



# Finding Funds in a Demanding and Challenging Environment

Issues Facing the Healthcare Industry



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## Introduction

Organizations in the healthcare industry are experiencing drastic increases in the number of demands placed on them. At the same time, the entire industry is confronted with a multitude of new challenges including an aging population with an increased life expectancy and a myriad of government healthcare reforms. With so much at risk, healthcare professionals are looking for solutions that will streamline operations and reduce costs so that emphasis can be placed where the rewards are the greatest: providing excellence in patient care.

Establishing and improving strong operational efficiency has always been a key to economic success in business. Nowhere is this more evident than in the healthcare industry. From nursing homes to hospitals to community health centers, healthcare and medical service organizations are all facing the same dilemma: how to find the funding to improve services while addressing the latest demands caused by the aging population and new government regulations. A review of these issues and achievable solutions will bring to light the urgency that exists right now; waiting is not an option.

## Increasing Demands

By the year 2050, the number of people over the age of 60 is expected to triple, comprising 22 percent of the world population.<sup>1</sup> By that same year, in the U.S. alone, the number of people aged 65 and over is expected to be close to 87 million, out of a projected total population of 420 million.<sup>1</sup> This is significant, as the elderly are making the majority of the demands on healthcare services. Clearly, healthcare expenditures are rising.

Another demand placed on the healthcare industry is the need to stay compliant with all of the current government regulations. There are a number of agencies that govern various aspects of healthcare. The Centers for Medicare and Medicaid administer Medicare and Medicaid, along with the State Children's Health Insurance Program. Tri-Care, run by the Defense Department, serves military families. The Employee Retirement Income Security Act and the Consolidated Omnibus Budget Reconciliation Act, COBRA, both administered under the Department of Labor, oversee health plans offered by employers. Finally, the Health and Human Services department directs the implementation of the Health Insurance Portability and Accountability Act, HIPAA. HIPAA establishes national standards for electronic healthcare transactions and addresses the security and privacy of health data. Keeping track of all agencies above requires constant oversight, including financial and human resource investment, to ensure compliance with government policies and program protocol.

It is important to consider the various healthcare reforms that the government has either already enacted or hopes to enact soon. Government regulations place healthcare organizations at risk for the assessment of penalties or losing their license to operate if they do not comply with the new laws. For example, the Affordable Care Act of 2010 added new requirements for hospitals to

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<sup>1</sup> GlobalData. (2013). OneSource, iSell – Healthcare Industry. Retrieved on March 3, 2013, from <http://www.onesource.com>.

qualify for tax-exempt status under IRS Code Section 501(c)(3). Now, to qualify as tax-exempt, any organization that operates one or more hospital facilities must meet the following four requirements for each facility:

- Establish written financial assistance and emergency medical care policies.
- Limit amounts charged for emergency or other medically necessary care to individuals eligible for assistance under the hospital's financial assistance policy.
- Make reasonable efforts to determine whether an individual is eligible for assistance under the hospital's financial assistance policy before engaging in extraordinary collection actions against the individual.
- Conduct a community health needs assessment, CHNA, at least once every three years. (This CHNA requirement was effective for tax years beginning after March 23, 2012.)

Although the IRS would like to minimize the burden that these new requirements create, they must be able to capture the necessary compliance information. As a result, the tax-exempt organizations in the healthcare sector now have additional reporting requirements.

There are also Medicare reforms on the horizon. Demands are currently being made to cut the cost of Medicare. By 2037, 75 percent of the expected increase to all federal spending, so long as there are no major policy changes during this time, is predicted to come from just one program: Medicare.<sup>1</sup>

While medical care costs for many people slowed between 2009 and 2011, chiefly due to the recession and people delaying their healthcare needs, this downward trend will, subsequently, be short-lived. Under the Affordable Care Act, millions of Americans who formerly were uninsured will soon have access to healthcare and, therefore, are much more likely to seek treatment. Additionally, once the inevitable economic recovery takes hold and the government mandates go into effect, healthcare costs are sure to soar. In fact, expenditures for healthcare in the U.S. recently rose, exceeding \$2 trillion and representing 16 percent of the GDP. The Congressional Budget Office is forecasting that healthcare spending will soon account for 25 percent of the GDP.<sup>2</sup>

However, it is expected that the present administration will seek to drastically reverse this increase in healthcare expenditures over the next decade. For Medicare, savings may be realized through competitive bidding for Medicare Advantage contracts and by the government's negotiating the pricing of Medicare Part D drugs.<sup>1</sup> These are just two of the suggestions that have been mentioned.

