Touche Ross & Co. responds: System for hospital uniform reporting (SHUR)

Touche Ross & Co.

Follow this and additional works at: https://egrove.olemiss.edu/dl_tr

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
https://egrove.olemiss.edu/dl_tr/789

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Touche Ross Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
Touche Ross & Co.

Responds

System for Hospital Uniform Reporting (SHUR)
Touche Ross & Co.
Responds
System for Hospital Uniform Reporting (SHUR)
Mr. Leonard D. Schaeffer, Administrator
Health Care Financing Administration
Department of Health, Education and Welfare
P.O. Box 2382
Washington, D.C. 20013

Re: File Code PCO-185-P

Dear Mr. Schaeffer:

Touche Ross & Co. is pleased to submit its comments on the System for Hospital Uniform Reporting (SHUR) which was the subject of a Notice of Proposed Rule Making in the Federal Register dated January 23, 1979.

We support the concept of uniform reporting limited to a level of information and detail directed to a specific user who can beneficially utilize the information furnished.

In 1513, Machiavelli wrote, “There is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage than the creation of a new system.” This statement continues to be true today. To us, SHUR represents some of the dangers that Machiavelli had in mind. Our concerns include:

• SHUR will not achieve the stated objectives of P.L. 95-142, but will increase the cost of health care nationwide.
• SHUR will not significantly contribute to the detection or prosecution of improper activities contemplated in P.L. 95-142.
• SHUR was created without documentation of specific needs and ultimate uses of the data to be gathered.
• SHUR developers ignored the basic concepts of system development – determine the need, develop the reporting format to satisfy the need, and create the system to satisfy these needs. SHUR took the reverse approach, developed a reporting system to satisfy what we consider to be a questionable need.
• SHUR will create a mass of administrative detail without meaningful benefit to the health care industry, the government or the public.
• SHUR mandates such an intense level of detail that information becomes costly to generate, costly to report, and costly to accumulate and utilize.
• SHUR mandates uniform functional accounting which is not compatible with the objectives of management. For management to achieve its objectives under SHUR, duplicate accounting systems, at substantial additional cost, must be maintained.
• SHUR will impose unnecessary regulations upon an industry already burdened by overregulation.
• SHUR has not been subjected to regulatory analysis requiring assessment of the annual economic effect of proposed rules.

We recognize that there has been a substantial investment in the development of the present SHUR. However, the effect of the proposed regulation will be to dramatically increase health care costs throughout the country. For this reason, and others, SHUR should be immediately withdrawn and subjected to meaningful revision.

Very truly yours,

Touche Ross & Co.
OVERALL COMMENTS

Touche Ross & Co. offers its comments on SHUR from the unique perspective of a firm of Certified Public Accountants whose interest encompasses all phases of the economy:

- From the standpoint of the health care industry, we represent a significant number of hospitals as well as other providers of health care.
- From the standpoint of the purchasers of health care, our commercial and industrial clients incur tremendous fringe benefit costs in providing health care services to their employees.
- From the standpoint of third-party purchasers, our clients include a number of health care insurers who have a key role in financing the costs of health care.
- From the standpoint of the users of health care, the partners and staff of Touche Ross & Co. are beneficiaries of the health care delivery system, and are distressed by the rising costs of health care and inflation. At the same time they are individuals dedicated to rational solutions to serious problems.

We have studied the statutory basis for uniform reporting systems for Medicare and Medicaid providers of service. We understand that this proposed rule applies only to costs, volume, and capital assets of hospitals. While we recognize the legal arguments that may be put forth regarding the wisdom and necessity of Section 19 of P.L. 95-142, pending further study of the legislation, our comments will be confined to the regulatory implementation of the law.

We understand the general need for – and we support the concept of – uniform reporting. However, we believe that the proposed System for Hospital Uniform Reporting (SHUR) represents an enormous undertaking by both the federal government and the hospital industry without demonstrated commensurate benefit.

No definitive studies of SHUR have yet been made. The apparent time and resource requirements to implement and maintain SHUR do not appear to be justified from a cost/benefit perspective. Consequently, no further step towards SHUR’s implementation should be made until its projected costs, benefits and economic impact, including the regulatory and paperwork burden upon both the health care industry and the Department of Health, Education and Welfare (HEW), are thoroughly investigated and the results publicly reported.

