

Home Health

BUSINESS REPORT

A WEEKLY
REPORT ON
NEWS, TRENDS
& STRATEGIES
FOR THE HOME
HEALTHCARE
EXECUTIVE

MONDAY, APRIL 10, 2000

VOL. 7, No. 15

PAGE 1 OF 6

HCFA announces plans to roll out its 'provider plus' option

By MATTHEW HAY
HHBR Washington Correspondent

WASHINGTON – The **Health Care Financing Administration's** (HCFA; Baltimore) Tim Hill told home health providers at the **National Association for Home Care's** (Washington) policy conference last week that the agency is anxious for the industry's input into a novel "provider plus" designation for home health agencies. The designation would be designed to improve payment and communications between agencies and Medicare's fiscal intermediaries, Hill said.

According to Hill, the new designation would establish a set of standards and activities for home health agencies that are one step beyond the current regulatory requirements with the underlying goal of distinguishing the vast majority of agencies that bill Medicare appropriately from unscrupulous providers.

Hill said the new designation might take into consideration such factors as the existence of a voluntary compliance plan or other self-assessment tool. He said HCFA's goal is to generate a mechanism to demonstrate appropriate billing practices and that agencies that satisfied the requirement would be rewarded with fewer medical reviews and other audits.

"It is very complicated right now conceptually," he said. "We need some feedback, and we are hoping the feedback we get from this and other industry groups will help us crystallize the concept to make it operational and clearly articulated."

Ann Howard, executive director of the **American Federation of Homecare Providers** (Washington), called the proposal promising. "Right now, they have a contractor system that is irrational and vindictive that is just not working," she said. "My members are very enthusiastic about this concept."

Howard noted that the new program would be administered by someone other than the intermediaries. "Presumably, that would lead to a different kind of relation-

See HCFA, Page 4

Small Business Administration working for small agencies

By MEREDITH BONNER
HHBR Editor

The **Small Business Administration** (SBA; Washington) has been working hard for small home care agencies since the inception of the Balanced Budget Act of 1997 (BBA) turned the entire home healthcare industry upside down. And SBA Chief Counsel for Advocacy Jere Glover says while the administration has been successful in some regard, there is still a lot pending and still a lot that has not been done.

"One of the principal issues is still the reimbursement of and the way (the **Health Care Financing Administration**; HCFA; Baltimore) is dealing with small home care agencies," Glover said. "That has been a rocky road for the last few years."

Glover said the new regulations brought on by the
See SBA, Page 2

GAO likely to weigh in against DMERCs on their IR authority

By MATTHEW HAY
HHBR Washington Correspondent

WASHINGTON – It appears increasingly likely that the **General Accounting Office** (GAO; Washington) will conclude in a report expected to be completed this spring that the durable medical equipment regional carriers (DMERC) overstepped their inherent reasonableness (IR) authority when they slashed reimbursement for certain durable medical equipment prosthetics orthotics and supplies last year.

The **Health Care Financing Administration's** (HCFA; Baltimore) IR authority allows the DMERCs to increase or reduce reimbursement for individual items if the payment levels are found to be grossly deficient or excessive. But House Ways and Means Health Subcommittee Chairman Bill Thomas (R-CA)

See IR, Page 2

INSIDE: INTEGRATED HEALTH SERVICES EXPECTS TO REPORT NET LOSS IN FY99.....	3
OPTION CARE SIGNS TWO NEW AGREEMENTS.....	3

SBA

Continued from Page 1

BBA have put many small agencies out of business. "It's a significant challenge and not unusual for a few bad apples to cause problems for everyone, and in their care, the government overreacted to some isolated cases," Glover said. "We have to refocus their attentions on the problems, but not hurt others who are providing good services."

The SBA has been highly involved in filing comments involving home care, Glover said. "About a year and a half ago, the SBA **Office of Advocacy's** comments on the surety bond issue spurred Sen. Christopher Bond (R-MO) to introduce a resolution of disapproval that would have vetoed the regulation," Glover added. "Instead, HCFA withdrew the regulation, and the (**General Accounting Office; GAO**) did a study that indicated the impact would have fallen squarely on the shoulders of small businesses. HCFA is redesigning the surety bond program accordingly."

