



Auditing Community Benefit



BY JEFF LADENBURGER, C.P.A.
Mr. Ladenburger is chief audit executive with CHAN Healthcare Auditors, Cincinnati.

As everyone with expertise in community benefits knows, the Internal Revenue Service, with its Schedule H of Form 990, has elevated the importance of the integrity of a hospital's community benefits programs. It has also elevated the need for auditable evidence. Health care facilities may have a wonderful community benefit program, but is there sufficient written documentation available to prove this to someone outside your organization? And with the additional reporting to the IRS via Schedule H, accountability for both governance and management increases.

CHAN Healthcare Auditors provides internal audit services to nonprofit health care organizations. In conversations with both management and governance at the organizations CHAN serves, community benefit is seen as an area of higher risk, especially if the organization has not yet been able to prepare for the increasingly demanding reporting requirements. With so many top priority items demanding the attention of both management and governance, we realize that organizations may not have been able to focus enough attention and resources on community benefit. Working with a couple of our clients and Catholic Health Association representatives, auditors determined that setting up a certification process regarding community benefit and performing some pilot audits was a good idea.

For these pilot audits, CHAN partnered with two hospitals and worked closely with Julie Trocchio, senior director, community benefit and continuing care ministries at CHA, to determine the focus of the audits and the actual detailed audit steps to be performed. The audit objectives, audit scope and detailed audit program steps were the same for audits at both hospitals.

Auditors determined that setting up a certification process regarding community benefit and performing some pilot audits was a good idea.

As a starting point, auditors reviewed community benefit-related policies and procedures during these audits and interviewed management in order to understand its community benefit program. Auditors performed detailed audit testing on accounting for and reporting of community benefit. During each of these audits, 65 specific audit procedures were performed.

The audit objectives, related findings and improvement opportunities regarding these audits are noted below.

FIRST AUDIT OBJECTIVE

Determine if the hospitals had formal policies and procedures to control their community benefits programs.

Key Audit Findings

- Policies and procedures were in place for financial assistance, charity care and discount and billing practices.
- These policies included criteria for qualifying for free and discounted care.
- The policies were also prominently posted so patients could see them.
- Community needs were assessed, and community programs and activities were provided in response to these needs.

Improvement opportunities

- Ensure that policies and procedures are regularly reviewed and revised if appropriate. Do not let them become outdated as operational processes change.
- Develop a comprehensive written inventory of all community benefit activities.
- Assess all the services the hospital provides to ensure that all community benefit services are counted.
- Communicate the availability of financial assistance throughout the billing and collection process. This is important, for example, because upon admission, a patient and his or her family may be more focused on the patient's health than on eligibility for charity care.
- Make sure the hospital has a communications

plan in place for telling its community benefit story.

SECOND AUDIT OBJECTIVE

Assess if the hospital reported community benefit in compliance with CHA's "What Counts" and "Accounting" guidelines from chapters 4 and 5 of the *CHA Guide for Planning and Reporting Community Benefit, 2008 Edition*. Additionally, if appropriate, CHAN would certify that the hospital was in compliance with this guide.

CHAN developed two different possibilities of sample wording to include in internal audit reports. The first is certification without exception. The second indicates exceptions where the hospital may not yet be in compliance with CHA guidelines.

Key Audit Findings

- Actual financial costs were being reported.
- Charity care was being properly calculated.
- Other means-tested government program costs were being accurately captured.
- We also came to realize that the tone set by senior management at the top of the organization drives how successful a community benefit program will be. This is very important in building a successful program.

Improvement opportunities

- Avoid double counting community benefit and including expenses that are really marketing costs.
- Make sure to maintain written documentation for community benefit expenses, providing a clear audit trail that others can follow.
- Include community benefit costs in the accurate categories. The CHA guide is especially helpful with this categorization. And Schedule H instructions include worksheets to help properly categorize community benefit costs.
- Properly restrict cash donations to specific community benefit purposes and request an acknowledgement receipt stating that the donation was restricted.
- Collect and report community benefit information as a strategic metric on an interim basis throughout the year. This will help to monitor progress toward community benefit goals and proactively identify issues prior to year end.

