



Issues, Ideas & Actions

Useful information from Ryun, Givens & Company

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Proper Design Yields Better Information

A well designed accounting system will serve as the “organizer” of information for your entire operation and all of its parts.

There are several things a healthcare provider organization should consider when designing or redesigning its accounting information system. For example, it is important to have separate financial operating statements for each level of service.

Does your organization do so, and are those operating statements complete? Has your organization identified all the costs that Iowa Medicaid considers unallowable? Have you identified those costs and do you record them on a contemporaneous basis?

Please give careful consideration to these suggestions, and if you deem it appropriate, you may want to use these ideas to formulate a plan of action for improving the viability of your accounting information.

Design Considerations

Most provider healthcare organizations originally designed their accounting information system around “departmental accounting.” This generally results in the aggregation of departmental expense, which is crucial for making decisions at the departmental level.



As organizations grow and add more than one level of service (i.e. nursing center, independent living, assisted living, hospice, etc.) it is also critical that the accounting information system is designed to provide for separate financial statements that describe the operations of each service level. The intention is to separately report the revenues and expenses of each

specific service and therefore the operational performance of each service level.

Organizations that redesign their systems are often shocked to discover that one service level is supporting another. For example, their nursing center may be subsidizing their independent living program, and doing so may violate the organization’s Mission or purpose.



Having a separate operating statement for each level of service allows management to responsibly view financial interrelations of the organization and make better strategic-based decisions such as:

- Expansion, addition, or discontinuance of services
- Pricing each service
- Fundraising around Mission-based services that may require additional revenues to simply break-even
- Feasibility of long-term financing for major renovations and/or new construction
- Social accountability including reporting Charitable Care when the cost of care for certain residents exceeds the revenue received for providing it
- The list goes on and on

There are generally two approaches within accounting information systems for separate operating statements:

- Divisional accounting for each service level
- Separate legal entities for each service level

Divisional Accounting

Most accounting software allows you to create separate divisions. Divisions could be the Nursing Center, Independent Living, Assisted Living, and etc. The advantage of separating divisions is that it may be simpler and less costly. Unfortunately, and in our experience, the results are often lacking. Organizations can lose sight of what they are trying to accomplish and not enough time or attention is spent accounting for, reporting, and examining specific divisional results.

Separate Legal Entity Accounting

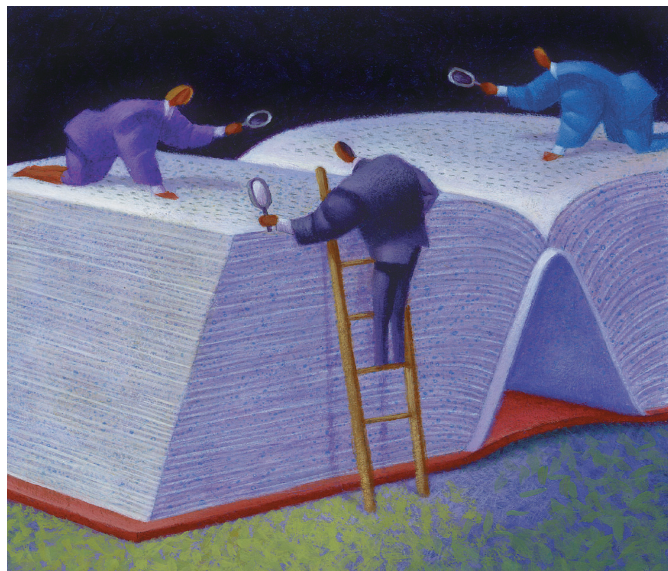
In our experience, designing accounting information systems for separate legal entities generally results in more attention to detail and the users of the information are generally more pleased with the results. If you think about it, any omission of information generated by the software's financial reporting becomes painfully obvious. Whereas divisional accounting easily allows for combining joint activities and costs, separate legal entity accounting does not.

Not For Profit healthcare organizations generally have two avenues available for establishing separate legal entities

- Limited Liability Corporations (LLC)
- Separate Tax Exempt Entities

Limited Liability Corporations (LLC) may be the simpler and less costly option. They have the added advantage of being treated as a disregarded entity and the Internal Revenue Service allows the LLC's operations to be combined and reported with a parent entity's annual 990 Tax Form Return of Organization Exempt From Tax. However, many organizations again lose sight of what they are trying to accomplish and not enough time or attention is spent in delineating the desired results. In practice, LLC accounting can wrongly take the form of Divisional Accounting. Organizations that choose the LLC approach should communicate through writing their specific objectives for creating separate legal entities. Those objectives should include the desire to provide separate and complete financial reporting for each entity.

Separate Tax Exempt Entities by definition (and internal revenue tax exempt application processes) require quite a bit more attention to detail. This attention generally gives much better results in the form of accounting systems, accounting processes, financial reporting and the usability of the information.



