

CHAPTER 1

THE ENVIRONMENT OF HEALTHCARE FINANCE

CHAPTER QUESTIONS AND ANSWERS— TYPES OF MEDICAL BUSINESSES

1. What are the major differences between financial management for healthcare facilities and other types of free-enterprise businesses?

ANSWER: A major difference is that the majority of customers of healthcare facilities do not pay the bills themselves and the facilities have to deal with third-party payers, such as Medicare and private insurance companies, for reimbursement. A second difference is that healthcare facilities are a unique mix of for-profit and not-for-profit organizations and a mix of private companies and governmental agencies.

2. What types of skills do you think are necessary for an effective financial manager in healthcare?

ANSWER: The skill set required for success as a healthcare financial manager is the same as in other businesses. Accounting, budgeting, cash flow, and investment management are all required skills.

3. Dr. Reginald Dustin is a licensed family practice physician. He has hired a staff of five to help him in running the practice. He draws a monthly salary and leaves profits in the business for capital purchases. This type of business is a:
 - A. Proprietorship
 - B. Partnership
 - C. For-profit corporation
 - D. Not-for-profit corporation

ANSWER: A

4. Dr. Susan Towers has an established medical practice and wishes to expand the practice by bringing in another physician. The two physicians agree to a document specifying how much the new physician will pay into the business over time to secure an equity position, their monthly salary draws, and a division of profits. This type of business is a:
 - A. Proprietorship
 - B. Partnership
 - C. For-profit corporation
 - D. Not-for-profit corporation

ANSWER: B

5. American Hospitals owns and operates 18 hospitals in eleven states. It is registered with the Securities & Exchange Commission and has several thousand stockholders. This type of business is a:
 - A. Proprietorship
 - B. Partnership
 - C. For-profit corporation
 - D. Not-for-profit corporation

ANSWER: C

6. What is a professional corporation (PC), and why would this structure be an advantage to a physician?

ANSWER: In a proprietorship, the business owner has unlimited personal liability for debts or legal settlements of the business. Structuring the business as a professional corporation (PC) shields the personal assets of the business owner.

7. What is a 501(c)(3) corporation?

ANSWER: A 501(c)(3) corporation is designated by the Internal Revenue Service as a not-for-profit charitable organization exempt from property and income taxes.

CHAPTER QUESTIONS AND ANSWERS— MEDICAL FACILITIES: THE EVOLVING PROCESS OF HEALTHCARE DELIVERY

1. Describe the impact of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) on hospital finances.

ANSWER: TEFRA placed financial limitations on Medicare reimbursement. The former cost-plus reimbursement system was replaced with standardized reimbursement schedules.

2. What is the major difference between a general hospital and a specialty hospital? Provide examples of specialty hospitals.

ANSWER: General hospitals provide a wide variety of medical care procedures to patients in their geographic area. Specialty hospitals provide a higher level of care in a specific field referred to as tertiary medical care. Specialty hospitals will include pediatric hospitals, burn centers, and oncology centers for cancer treatment.

3. What has been the financial impact on hospitals of the decline in inpatient care over the past 25 years?

ANSWER: The total number of hospital beds per 1,000 population has declined dramatically since the 1980s. Hospitals have responded by expanding outpatient departments and home health-care services.

4. Which of the following would not be considered an outpatient facility?
 - A. A physician's family care office practice
 - B. A walk-in clinic
 - C. A dental surgery office
 - D. A rehabilitation hospital that provides short-term stays for recovery and rehabilitation treatments
 - E. All of the above are outpatient facilities.

ANSWER: E

5. What are the basic services provided by home healthcare organizations?

ANSWER: Home healthcare services include basic nursing services, such as changing dressings, monitoring medications, providing short-term physical and occupational therapy, and providing assistance in bathing and dressing. Other services may include shopping, transportation, and meal preparation.

6. Describe the physical and service changes in the transition from traditional nursing homes to modern model of life-care facilities.

ANSWER: The old single-building nursing home has expanded into a life-care campus to meet the changing requirements of their residents. Many will include independent living units for active seniors and a wide variety of educational and recreational opportunities. Medical services, dining, and transportation are available based on resident needs. The level of services will increase as residents lose their ability to function independently.