And, according to the SBA's Annual Report on the Regulatory Flexibility Act, HCFA is consulting with Advocacy in the early stages of current regulatory issues. In the past year alone, HCFA consulted with Advocacy on at least two occasions involving major regulations prior to formal proposal, the report said. Part of the impetus for these remarkable changes stemmed from the comment letter and other early action that Advocacy undertook on surety bonds for home health agencies, the SBA claims.

If patients don't get these services at home, the government pays more to give them at a hospital or facility, Glover said. "That's the challenge, but we still haven't reached our goals in making sure agencies understand that. We have found some marginal successes, but are not where we should be."

Looking forward, Glover said, "the SBA is having some research done right now on HMOs' discrimination of small businesses. That report is not in its final form yet," he said.

"The bottom line is that the home health industry has helped balance the budget, but it has helped too much," Glover said. "The decision to restrict the amount of money going to home care agencies went too far."

To the small agencies still out there hanging on, Glover said to be sure to plan long term. "I think those that can survive the next year or two will do all right," he said. "The problem is getting through this critical period." ■

IR

Continued from Page 1

told HCFA Administrator Nancy Ann DeParle last year that he was concerned with the way HCFA and the DMERCs derived pricing data for enteral nutrition and five other items. His concerns prompted the GAO's examination and forced HCFA to delay proposed IR cuts for those items.

In a proposed rule issued last fall, HCFA then sought to impose special payment limits for five items of DME and one prosthetic device based on its IR authority. The agency's proposed rule would have slashed reimbursement for these items by anywhere from 22% to 57%.

Thomas then introduced legislation passed by Congress late last year that restricts HCFA's IR authority until GAO completes its report to Congress and HCFA issues final regulations on their implementation of IR authority.

While the results of the study have not been made final, the **National Association for Home Care** (NAHC; Washington) and other trade groups are signaling that GAO has found evidence that does not support DMERCs' IR methodology. NAHC says that such a finding could prompt Congress to restrict the agency's IR authority more broadly. ■

Home Health Business Report® (ISSN 1073-9572) is published every Monday by American Health Consultants®, 3525 Piedmont Road, Building Six, Suite 400, Atlanta, GA 30305. Opinions expressed are not necessarily those of this publication. Mention of products or services does not constitute endorsement. Home Health Business Report® is a trademark of American Health Consultants®, a Medical Economics Company. Copyright © 2000 American Health Consultants®. All Rights Reserved. No part of this publication may be reproduced without the written consent of American Health Consultants®.

ATLANTA NEWSROOM: Executive Editor: **Jim Stommen**. Associate Managing Editor: **Lee Reinauer**. Editor: **Meredith Bonner**. Washington Correspondent: **Matthew Hay**.

BUSINESS OFFICE: Vice President/Group Publisher: **Donald R. Johnston**. Marketing Manager: **Patty Hopper**. Account Representative: **Bob Sobel**. Reprints: (800) 688-2421.

SUBSCRIBER INFORMATION

Please call **(800) 688-2421** to subscribe or if you have fax transmission problems. Outside U.S. and Canada, call **(404) 262-5476**. Our customer service hours are 8:30 a.m. to 6:00 p.m. EST.

EDITORIAL

Meredith Bonner **(404) 262-5478**

VICE PRESIDENT/GROUP PUBLISHER

Donald R. Johnston **(404) 262-5439**

INTERNET

<http://www.ahcpub.com>

COMPANIES IN THE NEWS

Smartmeds.com sees 200,000 hits

Infu-Tech (Carlstadt, NJ) said that in its first full month of operation on its **Smartmeds.com** Web site, it has attracted close to 200,000 hits, 34,000 page views, and 32,000 document views. The company also said it has launched its initial ad campaign of the new site and expects the advertising to help with traffic.

IHS expects FY99 net loss

Integrated Health Services (IHS; Sparks, MD) said last week it expects to report a loss for FY99 ended Dec. 31 of more than \$2.2 billion. IHS said the loss was primarily due to about \$2.1 billion in non-recurring charges resulting from a loss on impairment of long-lived assets due to the impact of the prospective payment system. Additionally, IHS said the loss stemmed from last year's sale of its infusion business unit, which provided respiratory therapy and the sale and rental of home medical equipment.

IHS filed for Chapter 11 bankruptcy protection on Feb. 2, listing assets of \$3.6 billion and liabilities of \$4.1 billion.

