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Recommended Citation

Tempo, Vol. 18, no. 3 (1972/73, winter), p. 32-34

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ACCOUNTING FOR HEALTH CARE:

*—growth
of a profession
and industry*

The development of accounting and business techniques in health care institutions has paralleled major events in the industry's history.

Today's health care system and its increasingly sophisticated financial reporting requirements are as different from the autonomous hospital-oriented system of yesterday as electric power utilities are from candles. Bulk purchasers of health care, such as the government and insurers, are making new demands and setting new requirements for the health industry so that responsibility for public disclosure, uniform reporting and cost containment are a fact and no longer at the option of the institution.

DEVELOPMENT OF ACCOUNTING SYSTEMS

This was not always the case. For many years, hospital accounting, as well as the administration of hospitals, was relatively simple. Each hospital developed its own system of recording patient receivables, and that was the extent of its accounting system. Accounting firms occasionally assisted hospitals but considered their assistance charitable acts.

Uniformity in reporting was nonexistent. Since hospital accounting systems were the product of local design and needs, each system was different and comparison among hospitals was difficult, if not impossible. The value of sharing information was not yet apparent to institutions. In fact, many hospitals refused to divulge the results of their operations to anyone, even safeguarding the information internally.

Over the years, a number of associations have issued guidelines for tightening up financial reporting. Some of the milestones in the development of hospital accounting standards are:



by Alexander M. MacNicol and Arthur G. Supon

<u>1929</u>	United Hospital Fund of New York, a federated charity, required uniform reporting for comparative purposes in distributing funds raised for member hospitals.
<u>1946-1949</u>	New Jersey Hospital Association prepared a uniform accounting manual; including a complete chart of accounts, standardized financial reporting forms.
<u>1956-present</u>	American Hospital Association has issued bookkeeping procedures manuals; continues to publish an extensive financial management collection along with other major associations such as the American Nursing Home Association and Catholic Hospital Association.
<u>1969</u>	A.I.C.P.A. Medicare Audit Guide.
<u>1972</u>	A.I.C.P.A. Hospital Audit Guide.

The American Institute of Certified Public Accountants has recently issued the **Hospital Audit Guide** which, with the previously issued **Medicare Audit Guide** and related publications of the American Hospital Association, are forming the basis for industry standards. While differences in standards are still apparent among the various associations, further development of standards will provide ever-increasing uniformity.

INFLUENCE OF THE INSURANCE INDUSTRY

The health insurance industry has had a great impact on the financial systems of institutions. When the influence of insurers, such as Blue Cross, grew in the

hospital industry, they were in a better position to demand conformity and disclosure of financial information from member hospitals. As the insurance industry developed, greater and more specialized demands were made.

The first group credited with initiating the concept of medical care insurance as it is known today was a group of teachers in Texas in 1929. The teachers contracted with the Baylor University Hospital to provide 21 days' full service at a one-third discount for a monthly payment of 50 cents. It did not take industrial employee groups in the area long to realize the benefits of this form of medical insurance and, within a relatively short period of time, many industrial groups had expressed interest in joining and were enrolled.

In the early 1930s, The Baylor Plan was copied in several states, including California, New Jersey and Minnesota. The New Jersey Plan, sponsored by the Board of Trustees of Elizabeth General Hospital, was typical of many of the early plans organized to provide a source of cash during the Depression. In fact, the Depression was a prime motivating force for the rapid growth of prepayment health insurance during the early 1930s.

Since there was little or no control over the individual groups, some sponsors invaded the till and departed. In other plans, rates rose drastically. It was soon recognized that there was a need for control by some governmental agency. In the case of the Elizabeth Plan, the State Insurance Commission challenged the Board's authority to operate an insurance company. The result of this challenge was the formation of another corporation that became the Hospital Service Plan of New

Jersey. In many other states, the original organizers had similar problems and it was not long before separate corporations chartered as health prepayment plans were formed.

Commercial insurance companies, once cautious with respect to health insurance, began to have second thoughts and entered the market. Their approach was different from the Blue Cross approach in that they favored "cash-indemnity" policies, while Blue Cross promoted "service-type" benefits. Another major difference was that Blue Cross contracted with both the subscriber and hospitals in the area, while commercial carriers contracted only with the subscriber.

More recently the Medicare and Medicaid programs have, on a national basis, required uniform reporting for the first time. A major problem in compliance was that there was no uniform accounting on a national basis which could provide satisfactory results. For six years the health care industry, while moving towards required standards, has been helped and sometimes hampered by a growing body of regulations, established primarily for reimbursement purposes and not for financial reporting.

In some areas of the country, a uniform financial report has been adopted for Medicare, Medicaid and Blue Cross. Elimination of multiple reporting is not only a constructive step in uniformity but saves time and costs which can well be applied to other problems in the institution.

Since up to ninety percent of a hospital's income can come from bulk purchasers reimbursing on a cost-based report, this is a major concern of the industry. This responsibility to outside agencies, as well as the general public, leaves the institution with no alternative but compliance.

STEPS TO IMPROVING FINANCIAL SYSTEMS

The financial officer of a health care institution can no longer be considered a custodian of past history. Accounting must be uniform and reporting prompt. Management must have current operating data to plan effectively and take corrective action before losses become significant. Among the steps which should be taken in each health care institution are:

- Review accounting and data collection systems to provide adequate information for management and reporting
- Implement uniform accounting and financial reporting to provide meaningful comparisons among fiscal periods in the organization and other institutions
- Prepare budgets and reports for management to measure actual operations against the budget and accounting for variances
- Involve departments in the preparation of budgets and provide results so that they are responsible for operations
- Continue reviews of costs on the same basis as annual reports to outside agencies to monitor changes on an interim basis
- Evaluate existing and proposed services with respect to utilization, cost and reimbursement

The object of financial management must be to determine the financial feasibility of services. In the past, improvement in patient care was frequently the sole criterion for the installation of new services. It can no longer be considered callous to question the ability to support new services because, without financial support, the entire institution may be endangered.

The health care industry is currently going through another period of great change. Comprehensive health coverage for everyone has been proposed, and many congressional bills to either expand the number of people covered for inpatient and outpatient services or establish programs for preventive medicine have been proposed. The health care system of the future will place even more demands and requirements on once-simple accounting procedures.

Institutions striving to adjust to changes which have taken place in recent years may find that they are falling further behind with the accelerated rate of change. The opportunity and need challenge the industry not only to meet the changes but to anticipate them so that health care institutions will be efficiently operated and financially sound in the future. ■