

Community Benefit & Charity Care Obligations of Montana Nonprofit Hospitals



Definitions

Nonprofit

- IRS status exempting hospitals from paying taxes
- Intended to be an acknowledgement of the community benefit provided by hospitals

Community Benefit

- Spending required of nonprofit hospitals in exchange for tax exemption status
- Eight categories defined by IRS

Charity Care

- One of the eight IRS-defined community benefit categories
- Involves hospitals reducing or eliminating bills for a patient meeting its criteria

Section 50-5-121(1)(b), MCA

Requires a hospital to have in writing, “a charity care policy consistent with industry standards applicable to the area the facility serves and the tax status of the hospitals.”

Audit Objective – Questions We Answered

Objective #1

Does hospital community benefit spending

- compare equitably to tax-related benefit relief?
- impact community health?

Objective #2

- Does DPHHS ensure hospitals provide charity care policies consistent with industry standards, as required by state law?

Audit Scope – What we Looked at

Montana Nonprofit Hospitals

- 47 operating in calendar year 2016 – most recent year all IRS documents available
- General – excluded hospitals falling under other IRS classification, or serving unique populations

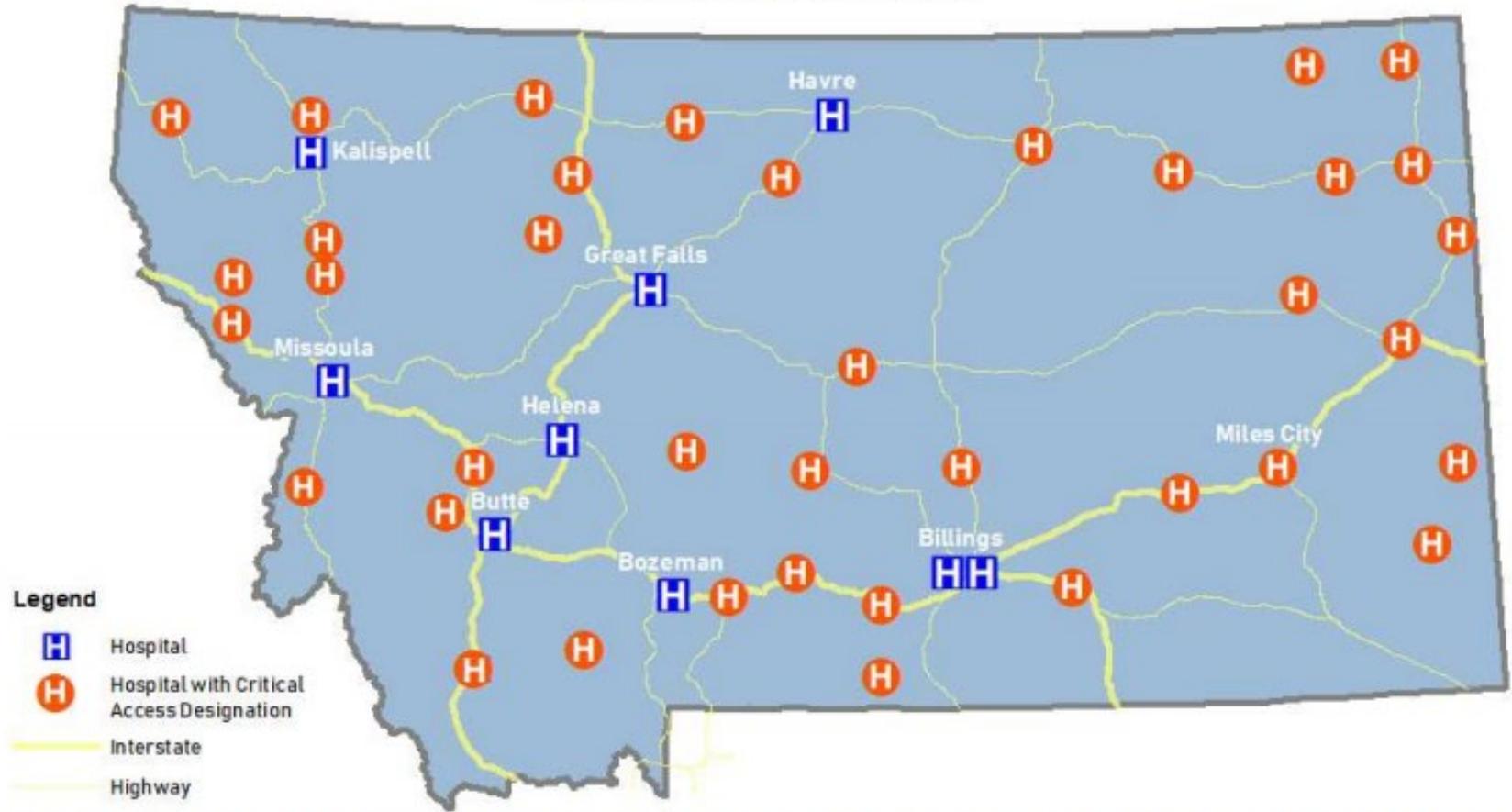
IRS Documents

- IRS 990 and Accompanying Schedule H

Department of Revenue Property Tax Information

County Health Rankings

Figure 1
Nonprofit Hospital Locations



- Legend**
- Hospital
 - Hospital with Critical Access Designation
 - Interstate
 - Highway

Source: Compiled by the Legislative Audit Division from Internal Revenue Service and Department of Public Health and Human Services records.

Figure 1

Nonprofit Hospital Locations

Report Page #3

Audit Methodology – How we Looked at it

- ***Interviewed:***

- DPHHS staff
- hospital management and staff

- ***Surveyed*** hospital management

- ***Reviewed:***

- DPHHS licensing documents
- hospitals' charity care policies

- ***Compared:***

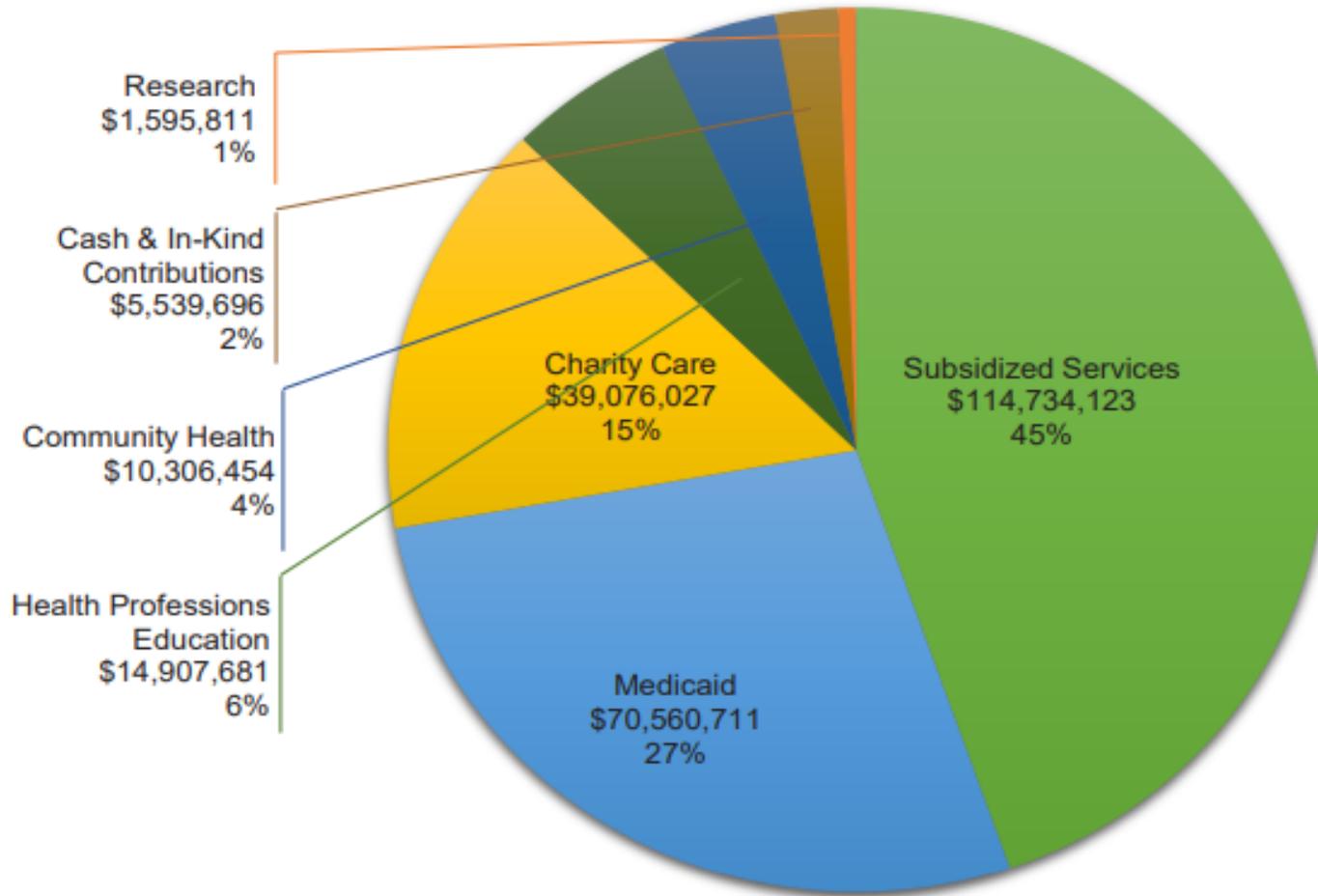
- IRS information & DOR Property Tax Information to self-reported community benefit spending
- County Health Rankings to Hospital Community Health Needs Assessments (CHNAs)

