Improving Accountability for Tax-exempt Status

Issue

America’s hospitals provide compassion, care and curing 24 hours a day, seven days a week. But not-for-profit community hospitals do more than care for the injured and infirm; they promote and protect the health and well-being of the entire community through responsive programs and services. Not-for-profit hospitals are distinguished by certain charitable obligations that have evolved over time to keep pace with the needs of the American people.

Over the past several years, policymakers and the public have raised concerns about hospitals’ tax-exempt status and the lack of uniformity with regard to charity care and financial assistance. A number of congressional hearings have focused on what not-for-profit hospitals do to meet their charitable obligations and whether the current rules are sufficient. In addition, there has been scrutiny of the governance and executive compensation practices of charitable organizations, including tax-exempt hospitals.

Currently, there is no uniform approach or format for tax-exempt hospitals to follow in reporting the “community benefit” they provide, and no requirement for hospitals to make such reports public. In several states, hospitals are required to report their community benefits to an agency that typically – but not always – makes the community benefit information available to the public. During 2006, the Internal Revenue Service (IRS) intensified its oversight of the community benefit standard for tax-exempt hospitals, including placing a community benefit survey in the field and planning a revision to the agency’s Form 990.

AHA View

To address these concerns, the AHA Board of Trustees adopted a policy statement in May 2006 that augments its 2003 Principles and Guidelines on Patient Billing and Collections. The policy statement calls on all hospitals to increase financial assistance for uninsured patients of limited means and to ensure fair debt-collection practices. For not-for-profit hospitals, the Board recommended the public reporting of community benefit activities and increased financial accountability.

Encourage Public Reporting. To foster an environment of transparency and trust, the AHA urges hospitals to voluntarily, publicly and proactively report to their communities on the full value of benefits they provide. Specifically, the AHA Board called for standardized public reporting of community benefit on a cost basis as an attachment to the IRS Form 990. This policy for reporting is based on the model developed by the Catholic Health Association of the U.S./VHA Inc., with two important additions – the actual costs of Medicare underpayments and bad debt.
Hospitals provide needed care for patients, regardless of their ability to pay, by means of charity care and other financial assistance for uninsured patients of limited financial means. As a condition of receiving federal tax exemption for providing health care to the community, hospitals are required to care for Medicare and Medicaid beneficiaries, and they also participate in other indigent care programs. Reimbursement for all those programs often falls short of the actual cost of care. In addition, hospitals shoulder the burden of bad debt, much of which comes from low-income patients, who for any number of reasons, do not apply for financial assistance. Hospitals also provide other benefits to the broader community without payment, such as research and health professions education. When taken together, these components present a comprehensive picture of the value of services provided to and for the community.

To help hospitals quantify and report community benefit activities to the IRS and their local communities, the AHA developed a reporting framework that can be attached to the Form 990. However, dollars alone can never communicate the complete story of how communities benefit from programs and services that not-for-profit hospitals provide. In 2006, the AHA launched Community Connections, an initiative to help our members effectively inform policymakers and the public of the full value hospitals provide. Today, hospitals of all kinds – urban and rural, large and small – are making their communities healthier in ways that are as diverse as the needs of each community. Their work extends far beyond the four walls of the hospital to where free clinics, job training efforts, smoking cessation classes, back-to-school immunizations, literacy programs and so many others are brought directly to the people of the community, often with very little fanfare. The Community Connections initiative illustrates where and how hospitals are meeting their communities’ many needs and why they merit broad public support.

The AHA Board’s policy also recommends not-for-profit hospitals conduct a periodic community needs assessment in collaboration with other local organizations and develop a plan to address the needs identified.

Retain the Community Benefit Standard. Since 1969, not-for-profit hospitals have been able to fulfill their charitable obligations through an appropriate mix of charity care, financial assistance to low-income patients, subsidized health care, research, health professions education and other community-building activities that are tailored to the needs of the communities they serve. The IRS’ community benefit standard continues to work well for not-for-profit hospitals and, more importantly, the communities they serve. The standard permits
hospitals to satisfy their community benefit obligations by providing the right mix of programs and services to their communities. **The AHA will work with Congress and the IRS to ensure that the current community benefit standard is retained because it provides hospitals with the flexibility to best tailor their programs to effectively target the needs and unique conditions of their local community.**

**Increase Financial Accountability.** The AHA Board also recommends that not-for-profit hospitals increase financial accountability using the IRS Form 990. Recommended steps include having the CEO, chief financial officer or highest ranking officer sign off on the Form 990, and disclosing on the Form whether the hospital has a travel policy and/or a conflict-of-interest policy. In addition, loans to board members or executives should be prohibited. We were pleased that the recent Government Accountability Office 2006 survey on executive compensation practices at not-for-profit hospitals found widespread adoption of best practices, such as appointment of an executive compensation committee with primary responsibility for approving salary and bonuses, conflict-of-interest policies that extend to all members of the executive compensation committee and consultants, and reliance on market data to make compensation decisions. Meanwhile, the IRS is performing an in-depth review of executive compensation practices across the nonprofit sector. In the first of several anticipated reports, the IRS found general compliance with the law when examining whether individual compensation amounts were reasonable; however, the agency did note significant errors and omissions in completing the Form 990.

We will continue to monitor and work with the IRS on its compliance check activities to ensure the full picture of hospitals’ community benefit activities is captured and reported in a meaningful, consistent manner. Every day hospitals are hard at work, helping to improve health and access to care in the communities they serve. The AHA and its members are committed to making communities healthier in a way that is open and transparent.
Extending beyond hospital walls to make a real difference, the following programs exemplify the tremendous good being done every day by America’s not-for-profit hospitals. Outstanding community programs like these significantly improve health and quality of life.

The Gatekeeper Program – Involves postal workers, meter readers, checkers at local stores, and others who regularly have contact with seniors to identify seniors who might have difficulties living at home keeping rural seniors tapped in to their communities. A case manager is sent out to assist identified individuals and connect them with the care or help they need.

Gritman Medical Center – Moscow, ID; Whitman Hospital and Medical Center – Colfax, WA; Pullman Regional Hospital – Pullman, WA

J.E. and Z.B. Butler Child Advocacy Center – Helps children who have been abused or neglected and provides emergency medical treatment and psychosocial evaluations for 1,000 children each year. The Center also provides programs for at-risk families to prevent abuse or neglect before it occurs and mental health services for children and their families. All services are free to families.

Montefiore Medical Center – Bronx, NY*
*Foster G. McGaw Prize Winner

Project New Hope – Provides no-cost surgery to disadvantaged children who forego needed but non-life threatening surgeries because of a lack of health insurance. Surgery is provided through the collaborative efforts of volunteer doctors, nurses, clinical and non-clinical providers and community partners, such as the United States Navy-Fallon, Girl Scout troops in the area and local high schools. Saint Mary’s coordinates the program and donates the use of their surgical facility and equipment. The majority of surgeries performed are plastic/reconstructive. To date, more than 120 children received treatment they needed and could not afford otherwise.

Saint Mary’s – Reno, NV

Healthy Learners* – Serves uninsured and underinsured school age children in seven school districts across the state providing access to needed health care and assistance with transportation to receive care. Removing health barriers to learning allows the program to improve academic “health” by decreasing absenteeism and allowing students to focus on their education.

Sisters of Charity Providence Hospitals – Columbia, SC
Allendale County Hospital – Fairfax, SC
McLeod Medical Center – Dillon, SC
Self Regional Healthcare – Greenwood, SC
*NOVA Award Winner