To: Hospital Chief Financial Officers
   and Other Interested Parties

Re: Hospital Technical Letter No. 9

This is the ninth in a series of Hospital Technical Letters developed by the Office of Statewide Health Planning and Development (OSHPD or Office) regarding our uniform accounting and reporting system requirements for California hospitals. The purpose of these letters is to provide timely information to assist you in meeting these requirements.

PROPOSED CHANGES TO ACCOUNTING AND REPORTING REQUIREMENTS

The Office is in process of developing a regulation package to update the Accounting and Reporting Manual for California Hospitals (Manual). Several of the changes are to implement recommendations identified in a consultant’s report required by SB 1973 (Statutes of 1998). You may recall the purpose of the bill was to eliminate the collection of data that no longer served a significant purpose, to reduce the redundant reporting of similar data to different departments, and to consolidate reports wherever practical.

The California Health Data and Public Information Committee and the California Health Data and Public Advisory Commission approved the proposed changes in public meetings held on June 11, 2002 and June 21, 2002, respectively. We will mail copies of the proposed Manual changes to hospital chief financial officers and Manual subscribers in mid-July. Comments may be sent to OSHPD during the 45-day public comment period.

Below are highlights of the proposed changes:

Proposed Changes to Accounting and Reporting System Requirements

- Update Section 1400 of the Manual, Bad Debt and Charity Care, to reflect current charity care guidelines provided by the Healthcare Financial Management Association’s Principle and Practices Board Statement No. 15 issued in 1997. Changes include recognition of the allowance method to accrue charity care; guidance on when co-insurance, deductibles and non-covered services may be classified as charity care; guidance on when community benefit-type services may be classified as charity care, and guidance related to establishing charity care eligibility procedures.

- Expand Section 1270 of the Manual to provide guidance on four Medi-Cal supplemental payment programs: Emergency Medical Services payments (SB 1255); Construction and Renovation funds (SB 1732); Graduate Medical Education payments (SB 391); and Outpatient Disproportionate Share funds (SB 1179). Such payments are to be offset against Medi-Cal Contractual Adjustments. Currently, this section only covers the Medi-Cal Disproportionate Share Payment Program (SB 855). (Recommended in SB 1973 Report.)
Clarify that the Healthy Families program must be included in the Other Third Parties - Managed Care payer category. Healthy Families program is a low-cost insurance program to children who do not have insurance and do not qualify for no-cost Medi-Cal.

Update capitalization requirements on fixed assets in Section 1122 to be consistent with Medicare guidelines. Minimum increased from $500 to $5,000.

Provide accounting and reporting guidance when a home office, on behalf of hospitals within a health system, receives all capitation premium revenue, or makes payments directly to other hospitals for purchased “at risk” services. Such amounts must be allocated to those individual hospitals within the health system for which the amounts are collected and/or paid.

Proposed Changes to Hospital Annual Financial Disclosure Report

Add new Report Page 3.5, Charity Policy Information, to Hospital Annual Disclosure Report to collect information on a hospital’s charity care policy and eligibility guidelines. This information will allow OSHPD data users to assess each hospital’s charity care policy and facilitate comparisons with other hospitals. *(Recommended in SB 1973 Report.)*

Simplify the standard units of measure for several cost centers on Report Pages 4 and 18:
- RVS units to procedures,
- MRI minutes to MRI procedures,
- Respiratory Therapy treatments to Respiratory Therapy adjusted patient days, and
- Physical and Occupational Therapy 30” sessions to 15” sessions.
- average number of hospital employees to paid hospital FTEs,
- average number of nursing service personnel to nursing service FTEs,
*(Recommended in SB 1973 Report.)*

Reduce the number of codes on Report Page 2, Services Inventory, from nine to four codes. *(Recommended in SB 1973 Report.)*

Add three new data items to Report Page 0, General Information - the hospital’s web site address, and the report preparer's organization name and e-mail address. E-mail addresses will not be made available to the public.

Add Live Birth Data Summary to Report Page 4, Utilization Statistics - hospitals will report live natural births and Cesarean sections from all hospital locations, instead of just deliveries in Labor and Delivery.

We encourage each facility to carefully review the proposed regulation changes to determine their effect on your facility. As stated previously, the regulatory process allows for a 45-day comment period. If you have any questions on proposed changes, please contact Tim Pasco at (916) 323-1955.
HOSPITAL ANNUAL DISCLOSURE REPORTS - Report Periods Ended 6-30-02 to 6-29-03

There are no changes to the Office’s Hospital Annual Disclosure Report for the next reporting cycle, which covers report periods ended June 30, 2002 through June 29, 2003. Earlier this month, the Office sent a notice to all hospitals with a report period ended June 30, 2002, reminding them that their next annual report is due on or before October 31, 2002. The notice also indicated that hospitals must still use Office-approved vendor software to prepare their report, which may be submitted on a 3.5” 1.44Mb diskette or as an e-mail attachment.

