

Mission Health System, Inc.

Agreed Upon Procedures Report

For Year Ending September 30, 2012



## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

Mission Health System, Inc., North Carolina Department of Justice,  
and Department of Health and Human Services

We have performed the procedures enumerated below, which were agreed to by Mission Health System, Inc. ("Mission" or the "Hospital"), North Carolina Department of Justice, and Department of Health and Human Services ("DHHS") (the specified parties), solely to assist you in determining Mission's compliance with the terms outlined in the Certificate of Public Advantage ("COPA") agreement between Mission and DHHS for the year ended September 30, 2012. Mission's management is responsible for the Hospital's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows (Numbering below corresponds to Section III of the Third Amended Certificate of Public Advantage):

1. Obtain and read the most recent report from **The Joint Commission** regarding Mission's participation in the Hospital Accreditation Program.

*We obtained and read the most recent reports from the Joint Commission regarding Mission's participation in the Hospital Accreditation Program. The reports indicated that Mission is fully accredited.*

2. Obtain Mission's North Carolina Hospital Community Benefits Report and agree the amounts reported to supporting documentation (e.g., audited financial statements, client supporting schedules, etc.).

*We obtained Mission Hospital's North Carolina Hospital Community Benefits Report and agreed amounts reported to supporting documentation without exception.*

Perform the following procedures for a sample of charity care patient discounts granted during the year that results in a 95% confidence level that Mission followed its Financial Assistance and Charity Care Policy:

- a. Obtain documentation supporting the charity discount granted from Mission's patient accounting system including the completed application and other supporting documentation.

*We selected a sample of 60 charity care patient discounts granted during the year and obtained documentation supporting the charity care discount granted including the completed application and other supporting documentation.*

- b. Read the patient's completed Mission Health System Financial Statement. If total amount of charity discount exceeded \$2,000, determine that proof of income and assets was performed and the financial statement was signed by the patient.

*For the sample of charity care patient discounts referred to above, we obtained and read the patient's completed Mission Health System Financial Statement. For each of the charity care patient discounts that exceeded \$2,000, we determined that proof of income and assets was performed and that the financial statement was signed by the patient. No exceptions were noted during this procedure.*

- c. Determine that the charity discount was approved in accordance with the approval levels reflected in the Hospital's Financial Assistance and Charity Care Policy.

*For the sample of charity care patient discounts referred to above, we determined that the charity discount was approved in accordance with the approval levels reflected in the Hospital's Financial Assistance and Charity Care Policy. No exceptions were noted during this procedure.*

- d. Determine that the patient's account was classified as "charity care" and the account was written off using the designated general ledger code.

*For the sample of charity care patient discounts referred to above, we determined that the patient's account was classified as "charity care" and the account was written off using the designated general ledger code. No exceptions were noted during this procedure.*

- e. Determine that the Revenue Cycle management team completed regular audits of compliance with authorized signatory approval levels and documentation requirements for charity discounts granted.

*We obtained documentation indicating that the Revenue Cycle management team completed regular audits of compliance with authorized signatory approval levels and documentation requirements for charity discounts granted in accordance with the Mission Health System Financial Assistance and Charity Care Policy in place during fiscal year 2012.*

- f. Determine that the Mission Health System Financial Assistance and Charity Care Policy was reviewed at least annually by the Vice President of Revenue Cycle Management and any revisions, updates, or confirmation of no changes to the policy were approved by the Senior Vice President of Finance and CFO.

*We obtained documentation indicating that the Mission Health System Financial Assistance and Charity Care Policy was reviewed by the Vice President of Revenue Cycle Management and any revisions, updates, or confirmation of no changes to the policy was approved by the Senior Vice President of Finance and CFO during 2012.*

3. Perform the following procedures for a sample of purchases during the year that results in a 95% confidence level that Mission followed its Materials Management Policy and Procedures Manual:
  - a. Determine that the equipment or supply item was purchased under a global purchasing contract.

