lab, radiology, ED and scheduling. Although many software suppliers claim interoperability, existing infrastructure components are often out-of-date or must support legacy systems. Data integration, migration and adoption of leading-edge technology and services offer health care providers an effective means to provide lower cost services to their clients while capitalizing on existing, but often hidden, information.

Nation-wide Initiatives

Health care providers face an unprecedented and growing amount of regulation and legislation and the push for reform

and governmental changes is just beginning. President Obama and his Administration have set goals for health care reform, including directives to: expand insurance coverage, modernize the health care system and increase prevention and wellness. With the new legislation, business transformation opportunities will abound. For example, the reform package includes billions of dollars in spending for IT services, coverage initiatives, major insurance changes, grant programs - and the creation of dozens of new governmental agencies to oversee such reforms.

Implications of reform are pervasive and can impact every organization. Every employer will need to manage the mandates, changing tax implications and shifting costs for expansion of insurance coverage or a public option. Providers will continue to face increasing reimbursement pressure and physicians will be forced to adjust their practice models. Major investments in health care IT will be seen as a way to improve the quality of delivery while driving down costs - while security and risk mitigation policies will be more important than ever for enveloping the public trust. New IT systems will, in turn, provide further value for public health data collection, research and quality measurements.

Consolidation

The current business landscape is driving infrastructure consolidation throughout the health care industry. Acquisitions are further prompting administrators to reassess and merge key infrastructure components. Traditional approaches to consolidation are quickly leading to cost overruns due to an overabundance of paper records and multiple isolated systems. Transforming the health care business requires a shift in technology focus toward integration, standardization and proven solutions. As larger facilities acquire smaller and less financially-secure facilities, the need for centralized services and strong IT systems is paramount. Adopting more disciplined business practices, especially when it comes to mission-critical applications and data warehouses, is also a key driver for success. As health care organizations assimilate and transform their businesses, they will be forced to find ways to monitor and audit their operations with greater quality, precision and accuracy.

Recent advances in IT capabilities have allowed major players in other industries, such as telecom and oil and gas, to tap existing data sources to cut costs and to identify additional revenue

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channels. A similar transformation is happening in the health care industry as hospitals integrate and consolidate key infrastructure components. CEOs now have the ability to interpret and utilize existing data to create useful, consumable information based on what various constituents need – payors, providers and patients. By focusing on the ability to translate data into quality metrics and decision support analysis, the hospital can set itself apart and take advantage of any pay-for-performance rewards as outlined in the government’s Meaningful Use Program.

Compliance

Forward-looking organizations view HIPAA, HITECH and other regulations as not only mandates to follow, but also as opportunities to set themselves apart and retain a competitive advantage. Complying with regulations requires flexibility and the capability for rapid change. It also requires better management and internal controls than many of these organizations have used in the past. The organization needs to understand what the controls system needs to accomplish – both in terms of compliance and reliability – in order to succeed. Not only do we need to close the gap in controls, we also need to close the gap between business requirements and the application of technology in order for compliance to be verified and audited.

Fraud and Abuse

Executives could face jail time in addition to organizational fines if they break the rules. Medicare fraud losses are estimated at \$68 billion annually. The Obama administration has increased its fraud and investigation budget by more than 50% over the previous years. The budget includes a proposal to implement and utilize national coding and technology to ensure the accuracy and appropriateness of Medicare payments and to address financial conflict-of-interests in physician-owned entities.

Providers will also see pressure from CMS’s Recovery Audit Contractors (RAC). RAC is focused on recovering any overpayments and has spread nationwide. Health care reform is counting on these programs to spot fraud and utilize the savings and fines to help fund new programs. Historically, these Medicare audits were done by hand and were very thorough and time-consuming. However, with technology these audits are becoming more frequent and may detect fraud sooner. Transforming your IT infrastructure now can make this a different process for providers either at the front end or after the RAC audit has occurred.

It is also important to make sure that internal controls are in place and tightened. Staff also should be educated on the ramifications of fraud and abuse. The utilization of technology and claims data can help organizations become more proactive and predictive.