At this time, the software vendors are in the process of obtaining the Office's approval to distribute software version 28a (hospitals are beginning the 28th disclosure cycle) for completing your Hospital Annual Disclosure Report. The approval process is typically completed in September. If your software vendor has not contacted you about an upgrade, you may wish to contact them at the number below.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Contact Person</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Financial Systems</td>
<td>Charles Briggs</td>
<td>(916) 686-8152</td>
</tr>
<tr>
<td>Hospital Management Services</td>
<td>Lanny Hawkinson</td>
<td>(714) 992-1525</td>
</tr>
<tr>
<td>KPMG</td>
<td>Cathie Kincheloe</td>
<td>(213) 955-8992</td>
</tr>
</tbody>
</table>

SUBMITTING REVISIONS TO HOSPITAL ANNUAL DISCLOSURE REPORTS

Last year, OSHPD requested hospitals to submit DSH-related revisions according to the hospital’s report period end date. Your efforts in this area allowed OSHPD to process all revisions by the February 1, 2002 deadline. For the next DSH cycle, we are again seeking your cooperation:

- **For report periods ended between January 1 and June 30:** Submit all corrections by October 31. This means that a Hospital Annual Disclosure Report with a report period ended June 30, 2001, must submit its revisions by October 31, 2002, to be included in the February 1, 2003 database.

- **For report periods ended between July 1 and December 31:** Submit all corrections by December 31. This means that a Hospital Annual Disclosure Report with a report period ended December 31, 2001, must submit its revisions by December 31, 2002, to be included in the February 1, 2003 database.

Justification of Revision

When submitting revisions to your annual disclosure report, be sure to clearly describe in a cover letter what changes you are requesting and why these changes are necessary. An individual who works for the facility or is authorized to submit revisions on the hospital's behalf must sign the cover letter. To reduce data entry errors, we request that the revisions be mailed and not faxed.

To facilitate our review of the appropriateness of your revisions, we request that DSH-related revisions include the following:

- A statement in the cover letter certifying that revisions are being made in accordance with the uniform accounting and reporting system requirements as specified in the Manual.
Consultants would include a statement that they are authorized by the facility to submit the revisions.

- A financial reconciliation of the changes which correlates to the narrative explanation. Don’t just provide the revised figures. For example, a charity care reconciliation could include the original reported amount, the amount of Medi-Cal non-covered services reclassified to charity, the amount of bad debts reclassified to charity, and the final revised charity care amount.

- A copy of the hospital’s charity care policy if Medi-Cal contractual adjustments for non-covered services (denied charges) are being reclassified to Medi-Cal charity care. For this revision to be considered appropriate, the hospital’s charity care eligibility guidelines must clearly state that patients receiving non-covered Medi-Cal services qualify for charity care.

Non-compliance with these requirements will not result in the automatic rejection of your revision request, but it may result in some processing delays until these requirements are met.

Preferred Format of Revisions
The Office does not have a prescribed format for revisions, other than corrected figures should be highlighted so that audit staff can easily follow the changes. Some hospitals will make the changes with their report preparation software and send the software-produced hardcopy reports with the changes highlighted, which is acceptable. Others will send spreadsheets that correspond field-for-filed with the annual disclosure report. If you made your changes using the report preparation software, do not send a revised data file to OSHPD.

If you have any questions on submitting revisions, please contact Tammi Salazar at (916) 323-7688.

QUARTERLY REPORTING IN 2002
All hospitals are still required to use OSHPD’s Internet Hospital Quarterly Reporting System (IHQRS) to prepare and submit their Quarterly Financial and Utilization Reports. The quarterly reporting periods and due dates for 2002 are:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>From</th>
<th>To</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>January 1, 2002</td>
<td>March 31, 2002</td>
<td>May 15, 2002 (Wed.)</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>April 1, 2002</td>
<td>June 30, 2002</td>
<td>August 14, 2002 (Wed.)</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>July 1, 2002</td>
<td>September 30, 2002</td>
<td>November 14, 2002 (Thur.)</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>October 1, 2002</td>
<td>December 31, 2002</td>
<td>February 14, 2003 (Fri.)</td>
</tr>
</tbody>
</table>

IHQRS Enrollment and Electronic Certification Forms
If the individual who prepared the previous quarter’s report no longer works at the hospital or if you want to change your User ID and/or Password, you will need to submit a new IQHRS Enrollment Form. If the individual who signed the IHQRS Electronic Certification no longer works at the hospital, you must submit a new certification. Both enrollment and certification forms are located on the IHQRS web-site (www.oshpd.state.ca.us/ihqrs).
HINTS TO IMPROVE ACCURACY IN REPORTING

**Other Indigent Payer Category** – the Office established this payer category to include indigent patients who are not the responsibility of a county W & I Code Section 17000 obligation, or those indigent patients who are not recorded in the County Indigent Programs category. Patients in this category are uninsured and often qualify in whole or in part for charity care services pursuant to the hospital’s established charity care eligibility guidelines. Many hospitals are still reporting these indigent patients in Other Payers, as evidenced by the large amount of charity care being reported in a payer category that should include primarily self-pay (bad debt) patients.