*We selected a sample of 60 purchases during the year and obtained documentation indicating whether the equipment or supply item was purchased under a global purchasing contract.*

- b. If the equipment or supply item was not purchased under a global purchasing contract, obtain documentation of the Hospital obtaining bids as outlined in the matrix on page 2 of the Materials Management Policy and Procedure Manual covering the Solicitation of Bids.

*For the equipment and supply items selected that were not purchased under a global purchasing contract, we obtained documentation of the Hospital obtaining bids as outlined in the matrix on page 2 of the Materials Management Policy and Procedure Manual covering the Solicitation of Bids. Based on our procedures, we noted four instances where documentation was not available to enable us to determine that the equipment or supply item was purchased as outlined in the abovementioned matrix. As a result of the information not being available for these items, we were not able to achieve a 95% confidence level.*

4. Perform the following procedures related to Controls on Costs and Margins.

- a. Obtain the data elements listed in Schedule “2” for the Hospitals listed in Schedule “1”.

*We obtained the data elements shown in Attachment #1.*

*Note:*

*The cost report information was obtained independently of the individual hospitals, except as noted below. Other items listed were obtained directly from each respective hospital.*

*Exceptions:*

*The cost report information for Spartanburg Regional Medical Center excluded bad debt expense from total operating expenses. The bad debt expense was added to the cost report total operating expenses amount to maintain consistency with the other hospitals.*

*The cost report information for Cape Fear Valley Medical Center, Centra Health, Inc., New Hanover Regional Medical Center, Mission Hospital, Palmetto Richland Hospital, and Spartanburg Regional Medical Center was not obtained independently. The individual hospitals provided copies of the cost reports.*

- b. Based on the data elements collected, we will calculate the ratios in Schedule “3”.

*We computed the calculations and reported these amounts in Attachment #2.*

*Note:*

*Charity care (at cost) and bad debt expense were obtained for information only and were not used to calculate ratios listed.*

5. Obtain the Hospital’s five largest provider contracts (by revenue) and perform the following:
  - a. Read the provider contract and determine whether the agreement contains a provision that prohibits the Hospital from entering into a provider contract for any services it offers with any other health plan.

*We obtained and read the five largest provider contracts (by revenue) and determined that none of the agreements contained a provision that prohibits the Hospital from entering into a provider contract for any services it offers with any other health plan.*

- b. Read the provider contract and determine whether the agreement contains a provision that requires the payer to contract with the Hospital's employed physicians as a precondition to contracting with the Hospital or any of its affiliated facilities.

*We obtained and read the five largest provider contracts (by revenue) and determined that none of the agreements contained a provision that requires the payer to contract with the Hospital's employed physicians as a precondition to contracting with the Hospital or any of its affiliated facilities.*

6. Obtain a listing of all contracts between the Hospital and individual physicians or groups of physicians. Excluding contracts with anesthesiologists, radiologists, nuclear medicine physicians, pathologists, psychiatrists, emergency-room physicians, infectious disease physicians, neonatologists, nephrologists, pediatric subspecialists (e.g., pediatric cardiologists); perinatologists, pulmonologists, radiation oncologists, trauma surgeons, cardiologists, cardiovascular surgeons, neurologists, and physicians providing services in Mission Health's community access clinics, select a sample of physician contracts that results in 95% confidence level regarding whether the agreements contain an exclusive provision that requires the physician or group of physicians to render services only at Mission Hospitals, or which requires only one physician or group of physicians to provide particular services at Mission Hospitals.