Lincare chairman retires

Lincare Holdings (Clearwater, FL) said last week that James Kelly will retire from the board, effective May 8. Kelly served as chairman of the board from April 1994 until March 2000 and served as chief executive officer of the company from June 1986 to December 1996. John Byrnes, president/CEO of Lincare, will replace Kelly as chairman of the board, Lincare said.

NHHC to acquire CT U.S. HomeCare operations

National Home Health Care Corp. (NHHC; Scarsdale, NY) will acquire, through a wholly owned subsidiary, certain assets of the Connecticut operations of **U.S. HomeCare Corp.** (Hartford, CT). U.S. HomeCare announced last month that its agent bank, **Chase Manhattan**, would be taking over and selling off its assets.

The Connecticut operations had annual revenues of \$3.5 million, NHHC said. The closing is expected to occur by mid-April. NHHC President/CEO said the acquisition will complement the company's existing Connecticut operations and further increase its presence in the state.

NuMed extends acquisition closing

NuMed Home Health Care (Clearwater, FL) agreed with **Capital General Corp.** (CGC) to extend the time for closing of the proposed acquisition of 80.9% of the stock of NuMed in exchange for stock of CGC and a working capital loan of \$2.5 million. The time period, as contemplated in a letter of intent signed by NuMed and CGC in November, was extended until last Friday, April 7.

Execution of the definitive agreements and closing of the transaction were delayed as a result of CGC's inability to fund the working capital loan to NuMed, the company said. CGC has advised NuMed that it has rectified that issue closing on its funding March 30.

Option Care signs two provider agreements

Option Care (Bannockburn, IL) last week announced the signing of an Ancillary Provider Managed Care agreement with **MethodistCare**. Under the terms of the agreement, Option Care will provide alternate site and home IV services to more than 70,000 MethodistCare members in Houston.

Option Care also said last week it signed an Ancillary Provider Managed Care agreement with **AmeriHealth**. Under the terms of the AmeriHealth agreement, Option Care will provide alternate site and home IV services to more than 60,000 members in Houston. ■

REGIONAL DIGEST

- According to a report in the *Milwaukee Journal Sentinel*, Wisconsin gets less than other states for Medicare reimbursements, which means its Medicare recipients get fewer benefits. The situation, reported the *Journal Sentinel*, prompted Wisconsin to sue the federal government. Attorney General James Doyle, who brought the suit earlier in March, said the state came up \$130 million a year short because of the federal formula.

- St. Thomas Hospital in Davidson County in Tennessee has pulled out of a home health business with Baptist Hospital, ending a joint venture that was designed to save them money and reach more patients. St. Thomas transferred ownership of its half of the home health company to Baptist in late February and will take a charge of \$500,000 to \$1 million on its books, reported the *Tennessean*. St. Thomas said, however, that it will continue to refer Davidson County patients to **Baptist Home Care** for home health services.

- The **Visiting Nurse Association of Allegheny County** in Pennsylvania is going out of business. The company cited difficulties with the Medicare payment system and competitive pressures from hospital-based providers as reasons for closing, reported the *Pittsburgh Post-Gazette*. The agency began informing staff last week that it had stopped taking new clients and would spend the rest of this month transferring its existing caseload to other home service providers, the *Post-Gazette* reported. Nearly 75% of the agency's patients are Medicare recipients.

- The **Cass Medical Center Home Health Agency** in Kansas City has been accredited by the **Joint Commission on Accreditation of Healthcare Organizations** (Oakbrook Terrace, IL). ■

HCFA

Continued from Page 1

ship with contractors, and home health agencies would be paid on a regular basis," she added. "It would be a very different kind of relationship from the very adversarial one that currently exists between intermediaries and providers."

Surety bonds

Hill also told attendees of the conference that HCFA plans to issue its revised proposed rule on surety bonds this fall. The agency's regulatory development of the surety bond requirement was placed on hold pending assessment from the **General Accounting Office** (GAO; Washington). Hill noted that the GAO report released last year included numerous recommendations with respect to the amount of the bond and its application and implementation.

"By and large, we support and concur with those recommendations, with the exception of those items that we would need a statutory change to implement," he reported. "We are now in the process of revising the regulation to conform to those comments."