Audit Objective #1

**Does hospital community benefit spending
compare equitably to tax-related benefit relief?**

- Compared self-reported community benefit spending information from the hospitals' IRS documents to the hospitals' estimated federal, state and local total tax liability

Figure 2
Self-Reported Community Benefit Spending by IRS Category - 2016



The 8th category, Other Means Tested Government Programs, does not appear on this figure as it is approximately \$30,000, making it less than 1 percent of the overall spending of \$250 million.

Source: Compiled by the Legislative Audit Division from Internal Revenue Service records.

Figure 2

Community Benefit
Spending by IRS
Category

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Generally found community benefit spending exceeds tax liability

Table 2, pages 12-13 and Appendix A

Total Self-Reported

Community Benefit Spending: \$257,000,000

Total Estimated Tax Liability: \$147,000,000

\$110,000,000

Also found

- Community benefit spending measured and reported in varying ways
- No generally accepted guidance on specific activities should be considered community benefit
- IRS and DOR oversight limited
- No assessment regarding appropriateness of identifying activities as community benefit spending
- No assessment of costs associated with community benefit spending
- Analysis difficult
- Lacks structure needed to determine if hospitals are meeting their obligations as nonprofit entities

Audit Objective # 1

Does hospital community benefit spending impact community health?

- Compared Community Health Needs Assessment and County Health Rankings
 - Mental Health by Excessive Drinking
 - Access by Change in County Population per Primary Care Physician
 - Healthy Lifestyle Choices by Obesity Rates
 - Chronic Disease Prevention by Diabetes Rates

Lewis and Clark County Example

Figure 4, Page 21

Priority: Mental Health

Measured by: County Population Excessively Drinking Percentage Change
2015-2019

Increase of 4

Can indicate a decline in community health because a larger percentage of the county population is excessively drinking

All Counties

13 decreased

14 remained the same

29 increased

Lewis and Clark County Example

Figure 5, Page 23

Priority: Access to Health Care

Measured by: Change in County Population Per Primary Care Physician
2015-2019

Decrease of 22

Fewer patients per primary care physician can indicate an increase in access to health care

All Counties

12 not included due to lack of data

24 decreased

20 increased

Lewis and Clark County Example

Figure 6, Page 25

Priority: Healthy Lifestyle Choices

Measured by: County Population Obese Percentage Change 2015-2019

Figure 6, Page 25

Increase of 1

Can indicate a decline in community health because a larger percentage of the county population is obese

All Counties

16 decreased

7 remained the same

33 increased

Lewis and Clark County Example

Figure 7, Page 27

Priority: Chronic Disease Prevention

Measured by: County Population Diabetic Percentage Change
2016-2019

No change

Unclear because neither a larger or lower percentage of county population is diabetic