All of the above puts added pressure on health and medical providers to meet these demands, while what health and medical service providers really want is to focus on improving the patient experience and thrive as a for-profit or not-for-profit entity. Organizations simply must be able to do both and accelerate efficiency measures in order to continue to operate prosperously.

Healthcare spending will soon account for 25 percent of the GDP.

1 GlobalData. (2013). OneSource, iSell – Healthcare Industry. Retrieved on March 3, 2013, from <http://www.onesource.com>.

2 Litan, R. (2013). Fundamental change in medicare will come—eventually. Experience: American Bar Association. 22(3). pp19-21.

## New Challenges

The increased demands on the healthcare industry are bringing attention to new challenges for healthcare organizations. For example, there will soon be large shortages of registered nurses, RNs, and other healthcare professionals. By 2020, it is estimated that there will be a deficiency of 200,000 healthcare professionals and 800,000 nurses.<sup>1</sup> The Bureau of Labor Statistics predicts there will be a 26 percent increase in the number of RNs needed between 2010 and 2020. Add to this rising salaries and benefits costs, along with the cost to recruit, train, and retain new talent, and the challenge becomes obvious.

Another challenge comes from the trend to invest in modern technology. With the advent of Community Health Information Networks, CHINs, there has been an increase in the amount of financial and clinical information that can be shared among hospitals, physicians, and other healthcare providers. Although new technology can certainly benefit the industry, there is a strong need to maintain a high level of security over patients' information while their personal medical histories are being shared electronically. There is currently widespread concern that the healthcare industry is not doing enough to protect patients' privacy and confidentiality.

With an increasing volume of patients comes the necessity to expand facilities, including the addition of things like emergency rooms. This calls attention to the increasing need to establish a sound policy for the management of fixed assets—property and equipment. Fixed assets represent one of the largest capital investments for an organization. Not only are the costs and values of fixed assets often quite high, but the actual number and size of an organization's assets can be so large that they occupy an entire room—even an entire warehouse or facility. It is essential to keep track of fixed assets and for organizations to know where they are at all times because a delay in locating a particular asset can actually put a patient's care at risk. Any delay in treating patients may cause them unwarranted discomfort, pain, or worse.

In addition, if fixed assets are not properly managed, an organization may have unexplained asset losses, underutilized assets like those that cannot be located when needed, or even ghost and zombie assets. Ghost assets are those assets that are still showing on the books but that are no longer owned or in service, a scenario that could be due to theft, misplacement, or an unrecorded disposal. Such assets may cause a loss of productivity and overpayments of property taxes and insurance. Zombie assets are owned, in-service assets that are not on the books. This means that valuable depreciation deductions are not being recognized, and the organization is at risk for not insuring them. Having ghost or zombie assets may indicate weak internal control, which is a red flag during an internal or IRS audit.

Audits are a real challenge in many industries. In 2012, audits alone cost for-profit companies an average of \$466 per million dollars in revenue.<sup>3</sup> For a hospital with annual revenues of \$500 million, that's \$233,000 in audit fees—a cost that reliable accounting products can help businesses avoid. For tax reporting purposes, maximizing depreciation deductions and taking advantage of entitled benefits is extremely advantageous, as is avoiding IRS penalties and unnecessary interest fees. For financial reporting, proper fixed asset management policies can help reduce the need to restate financial statements due to an oversight or an incorrect calculation. Such oversights

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1 GlobalData. (2013). OneSource, iSell – Healthcare Industry. Retrieved on March 3, 2013, from <http://www.onesource.com>.