Provider enrollment

According to Hill, HCFA is also developing a proposed rule for its provider enrollment activities that includes the requirements that must be met in order to acquire a billing number for the Medicare program. "It is relatively bare bones in that it articulates statutory authorities we already have," he explained. "We are not trying to reach beyond those items that we clearly have authority to collect and those pieces of information we need to have to enroll people in the program."

Hill said the agency anticipates publishing that regulation later this spring. Coinciding with that regulation will be revised provider enrollment forms, he added. Hill said those forms will be designed to balance the need to ensure integrity of providers with administrative needs. "There have been many complaints about the forms, as well as the people handling those forms at carriers and intermediaries," he said.

Medicare fee-for-service error rate

Hill said that HCFA is also working to establish mechanisms to gauge the Medicare billing rate more accurately. Currently, the primary measure of Medicare claims payment is the **Department of Health and Human Services' Office of the Inspector General's** (OIG) annual audit of financial statements, which includes the calculation of the fee-for-service estimate.

"The good news is that the error rate has dropped about 50% in the last two years," he said. "The bad news is that from last year to this year, the error rate essentially remained unchanged." In fact, the error rate went up almost 1% from 7.1% to 7.9%, he noted.

"We have locked in the gains that we made in the last couple years," Hill said. "But it looks like we are hitting a point where we are flat, and we need to take some corrective actions to get the error rate down."

According to Hill, however, the OIG's error rate is only a gross estimate of claims paid inappropriately because it is developed at the national level and is not specific by benefit category. To improve on that, he said, HCFA is implementing an error-rate testing program for its Medicare contractors that is much more specific. "This summer, we are going to start testing each contractor and have a process in place to measure and assess the errors that people are making," he reported.

Hill said HCFA plans to examine both paid and denied claims instead of only paid claims as the OIG does. "We are going to look at what the contractor does in terms of paying claims and denying claims to give us a better picture of how the program is operating," he said.

Hill said this will help generate a fairly rigorous database with a set of narrative descriptions about the types of errors that HCFA sees in every region by every benefit category. "We are also going to be very active in describing what is in this database to provider groups," he added.

Hill said the vast majority of these errors are easily correctable. "The two errors that we see most often are plans of treatment not being signed and dated, and absence of documentation for skilled care in excess of three weeks," he explained. But he noted that when the OIG looks at these claims and determines that the documentation is insufficient, no judgment is made about whether the services were medically necessary.

"These are not difficult errors to correct," Hill argued. To remedy the problem, Hill said, HCFA is also meeting with home health industry representatives and hopes to communicate specific steps within a month to reduce these errors. In addition, he said the agency is working to revamp its own internal processes for contractor oversight. ■

C A L E N D A R

- The 15th annual Northeast Healthcare Conference and Exposition is May 10-11 in Mashantucket, CT. The conference is sponsored by *Healthcare Review* and brings together the entire healthcare delivery system. Admission to the expo and conference programs is free. For more information, call (800) 243-9774.

- **HealthCare USA** (Alpharetta, GA) is sponsoring a conference May 22-24 in Atlanta. The conference will cover opportunities in e-commerce, expanding your role in the new supply chain, and growing revenues in the BBA era. To register, call (949) 365-8027.

• The home care associations in Louisiana, New Mexico, Oklahoma, and Texas are offering the Southwest Regional Home Care Conference and Exhibition 2000 May 10-12 in Dallas. For more information, call (800) 880-8893.

• **HealthCare USA** (Alpharetta, GA) is sponsoring a conference May 22-24 in Atlanta. The conference will cover opportunities in e-commerce, expanding your role in the new supply chain, and growing revenues in the BBA era. To register, call (949) 365-8027.

• The ninth annual meeting for the **National Association of Pediatric Home and Community Care** is Oct. 5-6 in New Orleans. The conference is being co-sponsored by the University of Massachusetts Medical School. For more information on the conference, call (508) 856-6743.

• The **National Association for Home Care's** (NAHC; Washington) 19th annual meeting and HomecareExpo is Sept. 23-27 in New Orleans. For information, call (202) 547-7424. ■

CORPORATE LADDER

• **Extendicare** (Markham, Ontario) appointed Shelly Jamieson president of the company, effective immediately. Jamieson assumes management responsibility for Extendicare's Canadian operations from Gary Chatfield, who recently retired, Extendicare said. Jamieson joined Extendicare in 1998 as vice president of its eastern operations and most recently held the title of executive vice president.