RESPONSIBILITY AND FUNCTIONAL REPORTING

The most meaningful method of controlling hospital costs is the careful management of day-to-day operations focused at the department head level. This responsibility-oriented system adopts a standard for departmental performances and compares actual achievements against the standard. To make cost reduction opportunities a matter of routine requires a practical budgeting and reporting system to measure departmental performance.

The true importance of responsibility accounting lies in two areas: the potential direct savings and facility planning. Overall, the potential direct savings is not as dramatic as those dealing with planning, utilization and medical problems. However, a responsibility system encourages economy by hospital middle management and gives evidence of hospital trustee concern. Then, too, the cost savings potential of facility planning, occupancy and medical utilization is not fully recoverable without a responsibility oriented accounting and reporting system.

The elements of the most effective cost controls are: a budget system for preparing and distributing the financial plan, a reporting system for assessing actual performance and identifying variations from the plan, and a set of incentives and sanctions to encourage acceptable performance.
The imposition and maintenance of a functional accounting system, SHUR, along with the maintenance of the responsibility system, which is necessary for sound internal management, creates a duplicate accounting system. It is quite possible that SHUR might replace a responsibility system because an institution is unable to financially support two systems and/or repeatedly convert administratively from one system to another. However, the basic effect will be to further and unnecessarily inflate health care costs which are currently at a very high level.

SYSTEMS DEVELOPMENT

It is important that HEW not lose sight of the many aspects that must be considered when developing a system such as SHUR. Developing a new system is not just a technical process; to the contrary, it is a many faceted process that affects and changes the basic fabric and operation of an organization. Therefore, those responsible for its development must be more than skilled technicians applying their trade. They must be persons capable of dealing not only with technical considerations but with the organizational, operational and economic considerations as well.

We do not believe that all of these factors are a part of the SHUR history. Consequently, we strongly urge that SHUR be withdrawn and a new effort be made to more closely meet the requirements and specific needs of the ultimate users.

In developing any new system, top management must be responsible for establishing long-term objectives, defining operational strategies and setting specific measurable goals or tactical targets to be achieved at any given time. SHUR, however, is the product of several components of HEW and other federal agencies and it reflects their divided responsibilities and diverse points of view. While it is difficult to apply the definition of a top management group to those who planned SHUR, a top management group is nonetheless necessary.

We do not believe that SHUR was built using the generally accepted systems development process, and the HEW documents presented for comment support this supposition.

The systems development process consists of four phases:

• Systems planning,
• Systems requirements,
• Systems development, and
• Systems implementation.

Although Phases 1 and 2 are the most critical to the process of systems development, they were evidently bypassed thrusting SHUR, at least from the governmental perspective, between Phases 3 and 4.

The major purpose of systems planning is to determine the operating and technical feasibility of a mandated system, and to discover whether it will produce an acceptable "return of the investment" of time and other resources. In a classical model of system design, user involvement in the planning phase is an absolute necessity to obtain informed judgments on the impact of alternative solutions and to substantiate much of the economic evaluation. ("User" in the case of SHUR must include both governmental units and purchasers of services as well as providers of services – the hospital industry.) However, little information or documentation has been produced by any governmental unit, directly or indirectly involved, to indicate that a planning process to formalize concepts specifically tied back to the underlying legislation has been utilized. Further, we are unaware of any study or initial investigation to report to, or reporting to, "top management" the probable characteristics, costs and benefits of implementing a specific system.
The second phase of the systems development process, determining system requirements, provides the detailed foundation upon which the technical programs and procedures will be developed. Presumably SHUR is created as much for the benefit of the health care providers of services as for the purchasers of services. Consequently, the initial emphasis must be directed entirely to an analysis of the users' operations. Operations must include the government's needs under the legislative directive and the financial characteristics, accounting conventions, and management techniques common to the hospital industry.

To arrive at this type of analysis, system developers must first determine the hospitals' environment and other requirements, together with logically defined purchaser or other user requirements. Alternatives must then be evaluated to determine how the system is to be developed.