THIRD AUDIT OBJECTIVE

Determine if the hospitals complied with IRS Schedule H community benefit reporting requirements, for the period under audit.

Key Audit Finding

We found that organizations decided against early adoption of optional reporting requirements on Schedule H, meaning that they completed only Part 5 of the schedule. It will be important for organizations to plan well in advance for full completion of Schedule H.

Improvement opportunities

- Prepare and begin now.
- Review and understand Schedule H and its instructions.
- Form an internal group to address Schedule H reporting requirements.
- Prepare a detailed preparation workplan.
- Educate both governance and management on Schedule H.
- Develop a governance review and approval protocol.
- Ask outside consultants, if used, for filings, if they are prepared for the new reporting requirements.
- Review, revise and approve related policies and procedures, such as charity care.
- Review programs that you count as community benefit and compare them to IRS requirements.
- Be concise with answers in Schedule H. Avoid wordiness.
- Use an automated tool to help report all this information.
- Use communications staff to help frame your answers.

Based on these audits, we consider the following to be foundations for a successful community benefit program. (In other words, do these things and you will likely have a very good program.)

1. Review the *CHA Guide for Planning and Reporting Community Benefit, 2008 Edition*.
2. Review Schedule H of IRS Form 990, including the instructions and worksheets.
3. Review and revise charity care and financial assistance policies and procedures, as needed.
4. Reassess community needs at least every three years so the assessment is closely aligned with actual community needs.
5. Maintain documentation on why specific community benefit programs were established and why these programs continue.
6. Form a community benefit internal workgroup to assess community benefit, including such areas as admissions, community relations

COMMUNITY BENEFIT

and finance.

7. Use automation software to facilitate data collection.

8. Conduct an inventory of community benefit programs and activities and ensure that they meet IRS standards.

9. Provide community benefit education to governance and management.

10. Establish community benefit goals and include them in your budget.

11. Tie management performance to achieving these community benefit goals.

12. Regularly collect and report community benefit data throughout the year. Do not wait until year end.

13. Document and maintain an audit trail for community benefit reporting.

14. Prepare a three-year trend of community benefit amounts provided. Is the trend increasing, decreasing, or stable?

15. Put community benefit on the agenda at governance and management meetings.

16. Use community benefit resources where they are most needed and where they can be most effective.

17. Inform patients on billing statements that they may be eligible for financial assistance.

18. Partner with other local organizations on community benefit programs.

19. Ensure that you have a communications plan to tell your story. Example wording could include, "For every \$1 we would have spent on taxes, we provided nearly \$2 in community benefit."

20. Appoint a top leader to show how important community benefit programs are in your organization.

Because, from CHAN's perspective, every audit is a learning opportunity, we wanted to share these results with other organizations. As CHAN performs more community benefit audits, we will continue to work with CHA to update this "foundations for success" list ■



Comment on this column at www.chausa.org/hp.

Health Care Ethics USA

A resource for the Catholic health ministry

CHA is pleased to offer *Health Care Ethics USA*, a quarterly online newsletter published with the Center for Health Care Ethics at Saint Louis University.

Health Care Ethics USA is a valuable resource for:

- Ethicists
- Members of ethics committees
- Mission leaders
- Pastoral care personnel
- Clinical leaders
- Executives and many others in the ministry

Health Care Ethics USA is **free to CHA members** and is delivered via e-mail to subscribers each quarter. There is a nominal subscription fee for nonmembers.

To subscribe today, go to

<http://www.chausa.org/Pub/MainNav/News/HCEthics/>

CHA

THE CATHOLIC HEALTH ASSOCIATION
OF THE UNITED STATES

Health Progress®

Reprinted from *Health Progress*, November - December 2009.
Copyright © 2009 by The Catholic Health Association of the United States