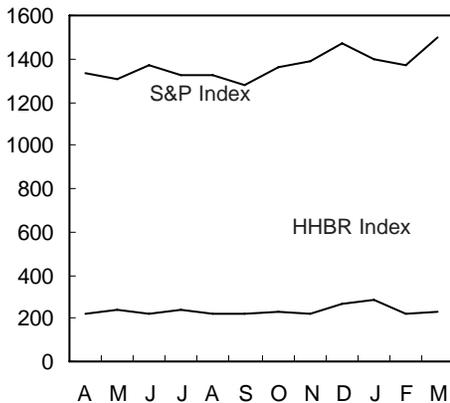
• The newly formed **American Association for Homecare** (Alexandria, VA) has named its inaugural board of directors. The executive committee of the incoming board consists of Donald White of **Associated Healthcare Systems** as chairman, David Savitsky of **Staff Builders** as vice chairman, Joel Mills of **Advanced Home Care** as secretary, Lawrence Higby of **Apria Healthcare Group** as Treasurer, and Mario LaCute of **Steeley Medical**, who is the immediate past chairman. ■

MONTHLY STOCK INDEX COMPARISON

	<i>Close</i> <i>02/29/99</i>	<i>Close</i> <i>03/31/00</i>	<i>Net</i> <i>Change</i>	<i>Percent</i> <i>Change</i>
Home Health Industry Stock Index	219.01	231.60	12.59	5.75
Dow Jones Industrial Average	10128.31	10921.92	793.61	7.84
N.Y.S.E. Composite	592.64	647.70	55.06	9.29
S&P 500 Composite	1366.42	1498.58	132.16	9.67
NASDAQ OTC Composite	4696.69	4572.83	-123.86	-2.64
Dow Jones Health Care Index	608.17	648.95	40.78	6.71

HHBR'S HOME HEALTH COMPOSITE STOCK INDEX

The Home Health Business Report Composite Stock Index represents the collective performance of nine publicly traded companies with primary businesses in the home healthcare industry. Companies included in the Composite Index are denoted with an inverted triangle (▽) in the "company name" column of our monthly stock tables appearing on page 6. The HHBR Composite Stock Index was compiled by CNET Investor and has been constructed to show comparative performance of a selected group of home healthcare stocks with the S&P 500-Stock Index. The Index was calibrated to match the 435.71 closing of the S&P 500 on Dec. 31, 1992.



MAJOR MOVERS IN HOME CARE IN MARCH 2000

TOP FIVE PERCENTAGE GAINERS

NuMed Home Health Care Inc.	52.00
Sunrise Medical Inc.	44.93
Star Multi Care Services Inc.	35.10
Columbia HCA Healthcare	31.07
American HomePatient Inc. ▽	29.92

TOP FIVE DOLLAR GAINERS

Columbia HCA Healthcare	6.00
Lincare Holdings Inc. ▽ (s)	4.94
Mallinckrodt	4.13
Invacare Corp.	3.06
Sunrise Medical Inc.	1.94

TOP FIVE PERCENTAGE LOSERS

Infu-Tech Inc.	-50.93
Option Care Inc. ▽	-22.83
Olsten Corp. (The) ▽	-16.23
Matria Healthcare	-13.27
Pediatric Services of America	-5.36

TOP FIVE DOLLAR LOSERS

Infu-Tech Inc.	-10.25
Olsten Corp. (The) ▽	-1.94
Option Care Inc. ▽	-1.81
Matria Healthcare	-0.81
Kelly Services Inc.	-0.13

Market	Advances	Declines	Unchanged	New Highs	New Lows
Diary:	This Month.....21	This Month.....7	This Month.....1	This Month.....6	This Month.....2

Public Company Financial Statistics (March 31, 2000, close)