All Counties

34 decreased

13 remained the same

9 increased

Findings Summary

- Community benefit spending impacts on community health unclear
- Varied community benefit spending reporting makes analysis difficult
- Current reporting system lacks structure needed to determine if hospitals are meeting their obligations as nonprofit entities

Recommendation #1

We recommend the Legislature enact law defining:

- A. Expectations regarding detailed reporting on community benefit spending and its impact on community health.***
- B. The state government entity responsible for actively reviewing community benefit spending.***

Audit Objective #2

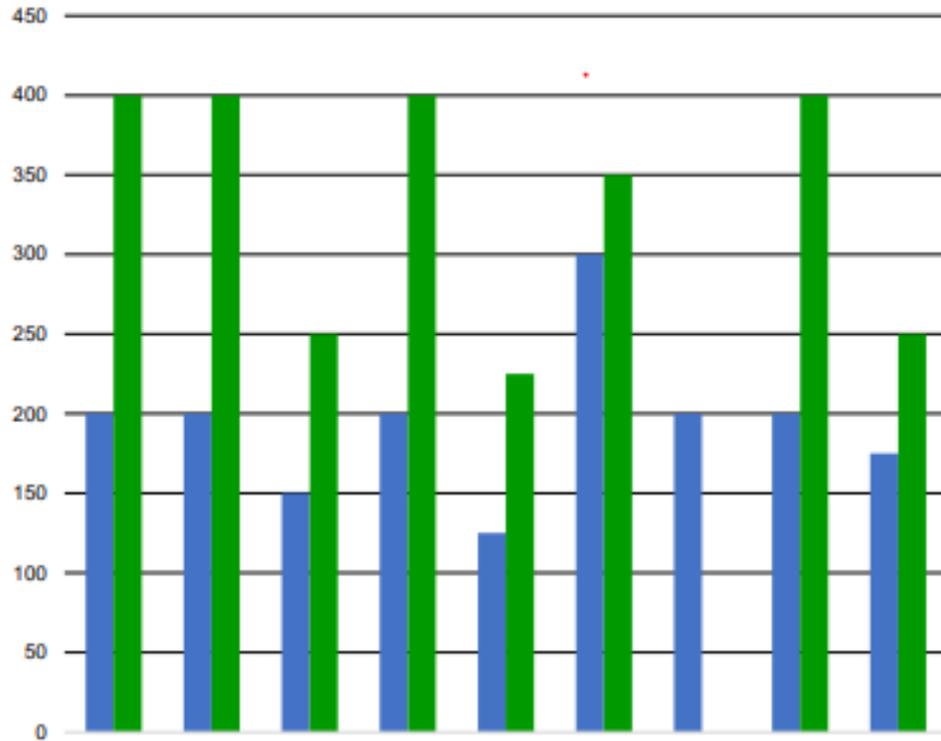
Does DPHHS ensure hospitals provide charity care policies consistent with industry standards, as required by state law?

- State law, Requires a hospital to have in writing, “a charity care policy consistent with industry standards applicable to the area the facility serves and the tax status of the hospitals.”
- Does not apply to critical access hospitals (map page #3)
- Reviewed all hospital charity care policies
- Table 4, page 34 – charity care as percentage of overall community benefit spending

Figure 8

Large Hospital Charity Care Eligibility Limits by Percentage of the Federal Poverty Level

- Percentage Federal Poverty Levels below which patients are eligible to for free care
- Percentage Federal Poverty Levels below which patients are eligible to for discounted care



Source: Compiled by the Legislative Audit Division from Internal Revenue Service records.

Figure 8

Charity Care Eligibility Limits

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Audit Objective #2

Does DPHHS ensure hospitals provide charity care policies consistent with industry standards, as required by state law?

- Interviewed DPHHS
- Reviewed hospital licensing documents
- Focus on quality of care issues, not financial issues
- DPHHS had not developed a process to ensure hospitals have charity care policies consistent with industry standards

Recommendation #2

We recommend the Department of Public Health and Human Services:

- A. Define spending and eligibility expectations related to charity care.***
- B. Develop an active oversight and review process that will ensure hospitals have charity care policies consistent with industry standards.***

Questions?

