



## THE BOTTOM LINE

Creating a culture of compliance relative to physician contracting is now more important than ever.

Hospitals and health systems often feel caught between a rock and a hard place to stay both competitive and compliant with contracts they offer to physicians.

Many hospitals and health systems are finding it necessary to affiliate with physicians in order to remain competitive in the marketplace and financially viable.

At the same time, hospitals are facing potential increased scrutiny of their contracts from government regulators who are realizing a high return on resources dedicated to enforcement.

But what is a “culture of compliance” and does your facility exhibit it?

# HOSPITAL/PHYSICIAN INTEGRATION: CREATING A CULTURE OF COMPLIANCE.

Creating a culture of compliance relative to physician contracting is now more important than ever. But what is a “culture of compliance” and does your facility exhibit a culture of compliance? To find out you may want to start by asking yourself these questions:

- Can our agreements be defended under government scrutiny?
- Can we articulate our position and the benefit to the hospital related to each contract, outside of referrals?
- Do we have compensation models that result in payment for referrals? Are we sure?
- Is the compensation in our contracts at fair market value?
- Has each contract been examined and found to be commercially reasonable?
- Do we know what our contracts say?
- Has an attorney looked at our contracts from a regulatory standpoint?
- Are our contract terms reflective of what the physicians are actually doing?
- Do we have a sound documentation and contract approval process in place?

If you don't know the answer to some or all of these questions, then it is imperative that you consider exactly where your facility stands relative to how it contracts with physicians. Why? There are two main reasons why hospitals should be more serious than ever about a culture of compliance when it comes to physician contracts:

1. **Regulatory agencies are moving more aggressively than ever to enforce existing fraud and abuse laws.** This should force hospitals to properly document physician contract decisions in terms of fair market value and commercial reasonableness. Not incidentally, the government is finding that the ROI on regulatory enforcement is quite high, creating more certainty that “flying under the radar” will prove more difficult. At the same time the government is becoming more savvy in its enforcement practices. In fiscal year 2012 the government saw a return of \$7.90 on every \$1.00 spent on enforcement. Eliminating fraud is one of the administration's top priorities and the government is not only expanding its enforcement team, but is also using new tools made available through the Affordable Care Act, including enhanced screening activities and sharing data across agencies, to more readily identify fraud hot spots.
2. **A lack of due diligence on physician contracts can result in faulty assumptions about the financial and operational health of a physician practice acquisition target or other contractual venture.** For example, without aggressive due diligence, the hospital may not truly understand the revenue sources of a practice. A physician group may need substantial investment in infrastructure that was not communicated, and/or have contracts with competing hospitals and referral streams

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**WHEN IT COMES TO HOSPITAL/PHYSICIAN ALIGNMENT, SOME HOSPITALS SACRIFICE A DOCUMENTED PROCESS AND CLEAR PROCEDURES IN ORDER TO “GET THINGS DONE,” BUT A CASUAL APPROACH TO PHYSICIAN CONTRACTS HAS SIGNIFICANT RISK FACTORS.**

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**CONTACT US.**

If you have questions about how to keep your contract process financially sound, well-documented and defensible against regulatory scrutiny, contact HORNE Partner Rud Blumentritt, CPA/ABV, CVA, at [rud.blumentritt@horne-llp.com](mailto:rud.blumentritt@horne-llp.com).

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that may not transfer post-transaction. These factors can significantly impact ROI of the contract and the commercial reasonableness of the transaction. Poorly designed or vetted arrangements can create serious long-term damage for the hospital both financially and politically with community physicians.

When it comes to hospital/physician alignment, some hospitals sacrifice a documented process and clear procedures in order to “get things done.” Often, the justification is a sense of urgency brought about by perceived market competition or threats by physicians to abandon the hospital and take their patients elsewhere. In many cases, the threats are real and the intentions understandable, but a casual approach to physician contracts has significant risk factors: investigations from regulatory agencies that could result in millions of dollars in fines, broken and/or non-profitable contracts with physicians, and negative patient and business outcomes. In a worst case scenario, the future of the facility to continue operating may be seriously damaged, along with the careers of the hospital leadership team that bears responsibility for those decisions.

Creating a culture of compliance based on best practice processes may sometimes seem like a pointless exercise in red tape. But what we have seen in nearly 20 years of practice is that these heightened requirements and consistent practices, coupled with sound use of outside experts, are actually a good business practice for hospitals to make smart bottom-line decisions that better serve their communities.