*We obtained a listing of all contracts between the Hospital and individual physicians or groups of physicians (excluding the aforementioned exempted contracts) and selected a sample of nine physician contracts to determine whether the physician contracts contained an exclusive provision that requires the physician or group of physicians to render services only at the Hospital, or which requires only one physician or group of physicians to provide particular services at the Hospital. Based on our procedures, we noted no contracts between the Hospital and individual physicians or groups of physicians (excluding the aforementioned exempted contracts) containing exclusive provisions that require the physician or group of physicians to render services only at the Hospital, or which requires only one physician or group of physicians to provide particular services at Mission Hospitals.*

7. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
8. Obtain Hospital's calculation of the percentage of physicians in Buncombe and Madison counties under exclusive contracts and perform the following procedures:
  - a. Agree the data utilized in the numerator and denominator to supporting documentation.

*We obtained the Hospital's calculation of the percentage of physicians in Buncombe and Madison counties under exclusive contracts and agreed numerator and denominator to supporting documentation without exception.*

- b. Re-compute the percentage.

*We recomputed the Hospital's percentage of physicians in Buncombe and Madison counties under exclusive contracts without exception. Per the Third Amended COPA, Mission Health may employ or enter into exclusive contracts with no more than 30% of the physicians in its primary service area of Buncombe and Madison Counties, except those practicing in the following areas: cardiology, genetics, hospitalist, neuro-hospitalist, and neurology. Per the Third Amended COPA, Section 6.1, Mission Health may enter into exclusive contracts with anesthesiologist; radiologists; nuclear medicine physicians; pathologists; psychiatrists; emergency-room physicians; infectious disease physicians; neonatologists; nephrologist; pediatric subspecialists; perinatologists; pulmonologists; radiation oncologists; trauma surgeons; cardiologists; cardiovascular surgeons; neurologists; and physicians providing services in Mission Health's community access clinics. We noted that Mission is under exclusive contract with over 30% of emergency room physicians, pathologists, and radiation oncologists as allowed in Section 6.1 of the Third Amended COPA.*

9. Obtain and read the provider agreements with the five largest payers (by revenue) and determine whether the agreement contains a most favored nation provision that guarantees either party that it will receive the benefit of any better price, term, or condition that the other party to the contract allows to a third person for the same service.

*We obtained and read the five largest provider agreements (by revenue) noting that none of the agreements contained a most favored nation provision that guarantees either party that it will receive the benefit of any better price, term, or condition that the other party to the contract allows to a third person for the same service.*

10. Perform the following procedures for a sample of referrals for durable medical equipment, home health services, and home infusion services made by the Hospital that results in a 95% confidence level that Mission followed its policy regarding such referrals:

- a. Obtain documentation of Hospital staff informing patient or patient's family of the freedom to choose a particular provider.

*We selected a sample of 60 referrals for durable medical equipment, home health services, and home infusion services made by the Hospital and obtained documentation to determine that Hospital staff informed patient or patient's family of the freedom to choose a particular provider. Based on our procedures, we noted three instances where documentation was not available to demonstrate that the patient or the patient's family was informed of his/her freedom to choose a particular provider. As a result of the documentation not being available for this item, we were not able to achieve a 95% confidence level.*

- b. Determine that the patient's discharge plan identifies disclosable financial interests between the Hospital and particular providers on choice lists provided to the patient.

*For the sample of referrals for durable medical equipment, home health services, and home infusion services made by the Hospital referred to above, we obtained the patient's discharge plan to determine that the discharge plan identifies disclosable financial interests between the Hospital and particular providers on choice lists provided to the patient. Based on our procedures, we noted one instance where documentation was not available to demonstrate that the patient was notified of a financial interest between the Hospital and particular providers. As a result of the*

*exception noted, we were not able to achieve a 95% confidence level that Mission followed its policy regarding such referrals.*

11. Obtain the Periodic Report and any Interim Report filed for the year and determine that the respective reports were filed in accordance with the terms of the Certificate of Public Advantage.

*We obtained the Interim Report filed for the fiscal year ended September 30, 2012. This Interim Report was filed in accordance with the terms of the Certificate of Public Advantage.*

12. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
13. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
14. Obtain documentation of the Hospital's status as a non-profit entity.

*We obtained correspondence from the Internal Revenue Service dated July 18, 2011 indicating that the Hospital was granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code in March 1982.*

15. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
16. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
17. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.

18. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
19. No procedures performed for this item of Section III of the Third Amended Certificate of Public Advantage.
20. Perform the following procedures related to the Certificate of Public Advantage Update:

- a. Obtain and read Mission's Certificate of Public Advantage Update for the fiscal year ending September 30, 2012. This report is included as an attachment to the agreed-upon procedures report.

*We obtained and read the aforementioned update and have included it as Attachment "3" to this report.*

- b. Obtain and read the reconciliation of Mission Health System, Inc. and Mission Hospital, Inc. reported operating margins. This reconciliation is included as an attachment to the agreed-upon procedures report.

*We obtained and read the aforementioned reconciliation and have included it as Attachment "4" to this report.*

- c. Agree amounts reported to supporting documentation (e.g., audited financial statements, client supporting schedules, etc.).

*We agreed amounts reported to supporting documentation without exception.*

- d. Re-perform mathematical computations presented in the report.

*We re-performed mathematical computations presented in the report without exception.*

Mission Health System, Inc., North Carolina Department of Justice,  
and Department of Health and Human Services

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We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is considered proprietary in nature and is intended solely for the information and use of Mission, North Carolina Department of Justice, and DHHS and is not intended to be and should not be used by anyone other than those specified parties.

Charlotte, North Carolina  
November 20, 2013

*Dixon Hughes Goodman LLP*

## **Schedule #1**

<b>Organization</b>	<b>Hospital</b>
Forsyth Medical Center	Forsyth Memorial Hospital
Palmetto Health	Palmetto Richland Hospital
Spartanburg Regional Healthcare System	Spartanburg Regional Medical Center
First Health of the Carolinas	First Health Moore Regional Hospital
WakeMed Health and Hospitals	Wake Medical – New Bern Avenue Campus
New Hanover Regional Medical Center	New Hanover Regional Medical Center
Cape Fear Health Systems	Cape Fear Valley Medical Center
Centra Health, Inc.	Centra Hospital, Inc.
Mission Health System, Inc.	Mission Hospital

## **Schedule #2**

**All data elements listed below will be based on the fiscal year ended 2012.**

The information requested below will include hospital activity only and will exclude any psych, rehab, newborns, joint ventures, skilled nursing facilities and investments.

For the Hospitals listed in “Schedule #1”, we will obtain the following data elements:

- Cost Report (Gross Inpatient Revenue, Gross Outpatient Revenue, Net Patient Service Revenue, Operating Expenses, Other Revenue)
- Number of Inpatient Discharges, excluding newborns
- Overall Case Mix Index for all patients, excluding newborns
- Total Bad Debt Expense
- Total Charity Care (at cost, per ANDI report)

## **Schedule #3**

**All procedures listed below will be based on the fiscal year ended 2012.**

Based on the data elements collected in “Schedule #2”, we will calculate the following ratios:

- Discharges Adjusted for Case Mix Index, excluding newborns
- Inpatient Revenue per Discharge Adjusted for Case Mix Index (“CMI”), excluding newborns
- Outpatient Revenue per Discharge Adjusted for CMI, excluding newborns (labeled as Equivalent Outpatient Discharge)
- Total Adjusted Discharges Adjusted for CMI
- Total Operating Expenses per Adjusted Discharge Adjusted for CMI
- Operating Margin (Deficit) (Total Net Patient Service Revenue plus Other Revenue less Total Operating Expenses divided by Total Net Patient Service Revenue plus Other Revenue).