We do not believe that these consistent steps were made and, if they were, the hospital industry may not have been a party to them. The developers of SHUR have created a system without demonstrating, through documentation, its need for developing a reporting format to satisfy those needs. With the growing spirit of openness in the federal regulatory process, we strongly urge that the process employed and the documentation underlying the system planning and system requirements determination be publicly disclosed as part of the support for the proposed regulation.

INFLATIONARY IMPACT OF REGULATION

Approximately a year ago, President Carter appointed a Regulatory Analysis Review Group through his Executive Order 12044 requiring detailed "regulatory analyses."

In October of last year, the President appointed the heads of major regulatory agencies to a new U.S. Regulatory Council with responsibility to achieve better inter-agency regulatory coordination and to cut regulatory costs.

Recently, the Senate Governmental Affairs Committee issued the final report of its study of federal regulations. Abraham Ribicoff (D-Conn.), Committee Chairman, stated that, "Today, people are questioning what government can and should do. That questioning, combined with persistent high inflation, has increased our awareness of the need to carefully re-examine federal regulations."

The foregoing dramatically illustrates the broad, high level concerns with unnecessary, conflicting and costly regulations emanating from the various governmental agencies and departments in Washington. SHUR is an example of an unnecessary regulation being imposed upon an industry that is already burdened by overregulation. Before adopting SHUR, which may be the single most significant regulation ever proposed for the health care industry, HEW must conduct comprehensive studies of the costs and benefits of its implementation and the perennial cost/benefits of its maintenance and use from both the governmental and hospital industry perspective.

Although HEW is presently conducting a cost estimate study of implementing SHUR in fifty hospitals, the nature and scope of the study is too narrow to provide the cost/benefit estimates contemplated in either Executive Order 12044 or the recent Senate Governmental Affairs Report. On the contrary, as presently evolved, SHUR creates a mass of administrative detail without meaningful benefit to the health care industry, the government or the public. In its current form, the intense level of detail mandated by SHUR is such that information becomes very costly to generate, costly to report and costly to accumulate and utilize.

The disparity in existing estimates of costs to implement SHUR and the overall lack of meaningful system maintenance costs, must be resolved before any decision is made to finalize the proposed regulation. Prudent final rule making requires a definitive determina-
tion of the cost/benefit implications of SHUR so that appropriate pricing guidelines can be issued in conjunction with the activities of the Council on Wage and Price Stability.

**REIMBURSEMENT**

P.L. 95-142 is designed to combat cases of abuse that might exist in some hospitals. Consequently, P.L. 95-142 contains a provision requiring consideration of appropriate variations in applying the uniform system of cost accounting to different classes of facilities.

The Medicare reimbursement program, Title XVIII of the Social Security Act is a mature system of cost accounting and reporting, based on uniform reporting requirements. Basic to the present Medicare reimbursement system, which is essentially the system for the Medicaid program under Title XIX of the Social Security Act, is the recognition of differences among hospitals. The variations in services offered, demographic and care mix characteristics of patients served and the approaches to providing services, are many. While imperfect, Titles XVIII and XIX reimbursement give recognition to variations among hospitals. This recognition is necessary to equitably reimburse providers for services rendered to program beneficiaries.

We believe that it is conceptually and mechanically impossible to construct a single system, one that provides comparable functional activities' data and which, at the same time, is a reimbursement system designed to insure the determination of reasonable costs under Titles XVIII and XIX of the Social Security Act which recognizes differences among hospitals. Since we do not believe SHUR could achieve the stated objectives of P.L. 95-142, its implementation would be self-defeating.

If HEW has determined that major changes in the Medicare/Medicaid reimbursement programs are necessary, we believe that such changes should be based on new legislative initiatives. These should be made through Congress, not through inappropriate appendages to legislation that will not contribute significantly to the detection and prosecution of improper activities.

**HOSPITAL COSTS DIRECTLY ATTRIBUTABLE TO SHUR**

The Act creating the Medicare/Medicaid programs provides for reimbursement of costs of efficiently delivering covered services so that non-program patients will not bear costs of program beneficiaries.

The costs of SHUR, if implemented, must be fully reimbursed by the federal government because such costs are to be incurred solely as a direct result of, and in connection with the proposed regulations.