3 Whalen, D. and Cheffers, M. (2012). Audit fees and non-audit fees—a ten year trend. AuditAnalytics. July, 2012 Report. p9.

and miscalculations can be extremely costly and are certainly avoidable with proper management practices.

Once again, the importance of efficiency gains surfaces to put healthcare and medical service providers' challenges into perspective. Addressing labor shortages, patient and data security, information sharing, and fixed asset management suggest a need for adaptive measures that organizational decision makers must tackle. In the end, every one of these decisions will require funding that may be difficult to raise through investors or charitable donations, and so, the age-old mission to raise funds through creative means begins.

## Achievable Solutions

While there are increasing demands and new challenges for the healthcare industry occurring at the same time, there are several good solutions available right now to organizations in this industry. In order to expand and capitalize on any existing organizational strengths and take advantage of existing opportunities within the industry, a look at some real solutions will provide insightful resolve.

### Expansion of services

There are a number of ways healthcare organizations might expand to profitably accommodate the increased demands for their services. First, consider increasing the range of services provided such as specialized surgeries, alcohol abuse programs, expansion of lab and imaging services, and outpatient services. Second, geographic expansion is also a possibility through the opening of new facilities or offices. For example, there are many nonurban areas that have a large, and growing, older population, which often use a greater number of hospital services.<sup>1</sup> Next, increasing the number of agreements held with insurance providers can facilitate expansion efforts with new clientele. Lastly, mergers and acquisitions, through either horizontal or even vertical integration, may bring new opportunities to leverage in-demand assets like personnel and diversified service-related equipment. This is no small feat considering the legal, logistical, and financial ramifications within the industry, but it is a good idea to continually examine the marketplace for opportunities within the channel ecosystem.

### Control spending with improved software applications

There are some excellent software applications available for controlling spending on areas such as sourcing, purchasing, and marketing—areas that can get out of control quickly. Using software to automate as many processes as possible, like the billing process, can enable healthcare organizations to handle a larger volume of business with fewer human resources, which, in turn, can reduce costs and lower the risk of errors.

Smart and informed investments in sound fixed assets management software, for depreciation and tracking purposes, can be invaluable. First, consider depreciation software. Fixed assets management software for depreciation can help an organization in many ways: It can help in making future projections for capital improvements, in deciding on the right time for making new asset purchases, and in keeping the organization compliant with GAAP standards and IRS regulations

<sup>1</sup> GlobalData. (2013). OneSource, iSell – Healthcare Industry. Retrieved on March 3, 2013, from <http://www.onesource.com>.

to help avoid audits with potentially high fines. The time saved with not needing to use precious resources to conduct standards and code policy research alone will ultimately allow for making smarter, cost-saving decisions.

Good, easy-to-use software is invaluable and dependable. This is certainly true for first-rate asset tracking software, but conducting a physical inventory of fixed assets is a major undertaking. However, with solid software in place, healthcare organizations can efficiently track multiple inventories of assets concurrently at various sites and even reconcile the data at one central location. Having such a highly dependable internal control in place creates greater flexibility for healthcare organizations to achieve their goals surrounding patient care.

## Human resources

Capable employees are the foundation for all good business practices. Because hiring qualified candidates who are skilled healthcare professionals may be difficult, especially when the demand for them exceeds the supply, organizations should work on improving retention of the people already on staff. Also, look for ways to streamline operations to achieve cost savings, consider consulting with an efficiency expert, and reconfigure the flow of patient care. One solution is to have patients with routine problems see a nurse practitioner or a physician assistant, freeing up doctors to see the more serious cases.

## Government reforms

The government regulates almost every facet of healthcare in the U.S. today, affecting both healthcare providers and insurers. Government regulations encompass licensing, insurance policies, medical treatments, and, in general, how businesses should behave. As there is an increasing amount of government regulation and oversight of the healthcare industry, it is more important than ever to stay informed by looking out for changes that may be made to Medicare and Medicaid, particularly to reimbursements. HIPAA 5010, which is an upgrade to HIPAA, revised the coding of medical and billing data; plus, there will soon be state insurance exchanges, as well as a federal exchange, created, and those will also need to be supported.