7. How does hospice care differ from traditional medical care?

ANSWER: Traditional medical care is designed to enhance and prolong life. Hospice care provides assistance to the special needs of patients in the last months of life and meets the emotional needs of family members.

8. Define palliative care.

ANSWER: Palliative care is the medical side of end-of-life care, managing the symptoms of the patient's final illness and relieving pain.

Chapter 1—The Environment of Healthcare Finance

Quiz

Name _____

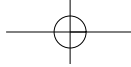
Date _____

Instructor _____

(5 points each)

1. TRUE or FALSE (circle correct answer): Blue Cross and Blue Shield are government programs for reimbursement of healthcare expenses.
2. TRUE or FALSE: In a **capitation plan**, medical service providers in the plan receive a fixed monthly amount for treating the medical needs of members.
3. TRUE or FALSE: A **proprietorship** is a business owned by two or more individuals or entities.
4. TRUE or FALSE: Any business can be organized as a corporation, requiring only a corporate charter and a set of bylaws.
5. Thomas Rodgers is a registered pharmacist and owns and operates Rodgers Pharmacy. He has hired a staff to assist in running the business, but no employees have any ownership position in the business. This business is not a corporation. This type of business is called a: _____.
(Multiple Choice: circle the letter of the correct answer.)
6. Consolidated Hospitals owns a number of hospitals in the western part of the United States. The business is registered with the Securities and Exchange Commission with stock trading actively on the New York Stock Exchange. This type of business is a:
 - A. Proprietorship
 - B. Partnership
 - C. For-profit corporation
 - D. Not-for-profit corporation
7. Madison Crossing Community Hospital has been granted 501(c)(3) status by the Internal Revenue Service. This type of business is a:
 - A. Proprietorship
 - B. Partnership
 - C. For-profit corporation
 - D. Not-for-profit corporation
8. Which of the following is NOT a government health-care facility?
 - A. A hospital run by the Veterans Administration (VA)
 - B. A rural hospital operated by a unit of local government
 - C. A county health department
 - D. A for-profit hospital accepting Medicare reimbursement
 - E. All of the above are government healthcare facilities.
9. Which of the following are **outpatient** medical facilities?
 - A. A doctor's office
 - B. An urgent care facility
 - C. A diagnostic imaging center
 - D. A dialysis facility
 - E. All of the above
10. TRUE or FALSE: **Hospice care** provides rehabilitation services to those unemployed due to industrial injury or accidents.

(continued)



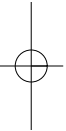
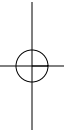
4 INSTRUCTOR RESOURCES TO ACCOMPANY INTRODUCTION TO HEALTH CARE FINANCE AND ACCOUNTING

(Short answer; 10 points each)

11. Define the difference between a **proprietorship** and a **partnership**.

12. What are the basic services provided by a **home healthcare agency**?

13. What is the definition of an **outpatient facility**?



14. Define **spend-down**.

15. Define **palliative care**.



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Quiz Answers

1. FALSE. Blue Cross and Blue Shield are private companies, not governmental programs.
2. TRUE.
3. FALSE. A proprietorship is a business owned by one individual.
4. TRUE.
5. Proprietorship
6. C
7. D
8. D
9. E
10. FALSE. Rehabilitation services are not offered in a **hospice care** facility.
11. A proprietorship is a business owned by one individual. A partnership is a business owned by two or more individuals or entities.
12. Home healthcare agencies provide basic nursing services, such as changing dressings, monitoring medications, and providing assistance in bathing and dressing. Services may include transportation, shopping, and meal preparation.
13. Outpatient facilities provide medical services without overnight stays.
14. *Spend-down* is the term used for the process that occurs when an individual's financial resources are exhausted and the individual becomes eligible for Medicaid assistance in meeting nursing home bills.
15. Palliative care is the medical care provided to a patient at the last stages of life, designed to manage the symptoms of the patient's final illness and provide relief from pain.