EXCH	COMPANY	TICKER SYMBOL	CLOSING PRICE 03/31/00 \$	% CHANGE		52 WEEK		EPS LAST 12 MOS. \$	PRICE/ EARN RATIO \$	MARKET CAPITAL (1000S)- \$
				THIS MONTH	THIS YEAR	HIGH	LOW			
NAS	Amedisys Inc.	(H) AMED	2.75	0	100	3.13	0.75	0	-	8657
NAS	American HomePatient Inc. ▽	AHOM	0.81	29.92	50.37	2.53	0.38	-6.55	-	12310
NYS	Apria Healthcare Group Inc. ▽	AHG	14.44	1.32	-19.51	22.06	7.25	3.81	4	751356
NAS	Almost Family Inc.	AFAM	2.81	9.76	25	4.13	1.5	-1.49	-	8775
NYS	Chemed Corp.	CHE	30	1.91	4.8	34.06	24.63	1.88	16	313440
NYS	Columbia HCA Healthcare	COL	25.31	31.07	-13.65	32.44	17.38	1.11	23	14257949
NYS	Fresenius Medical Care	FMS	24.25	2.65	-14.54	30.38	15.69	0	-	1697500
NAS	In Home Health Inc. ▽ (s)	IHHI	2.56	2.5	20.59	4.25	1.06	0.37	7	14148
NAS	Infu-Tech Inc.	(H) INFU	9.88	-50.93	409.68	21.75	0.44	-0.52	-	32222
NAS	Interwest	IWHM	4	6.67	33.33	4.47	2.19	0.53	8	16356
NAS	Invacare Corp.	(H) IVC	27.44	12.56	36.76	29.63	17.44	1.36	20	822494
NAS	Kelly Services Inc.	KELYA	23.94	-0.52	-4.73	32.5	22.88	2.36	10	859165
NAS	Lincare Holdings Inc. ▽ (s)	LNCR	28.38	21.07	-18.2	40	17.25	1.74	16	1533413
NYS	Mallinckrodt	(L) MKG	28.75	16.75	-9.63	37.56	22.19	2.69	11	1971273
NAS	Matria Healthcare	MATR	5.31	-13.27	28.79	7.5	2.38	0.77	7	195346
NYS	Mid Atlantic Medical Services	MME	9.25	12.98	11.28	11.31	5.13	0.64	14	461446
ASE	National HealthCare	NHC	5.31	25	1.19	10.75	3.38	-0.77	-	60722
NAS	National Home Health Care Corp.	(H) NHHC	4.75	17.83	24.59	5.06	2.25	0.67	7	23802
NAS	New York Health Care Inc.	NYHC	1.25	11.11	-28.57	5	0.38	-0.06	-	4586
NAS	NuMed Home Health Care Inc.	NUMD	0.19	52	171.43	0.5	0.08	-0.28	-	1115
NYS	Olsten Corp. (The) ▽	OLS	10	-16.23	-11.6	12.25	5.88	0	-	813080
NAS	Option Care Inc. ▽	OPTN	6.13	-22.83	100	8.75	1.5	0.39	16	69458
NAS	Pediatric Services of America	PSAI	1.66	-5.36	76.67	2.88	0.72	-5.31	-	11027
NAS	Respironics Inc.	RESP	14.38	2.22	80.39	16.25	7.5	0.27	53	421144
NAS	ServiceMaster L.P.	SVM	11.25	2.27	-8.63	20.94	10.13	0.54	21	3493103
NAS	Staff Builders Inc. ▽	(H) SBLI	0.33	3.13	6.45	0.7	0.13	-3.27	-	7799
NYS	Star Multi Care Services Inc.	(H) SMCS	6.38	35.1	397.56	7.63	0.75	-0.88	-	10889
NAS	Sunrise Medical Inc.	(L) SMD	6.25	44.93	1.01	9.38	4.13	0.08	78	138963
NAS	Transworld Home HealthCare Inc.	TWH	2.94	-2.08	56.67	4.88	1.5	-0.43	-	51556

KEY: (H)=NEW HIGH • (L)=NEW LOW • NYS=NEW YORK • ASE=AMERICAN
 NAS=NASDAQ • (s)=STOCK SPLIT • ▽ in HHBR Composite Index • NA=not available

MARKET CAPITAL figure reflects total for this class of stock only. Stock listed is the most actively traded of the company's classes of stock.

Source: CNET Investor, Boulder, CO.

This information is obtained from sources believed to be reliable, and while extensive efforts are made to ensure its accuracy, no guarantees can be made. CNET Investor assumes no liability for any inaccuracies. For information on CNET's customized financial research services, call (303) 938-1877.