Reimbursement

Revenue is one of the most important, if not the most important, element of operations. Once finances come into play, businesses can perform risk-reward analyses. The ability to predict service levels, volume levels and capacity constraints can build a financial model to allow for the analysis that is critical to planning.

Security

Maintaining, managing, and ensuring secured access to patient records is paramount in the current environment. A single breach of patient confidentiality can cost hospitals both legally and financially. At the same time, however, patients are demanding more streamlined access to their own medical histories and records. Although the technology exists for hospitals to provide this to their clients, the perceived risk is large, and to a great extent, unquantifiable. Disparate IT systems and inconsistencies in data recording can expose a provider to too much risk. Implementing a standards-based and proven technology solution can reduce the risk to providers by allowing them to provide secure and trusted access to patient records while maintaining confidentiality and allowing fine-grained control of access to data.

Conclusion

Health care, as an industry, is entering a transformative stage in development. The cost of implementing advanced technology solutions is finally within the reach of most provider’s budgets, and, once implemented, are likely to improve patient satisfaction. Technology solutions that may have only been experimental a decade ago are now deeply embedded into the health care delivery process.

If your organization is planning to engage in large-scale, complex organizational changes that involve multiple work streams, you will not achieve your business change objectives without a structured, tactical process that can be applied across these multiple projects. Business transformation programs typically involve projects with significant interdependencies and must be managed on an enterprise-wide basis.

Health care businesses are currently facing an exciting opportunity to transform - and the technology is there to help them. However, to move forward they need governance, a disciplined approach and the ability to use their knowledge and available assets to maximize ROI. This coming year promises to become a truly transformative one for the health care industry as a whole. It is also a compelling time to understand the technology-provider landscape in order to elicit the correct 3rd party services to make transformation a reality.

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Considering Hospital Employment?

Physicians with independent practices have seen their lifestyles change dramatically over the last several years. Between recently enacted health care legislation, pressure to lower reimbursement rates, and stronger enforcement of Medicare or Medicaid claims, many solo and group practice physicians are considering alternatives to private practice.

One potential opportunity in today's health care environment is to work as an employee for a hospital. When contemplating this option, a physician must first consider the advantages of running their business versus the risks and rewards of becoming an employee. This article will serve as a checklist detailing some, but not all, of the areas to consider before making such a decision.

This Is Not Your Father's Health Care System

Hospitals first began acquiring physician practices in the early 1990s, largely focusing on primary care. As profits began to be squeezed by managed care companies, hospitals began vigorously searching for new ways to compete. It seemed like a reasonable notion that consolidating a large number of gatekeeper physicians would provide the hospital with increased bargaining leverage. In turn, primary care physicians found these arrangements to be intriguing due to the long-term contracts being offered for their services and the often inflated premiums being paid for their businesses.

Unfortunately, most of these agreements did not adequately consider how integration would occur once a practice was purchased. In addition, there was little thought given to benefit measurements or business model metrics, and ultimately accountability was lost as many hospitals could not manage

physicians. Contractually guaranteed incomes often removed the incentives physicians had as bosses of their own practices to be either productive or efficient. As a result, most of these arrangements lost money and were not successful, and the majority of hospitals unwound these acquisitions by the end of the 1990s.

Today, hospitals have turned their attention to increasing market share and filling any gaps in service lines for which they currently do not provide treatment. Specialty practices are a focus, as hospitals are particularly interested in adding physicians within high-margin disciplines.

Why Work For A Hospital?

Self-employment is often seen as a goal for which to strive. In fact, physicians in private practice are typically freed from reporting to an immediate supervisor, can structure their practices to minimize or best contain professional liability, and enjoy earnings potential that may be limited only by the number of patients they choose to see. However, doctors have found that owning their own practice frequently limits their ability to enjoy the actual practice of medicine. Byzantine reimbursement requirements, administrative work, keeping up with IT developments and overall red-tape have increased so much in recent years that many doctors are consumed with tasks entirely unrelated to treating patients.

Becoming an employee of a hospital may often result in more stable work hours, a reduction in time spent managing malpractice and regulatory compliance issues, and relief from the increasing

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