## ATTACHMENTS

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## ***Attachment #1 - 2012***

Name of Hospital	Inpatient Discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Gross Inpatient Revenue	Gross Outpatient Revenue	Total Operating Expenses	Total Bad Debt Expense	Net Patient Service Revenue	Charity Care (based on cost)	Other Revenue
Mission Hospital	42,626	1.3700	1,098,162,909	1,073,962,845	1,042,490,289	24,839,784	1,075,781,050	38,650,273	17,807,081
	29,518	1.5299	1,654,457,547	759,932,418	635,801,337	24,863,602	624,382,074	35,327,125	82,552,423
	25,015	1.4369	959,356,946	669,185,935	525,875,191	59,874,638	563,896,703	26,362,685	15,245,563
	21,142	1.4610	630,625,183	503,994,637	416,337,446	26,686,637	460,774,723	10,739,968	54,166,068
	34,217	1.5224	1,546,765,353	1,044,142,955	770,713,237	31,707,524	765,096,389	77,143,223	11,103,109
	34,028	1.6116	1,043,968,516	776,241,512	649,157,409	77,720,831	645,780,045	15,866,879	43,061,913
	26,942	1.4000	1,280,811,754	815,211,998	591,763,793	99,657,511	590,122,155	19,579,000	11,749,658
	26,008	1.3654	622,422,265	403,528,274	593,136,967	20,652,764	520,847,773	19,161,146	51,118,076
	40,448	1.6562	1,227,410,483	753,864,428	823,883,496	68,622,800	861,015,359	20,427,511	48,531,315

## ***Attachment #2 - 2012***

Name of Hospital	Number of inpatient discharges, excluding newborns	Overall Case Mix Index, excluding newborns	Discharges Adjusted for Case Mix Index, excluding newborns	Gross Inpatient Revenue	Inpatient Rev. per Discharge Adjusted for Case Mix Index, excluding newborns	Gross Outpatient Revenue	Equivalent Outpatient Discharge
Mission Hospital	42,626 29,518 25,015 21,142 34,217 34,028 26,942 26,008 40,448	1.3700 1.5299 1.4369 1.4610 1.5224 1.6116 1.4000 1.3654 1.6562	58,398 45,160 35,944 30,888 52,092 54,840 37,719 35,511 66,990	1,098,162,909 1,654,457,547 959,356,946 630,625,183 1,546,765,353 1,043,968,516 1,280,811,754 622,422,265 1,227,410,483	18,805 36,635 26,690 20,417 29,693 19,037 33,957 17,528 18,322	1,073,962,845 759,932,418 669,185,935 503,994,637 1,044,142,955 776,241,512 815,211,998 403,528,274 753,864,428	57,110 20,743 25,073 24,685 35,165 40,775 24,007 23,022 41,145
Total w/o Mission	239,496	11.6972	350,552	8,836,570,473	202,762	6,046,200,574	250,580
Avg. w/o Mission	29,937	1.4622	43,819	1,104,571,309	25,345	755,775,072	31,323
Total all entities	279,944	13.3534	417,542	10,063,980,956	221,084	6,800,065,002	291,725
Average of totals	31,105	1.4837	46,394	1,118,220,106	24,565	755,562,778	32,414
Mission over (under) avg. of entities w/o Mission	10,511	0.1941	23,171	122,839,174	(7,023)	(1,910,644)	9,823
Mission over (under) avg. of all entities	9,343	0.1725	20,596	109,190,377	(6,243)	(1,698,350)	8,731

(continued)