Healthcare organizations must prepare to comply with the new government regulations and reforms. Such regulations can come from the federal, state, or even local government. The benefit of being compliant with all applicable regulations assures that healthcare and medical services establishments maintain their certification and are allowed to participate in government programs, including Medicare and Medicaid. Organizations should be sure to effectively communicate impending changes to all employees as part of their business policy to make the entire organization better prepared for taking adaptive measures.

One viable solution to assure you are in compliance with all government reforms is to join an Accountable Care Organization, or ACO. ACOs were created by the Patient Protection and Affordable Care Act of 2010 but did not begin forming until 2012. An ACO is a network of healthcare providers and hospitals that agree to share the responsibility for managing all of the health care needs of their Medicare patients. The premise behind ACOs is that well-coordinated care will prevent readmissions, duplicate tests, and other unnecessary healthcare costs. The incentive to join

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an ACO is that members receive a portion of any Medicare savings that the ACO achieves, when compared to certain government benchmarks.

Another great resource to help organizations adapt to changes brought about by healthcare reform is the Accreditation Commission for Health Care, or ACHC. There are numerous reasons to become accredited; not only does accreditation help differentiate an organization from its competitors, it shows a commitment to patients and increases a patient's confidence in his or her provider. Furthermore, the process of accreditation will provide an organization with the chance to identify both its strengths and weaknesses. The process of accreditation gives management essential information about an organization's operations in order to improve its effectiveness and efficiency. Most importantly, having ACHC accreditation assures that an organization is in compliance with all applicable governmental and statutory regulations and guidelines.

### **Debt management**

Keeping debt under control by looking for areas where money can be saved is a general best-practice policy in most industries. Having substantial debt can take away from important cash flow needed to pay interest and principle, while an extensive lack of capital can cause delays in important purchases related to big business initiatives. Working capital is essential to carry on daily business activities, but paying down debt is absolutely necessary too, so what gives in this case? Savings from other areas is indeed the solution. For example, by making an investment in something like payroll automation or fixed assets management software, improved efficiencies will yield extra funding for your organization—even within the first year.

## Conclusion

The healthcare industry is facing an acute shortage of healthcare professionals accompanied by an increasing older population. To top it off, everyone is talking about healthcare reform, recent legislation, and the future with regard to more changes and mandates. In a recent survey of 166 top healthcare executives, 60 percent of respondents reported having already evaluated and planned for multiple future scenarios, including the impact of healthcare reform, changes in demand, and other external factors.<sup>4</sup> This perfect storm of events presents demands and challenges that may seem overwhelming, but there are solutions available right now that begin with good planning and preparation.

One of the primary keys to maximizing financial and operational performance has always been controlling costs and increasing efficiency. Researching the marketplace and understanding the return on investments is important when making decisions that impact the entire business. While opportunities may present themselves with short- or long-term promises of improving an organization's position, sustainable solutions are key drivers to success of any decision.

One of the most achievable solutions is the implementation of a dependable software application to accurately depreciate and track your organization's most valuable possessions. It can actually address several demands and challenges all at once from helping to locate equipment quickly to improving the financial bottom line. With the potential to provide immediate return on investment, funds can surface quickly to raise working capital. The right combination of system implementations can compound opportunities as well as improve the management of an organization's debt and human resources. Beginning with optimized fixed asset management, addressing industry challenges and demands right now is an essential starting point for raising the capital healthcare and medical service providers require that will ultimately provide them with the freedom to succeed at improving patient care.

One of the most achievable solutions is the implementation of a dependable software application to accurately depreciate and track your organization's most valuable possessions.

<sup>4</sup> Close-Up Media. (2013). GE Healthcare survey finds U.S. healthcare organizations may not be prepared for capacity management challenges. Professional Services Close – Up. March 14, 2013.

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