**Standard Units of Measure for Non-Revenue Producing Cost Centers** – hospitals are required to report standard units of measure (statistics) on Report Page 18, column 13, of the Hospital Annual Disclosure Report for each cost center in which expenses are reported. Many hospitals are leaving this column blank when it is not an optional reporting item. The vendor’s report preparation software should complete most fields based on data from other parts of the disclosure report.

**Cost Reductions and Minor Cost Recoveries** – these other operating revenue amounts reported on Report Page 14, Parts I and II, of the Hospital Annual Disclosure Report must be transferred to Report Pages 17 and 18, column 11. This is not an optional reporting item. The amounts in Part I typically relate to several cost centers, while the amounts in Part II relate to a single cost center. Be sure that cost reductions and recoveries are offset against the cost center(s) in which expenses were incurred, and that Report Page 14, column 1, line 120 agrees with Report Page 18, column 11, line 375.

**Consistency Between Annual and Quarterly Reports** – the increased availability and accessibility of OSHPD data has produced a slight problem: data users who are comparing data from Hospital Annual Disclosure Reports and four Quarterly Financial and Utilization Reports covering the same (or approximate) report period are finding significant variances. Because Quarterly Reports are due 45 days after the end of a calendar quarter and Annual Reports are submitted four months after the end of the accounting year and after a full closing of the books (and sometimes the issuance of audited financial statements), some variances are expected. However, some of these variances can result in the presentation of a completely different picture of the hospital’s financial health, particularly with the less-detailed, but more accessible Quarterly Report.

In light of the recent accounting-related incidents that have occurred with several major financial institutions, OSHPD recommends that hospitals compare previously submitted Quarterly Reports with their Annual Reports to make sure their data are consistent. At a minimum, we suggest comparing the four quarter “totals” for patient days, discharges, outpatient visits, gross inpatient and outpatient revenue, deductions from revenue, capitation premium revenue, net patient revenue, other operating revenue, operating expenses, and non-operating revenue net of non-operating expenses. Charity care should also be checked. If resources permit, you may want to compare Quarterly Reports for each payer category.

If you find any material differences, use OSHPD’s Internet Hospital Quarterly Reporting System (iHQRS) to submit your revisions. Click on “Revision” to access a previously submitted report. Revisions must be validated and free from fatal errors to be accepted.
**UPDATED PRODUCTS ON OSHPD’s WEB-SITE**

We updated the Office’s web-site (www.oshpd.state.ca.us) to include the latest data products developed from submitted hospital annual and quarterly financial disclosure reports. In Hospital Technical Letter No. 8 (July 2001), we provided a description of these products. Below are those products that have been recently updated:

- **Hospital Annual Financial Data Profile** – we revised the 1995-99 Excel pivot tables for 2000 to include the new managed care payer data, resulting in the expansion of the profile to three-pages. We also added two charts. The first revised pivot table covers report periods ended June 30, 2000 to December 31, 2000, which means it does NOT include Hospital Annual Disclosure Reports with report periods ended January 1, 2000 to June 29, 2000.

- **Selected Hospital Annual Financial Data** – this data product was expanded from 225 to 242 selected data items to accommodate the new managed care payer categories included on 2000 Hospital Annual Disclosure Reports. The most recent product covers report periods ended July 1, 2000 through June 30, 2001. The data file can be downloaded in a comma-separated value text (TXT) format.

- **Hospital Quarterly Financial Data** – the latest data product using Quarterly Financial and Utilization Reports is for the calendar quarter ended March 31, 2002. You can download this product in a comma-separated value (CSV) format.

- **Internet Hospital Profile Characteristics (iHPC)** – this is an interactive web-based application that uses data from Quarterly Financial and Utilization Reports. The application became operational in January 2002 and provides some of the flexibility of an Excel pivot table. The most recent data available covers the calendar quarter ended March 31, 2002.

To find these products on the OSHPD web-site, click on **Healthcare Data Resources** from the Main Page. In the left margin, click on **Information Resources**, then **Hospitals**, and then **Financial**. To use these products, you will need WinZip to uncompress the data files and Adobe Acrobat Reader to view the Manual and data documentation. You will also need Microsoft Excel to use the pivot tables. If you are having trouble accessing or using these products, or have any suggestions or comments about the web-site, please contact our Healthcare Information Resource Center at (916) 326-3802.

If you would like copies of previous Hospital Technical Letters, or if you have any questions, please call me at (916) 323-7681, or send a note to kkwong@oshpd.state.ca.us.

Sincerely,

Kenrick J. Kwong  
Section Manager