## ***Attachment #2 - 2012, continued***

Name of Hospital	Total Adjusted Discharges, adjusted for CMI	Total Operating Expenses	Total Operating Expense per Adj. Discharge, adj. for CMI	Net Patient Service Revenue	Other Revenue	Operating Margin (Deficit)
Mission Hospital	115,508 65,903 61,017 55,573 87,257 95,615 61,726 58,533 108,135	1,042,490,289 635,801,337 525,875,191 416,337,446 770,713,237 649,157,409 591,763,793 593,136,967	9,025 9,648 8,619 7,492 8,833 6,789 9,587 10,133 7,619	1,075,781,050 624,382,074 563,896,703 460,774,723 765,096,389 645,780,045 590,122,155 520,847,773 861,015,359	17,807,081 82,552,423 15,245,563 54,166,068 11,103,109 43,061,913 11,749,658 51,118,076 48,531,315	4.67% 10.06% 9.20% 19.15% 0.71% 5.76% 1.68% -3.70% 9.42%
Total w/o Mission	601,132	5,225,275,669	70,126	5,246,680,912	286,803,891	47.53%
Avg. w/o Mission	75,142	653,159,459	8,766	655,835,114	35,850,486	5.94%
Total all entities	709,267	6,049,159,165	77,745	6,107,696,271	335,335,206	56.95%
Average of totals	78,807	672,128,796	8,638	678,632,919	37,259,467	6.33%
Mission over (under) avg. of entities w/o Mission	32,994	170,724,037	(1,147)	205,180,245	12,680,829	3.48%
Mission over (under) avg. of all entities	29,328	151,754,700	(1,019)	182,382,440	11,271,848	3.09%



# Mission Health System, Inc

## *COPA Financial Review – FY12 Results*

November, 2013

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# Mission Hospital, Inc.

## COPA Peer Hospital Trend (Cost per CMI Adjusted Case)

	COPA Average Benchmark Determination					Mission Hospital	Variance		
	PPI %	PPI Adjusted	COPA Peer Median	Truven Median	Peer Blend				
					Average	Yr Chg	Actuals	Yr Chg	
FY07	2.90%	7,437	7,667	7,973	7,692	2.3%	7,338	4.4%	354
FY08	3.20%	7,675	8,022	8,239	7,979	3.7%	7,653	4.3%	326
FY09	3.30%	7,928	9,303	8,042	8,424	5.6%	7,777	1.6%	647
FY10	3.00%	8,166	7,877	8,186	8,076	-4.1%	7,867	1.2%	209
FY11	2.40%	8,362	8,693	8,559	8,538	5.7%	7,961	1.2%	577
FY12	2.50%	8,571	8,766	8,717	8,685	1.7%	7,619	-4.3%	1,066

# Mission Health System, Inc.

## COPA Financial Operating Margin Constraint

### FY10 - FY12 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY10	\$ 966,669,000	36,409,000	3.77%	5.79%	2.02%	\$ 19,526,714
FY11	\$ 1,029,544,000	32,157,000	3.12%	5.47%	2.35%	\$ 24,194,284
FY12	\$ 1,054,401,000	55,506,000	5.26%	5.32%	0.06%	\$ 632,641
<b>FY10, FY11, FY12 Cumulative Surplus / (Payback)</b>						\$ 44,353,638

# Mission Health System, Inc.

## COPA Financial Operating Margin Constraint

### FY08 - FY12 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY08	\$ 844,257,000	29,627,000	3.51%	4.28%	0.77%	\$ 6,500,779
FY09	\$ 897,742,000	40,319,000	4.49%	5.21%	0.72%	\$ 6,463,742
FY10	\$ 966,669,000	36,409,000	3.77%	5.79%	2.02%	\$ 19,526,714
FY11	\$ 1,029,544,000	32,157,000	3.12%	5.47%	2.35%	\$ 24,194,284
FY12	\$ 1,054,401,000	55,506,000	5.26%	5.32%	0.06%	\$ 632,641
<b>FY08 - FY12 Cumulative Surplus / (Payback)</b>						\$ 57,318,160

**Mission Health System, Inc.,  
Reported Operating Margins**

**September 30, 2012**

**Amounts per Attachment "3":**

Operating income	\$ 55,506,000
Operating margin	5.26%

**Amounts per Attachment "2":**

Operating income	85,663,000
Operating margin	9.42%
<b>Difference</b>	<b><u>\$ (30,157,000)</u></b>

**Reconciling items:**

Non-operating income on Schedule G of Cost Report	\$ (3,812,000)
Other Adjustment from Schedule G of cost report	677,000
Consolidated entities operating margin	<u>(27,022,000)</u>
Total reconciling items	<u>\$ (30,157,000)</u>