

# HCCA COMPLIANCE TODAY

Volume Nine  
Number Four  
April 2007  
Published Monthly



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ASSOCIATION

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PAGE 14

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PAGE 11

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## Developing sound policies and procedures specific to potential risks

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*This is the second of a two-part series on hospital risk assessments. Part 1 was published in the March 2007 issue of Compliance Today."*

Hospitals are becoming more reliant on risk assessments to discover prospective risk areas and to determine how these risks can be reduced. A hospital should examine internal and external sources for various risks, and use this information to identify and prioritize its highest concerns. Examples of potential organizational risks include cost reports, EMTALA, and anti-kickback areas. When the hospital's risks have been prioritized, internal controls can then be integrated to assist in managing these risks. Policies and procedures are often a good solution to address risks because they require a review of applicable federal and state regulations, examine current operating procedures, and provide an opportunity to train affected personnel with updated information. This article will outline a process that can be used from development to finalization of policies and procedures to internally manage designated risks.

### Review, revise and/or develop policies and procedures

To begin this process, a team of individuals with the appropriate knowledge and skills pertaining to each of the risk areas to be tackled should be designated. A work plan should be developed including a timeline. Designated personnel should collect and review existing policies and procedures. There are essentially six steps involved in the development of the policies and procedures.

**The first step** involves the creation of a criteria/condition matrix. This matrix is an analysis of current federal and state regulations for the particular risk issue (ie, cost reports, EMTALA, anti-kickback, etc.). All applicable federal, state and local regulations should be reviewed specific to the issue being addressed. Additionally, existing policies should be reviewed to determine if they sufficiently address all requirements. Please refer to *Table 1* for an example of the criteria/condition matrix.

**The second step** is based on these regulations and the review of existing policies and procedures. An analysis should be undertaken and a determination made as to which documents may need to be developed and/or updated. As soon as the proposed policies have been agreed upon, drafts should be developed.

**The third step** entails reviewing the draft policies and procedures with the appropriate team of designated personnel, who are the primary users, to ensure all procedures are in line with what is currently being done, as well as to ensure that federal and state regulations and payer requirements are sufficiently addressed. For instance, if developing cost report policies and procedures, you should meet with members of the reimbursement department who are responsible for the submission of the cost report.

**The fourth step** includes revising the policies and procedures based on the feedback obtained. These policies should be assessed once more, with the designated staff having final review, and then a final draft of the policies will be composed. Once the policies are finalized, they should be made available to all applicable employees via the Intranet, electronic or hard copy distribution, organizational newsletter, etc.

**The fifth step** is to develop training for the staff on these policies. While the policies are being implemented, discussions should be held concerning the type of training needed to address the risk area. As soon as the policies are fully implemented and all applicable staff has received the policies and procedures and has had time to review them, training should begin. Personnel should be designated to conduct the training, whether it is interactive or Web-based. Organizations must be certain to address why these policies were developed and/or updated, as well as any applicable regulations requiring specific procedures or examples of how the procedures can be applied.

**The sixth step** is to audit the policies to determine whether the departments are adhering to the guidelines and to measure if the policies have helped reduce the risks for the specific risk area.

Throughout this process, the executive management committee and the board of directors should be kept informed on the actions that are being taken internally to address selected risks. This will allow executives an opportunity to respond to any concerns they may have regarding procedures being implemented or training that is provided.

Personnel should be selected to annually review the policies and procedures for ac-