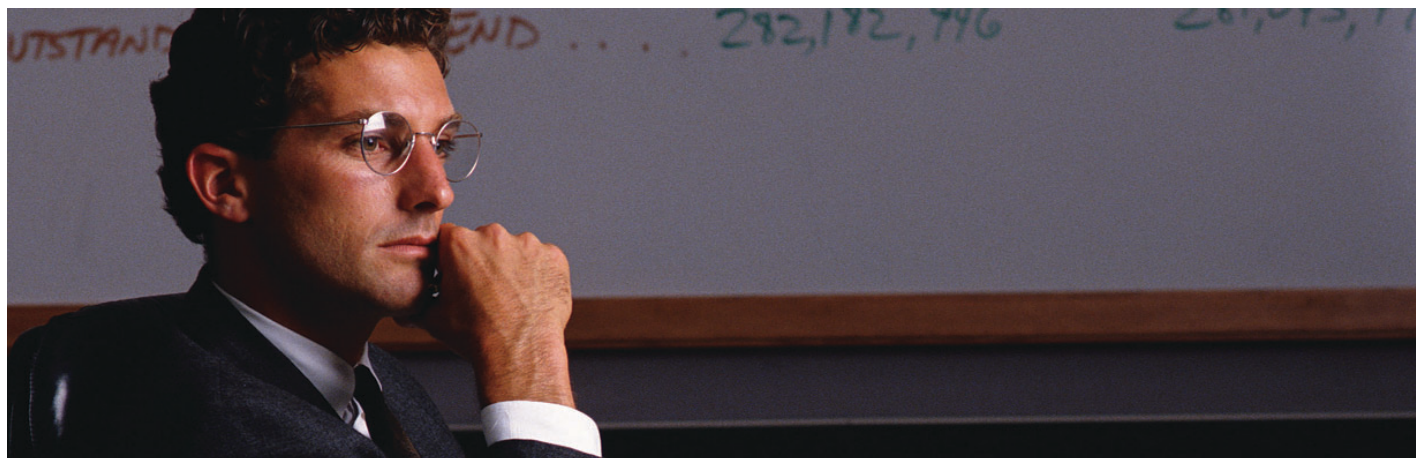
Banking and Underwriting Compliance

Banking and underwriting standards have intensified dramatically over the past several years, due in no small part to the problems experienced in 2008's near collapse of the financial system.

Whether you are working with your local bank, or a tax-exempt bond underwriter, it is important to consider that they need to be updated with detailed financial information at all times.

It is very likely that they will ultimately require detailed and separate operating statements by level of service. Given that such services often take place in separate buildings or separately divided buildings, it is also important that all financial records separately identify and assign these assets.

Doing so gives banks and underwriters the information they need to make lending decisions and to identify and attach the separate service cash flows and assets in their lending agreements.



Medicaid and Medicare Cost Reporting

Most provider healthcare organizations receive funding from Medicaid and Medicare. Accounting systems need to completely understand the reporting requirements of each.



Accounting information systems and processes should capture and provide a separate, concurrent, and contemporaneous accounting for each of the following:

- Unallowable costs or costs that have limitations
- Certain revenues that are required to be used to offset (reduce) certain costs
- Costs for which additional details and stratification are required to be reported. For example,
 - Legal and accounting
 - Compensation and FTEs (as delineated in the cost reports)
 - Etc.
- Direct costs that are associated with only the nursing center and that do not benefit any other service level/activity
- Joint costs that benefit both the nursing center and another service level/activity. For example,
 - CEO compensation costs
 - Accounting department costs
 - Etc.
- For each joint cost, the basis and support for allocating joint costs. The various allocation basis need to be deemed reasonable and consistent by state and federal authorities AND supportable, sufficient, auditable documentation needs to be available should state/federal authorities request it.

Healthcare Reform

Any conversation concerning Healthcare Reform, whether past, present or the future, entails two basic concepts:

- Outcomes
- Patient costs

Said another way, healthcare reform entails the measure of VALUE as expressed by the outcomes achieved in relation to their costs.

The future WILL require that healthcare provider organizations carefully document their costs, whether by individual patient or by patient type/group.

Accountable Care Organizations will contract with those organizations that they deem provide the best value. We want to help our clients to be these organizations. Watch for a future *Issues, Ideas & Actions* editions that addresses this topic!

While many details of our current Healthcare Reform efforts are yet to be clarified, what is certain is that the demand for information will increase dramatically. Therefore, the quality and “usability” of that information must also improve.

Legal Risk

We are not attorneys and are not qualified to give legal advice. However, in our numerous conversations with attorneys, they indicate that from a legal perspective, it makes good sense to legally separate the nursing operations from the organization's other operations in accounting information systems. Nursing operations are considered to be a higher risk than other operations, such as independent living and, accordingly, it may be easier to protect the organizations other assets from this higher risk by having separate legal entities.

Summary

Accounting information systems are the infrastructure that supports the needs of management as well as other external users of information. A cleaner infrastructure will result in better information.

A well-designed system takes into consideration the uses of the information along with the users of the information.

How We Can Help

RGC has extensively studied, and continually monitors the ongoing and changing healthcare regulatory environment. We have an excellent understanding of the implications for all of our clients.

We are pleased to provide clients and interested parties with a free basic analysis and stand ready to design, redesign, or recreate accounting systems to be compliant and weather the changing healthcare environment.

Please contact us by email at sgivens@ryungivens.com or call Whitney Tucker at (515)225-3141.



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