**Table 1**

**Cost Reports Criteria Condition Analysis**

Cost Reports Guidance	Reference(s)	Current Industry Policies	Existing Organization Policies	Proposed Policies
<p>Cost reports. With regard to cost report issues, the written policies should include procedures that seek to ensure full compliance with applicable statutes, regulations and program requirements and private payor plans. Among other things, the hospital's procedures should ensure that:</p> <ul style="list-style-type: none"> <li>• Costs are not claimed unless based on appropriate and accurate documentation;</li> <li>• Allocations of costs to various cost centers are accurately made and supportable by verifiable and auditable data;</li> <li>• Unallowable costs are not claimed for reimbursement;</li> <li>• Accounts containing both allowable and unallowable costs are analyzed to determine the unallowable amount that should not be claimed for reimbursement;</li> <li>• Costs are properly classified;</li> <li>• Fiscal intermediary prior year audit adjustments are implemented and are either not claimed for reimbursement or claimed for reimbursement and clearly identified as protested amounts on the cost report;</li> <li>• All related parties are identified on Form 339 submitted with the cost report and all related party charges are reduced to cost;</li> <li>• Requests for exceptions to TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) limits and the Routine Cost Limits are properly documented and supported by verifiable and auditable data;</li> <li>• The hospital's procedures for reporting of bad debts on the cost report are in accordance with federal statutes, regulations, guidelines and policies;</li> <li>• Allocations from a hospital chain's home office cost statement to individual hospital cost reports are accurately made and supportable by verifiable and auditable data; and</li> <li>• Procedures are in place and documented for notifying promptly the Medicare fiscal intermediary (or any other applicable payor, e.g., TRICARE [formerly CHAMPUS] and Medicaid) of errors discovered after the submission of the hospital cost report, and where applicable, after the submission of a hospital chain's home office cost statement.</li> </ul>	<p>The OIG Compliance Program Guidance for Hospitals, Feb. 23, 1998, FR Vol. 63, No. 35</p> <p>Provider Reimbursement Manual Part II, Provider Cost Reporting Forms and Instructions, Chapter 1 – Cost Reporting General</p>			
<p>Financial data and reports.</p> <p>(a) General. The principles of cost reimbursement require that providers maintain sufficient financial records and statistical data for proper determination of costs payable under the program. Standardized definitions, accounting, statistics, and reporting practices that are widely accepted in the hospital and related fields are followed. Changes in these practices and systems will not be required in order to determine costs payable under the principles of reimbursement. Essentially the methods of determining costs payable under Medicare involve making use of data available from the institution's basis accounts, as usually maintained, to arrive at equitable and proper payment for services to beneficiaries.</p> <p>(b) Frequency of cost reports. Cost reports are required from providers on an annual basis with reporting periods based on the provider's accounting year. In the interpretation and application of the principles of reimbursement, the fiscal intermediaries will be an important source of consultative assistance to providers and will be available to deal with questions and problems on a day-to-day basis.</p>	<p>42 CFR §413.20(a) and (b)</p>			
<p>Financial data and reports.</p> <p>(d) Continuing provider recordkeeping requirements.</p> <p>(1) The provider must furnish such information to the intermediary as may be necessary to—</p> <ol style="list-style-type: none"> <li>(i) Assure proper payment by the program, including the extent to which there is any common ownership or control (as described in §413.17(b)(2) and (3)) between providers or other organizations, and as may be needed to identify the parties responsible for submitting program cost reports;</li> <li>(ii) Receive program payments; and</li> <li>(iii) Satisfy program overpayment determinations.</li> </ol> <p>(2) The provider must permit the intermediary to examine such records and documents as are necessary to ascertain information pertinent to the determination of the proper amount of program payments due. These records include, but are not limited to, matters pertaining to—</p> <ol style="list-style-type: none"> <li>(i) Provider ownership, organization, and operation;</li> <li>(ii) Fiscal, medical, and other recordkeeping systems;</li> <li>(iii) Federal income tax status;</li> <li>(iv) Asset acquisition, lease, sale, or other action;</li> <li>(v) Franchise or management arrangements;</li> <li>(vi) Patient service charge schedules;</li> <li>(vii) Costs of operation;</li> <li>(viii) Amounts of income received by source and purpose; and</li> <li>(ix) Flow of funds and working capital.</li> </ol> <p>(3) The provider, upon request, must furnish the intermediary copies of patient service charge schedules and changes thereto as they are put into effect. The intermediary will evaluate such charge schedules to determine the extent to which they may be used for determining program payment.</p>	<p>42 CFR §413.20(d)</p>			

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curacy to the regulations and revisions made when changes to regulations are released. This updated information can be electronically distributed to applicable employees or discussed during annual compliance training, if appropriate. The organization should also consider instructing the Internal Audit department to review the various high-risk areas after implementation of the policies and procedures and employee training. The information discovered can be used to determine whether safeguards are in place to prevent the likelihood of this risk occurring.

**Conclusion**

In an effort to address designated risks, an organization should implement internal controls to decrease the likelihood of the risk occurring. The development and/or revision of policies and procedures, specific to each risk area, should be established. There are six standard steps that can be utilized—from the creation of a designated group of employees, to the drafting and finalization of the policies, to the application and training in these policies. An organization should audit these policies and procedures to ensure they are appropriately ad-

dress and diminishing the applicable risks. By integrating internal controls, an organization can better control its risks. ■