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I.R.S. Checking Compliance by Tax-Exempt Hospitals

By ROBERT PEAR

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WASHINGTON, June 18 - The Internal Revenue Service has begun a wide-ranging investigation of nonprofit hospitals to determine whether they are flouting standards for tax-exempt status, whether they deny care to people without insurance and whether they provide significant amounts of charity care.

The agency has sent "compliance check questionnaires" to more than 550 tax-exempt hospitals, seeking detailed information about their operations and billing practices and the compensation of top hospital executives.

Lois G. Lerner, director of the exempt organizations division of the I.R.S., said the questionnaires could be used in deciding whether standards for nonprofit hospitals should be changed or clarified. The current standards, with little changed since 1969, rely on a vaguely defined concept of "community benefit."

While reviewing the questionnaires, Ms. Lerner said, the agency may decide to conduct formal audits of some hospitals, with a full-scale examination of their records.

The I.R.S. lists about 7,000 entities as nonprofit hospitals and health care organizations. In the last 10 years, it has audited 375 of them.

"Our audit rates are too low," said Mark W. Everson, the commissioner of internal revenue.

Timothy J. Sullivan, a tax lawyer who previously worked at the I.R.S., said the survey showed that the agency saw "a need for greater monitoring of what hospitals do in return for their tax exemptions."

The survey comes at a time when nonprofit hospitals are receiving closer scrutiny from Congress and state officials. Lawmakers of both political parties say that in today's fiercely competitive health care marketplace, many nonprofit hospitals operate like investor-owned, profit-making institutions. Indeed, some nonprofit hospitals have for-profit affiliates and subsidiaries that operate nursing homes, surgery centers, office buildings and other businesses.

Uninsured patients have filed many class-action lawsuits, accusing nonprofit hospitals of overcharging them. Several states have found that nonprofit hospitals abused their state tax exemptions.

On Wednesday, Catholic Healthcare West, the largest nonprofit hospital system in California, agreed to settle a price-gouging lawsuit by paying refunds to hundreds of thousands of patients. On Thursday, a large nonprofit hospital network in New Jersey, the St. Barnabas Health Care System, agreed to pay $265 million to settle charges that it had defrauded Medicare.

Thursday was the deadline for hospitals to respond to the I.R.S. survey, but many requested more time. Charles W. Bailey, general counsel of the Texas Hospital Association, said, "The complexity of the questionnaire was overwhelming."

The agency asked 80 detailed questions, including these:

"Did your hospital deny medical services to any individuals with private insurance? Medicare? Medicaid? No insurance?"

"How many individuals received uncompensated care?" How much did the hospital spend on such care? If an insurer pays less than the hospital charges, is the difference counted as uncompensated care?

Did the hospital charge higher prices to uninsured patients than to those with Medicare, Medicaid or private insurance?

"Did your hospital's emergency room deny services to any individuals that requested such services?"

"Did your hospital limit public access to the findings or results from any of its medical research?"

How were the salaries and benefits of top executives set? Does the hospital have business relationships with any of its officers, directors or trustees?

Senator Charles E. Grassley, Republican of Iowa, welcomed the initiative, but said: "Asking questions is not enough. The I.R.S. and the Treasury need to take action. They need to use information from the survey to support changes to the current regulations."

Mr. Grassley, who has scrutinized charities of all types in the last few years, said that some tax-exempt hospitals did help those in need. But he said: "Too many do little to nothing. Too often, it seems that tax-exempt hospitals offer less charitable care and community benefit than for-profit hospitals."

Before 1969, the I.R.S. required hospitals to provide charity care to qualify for tax-exempt status. Since then, the agency has not specifically required such care, as long as hospitals provide benefits to the community in other ways - for example, by offering health fairs, screening for cancer and cholesterol, providing emergency care, training doctors and conducting medical research.

Mr. Grassley and other lawmakers say hospitals have too much leeway under this "community benefit standard."

Melinda R. Hatton, vice president of the American Hospital Association, defended the current standard, saying, "It recognizes the incredible diversity of tax-exempt hospitals serving communities with different needs - remote rural areas, suburban bedroom communities and downtown neighborhoods with large numbers of immigrants and working poor."

But hospital executives do not always agree on how to define and measure community benefit. Thus, for example, the American Hospital Association says that if Medicare pays less than the cost of treating patients, the difference can be included in the calculation of community benefit.

But the Catholic Health Association, which represents more than 600 nonprofit hospitals, says that "including Medicare jeopardizes the credibility" of any report on community benefit, because Medicare losses for some hospitals may result from "inefficiency, not underpayment."

Likewise, it says uncollectible bills, known as bad debt, should not be counted in the measurement of community benefit. But the American Hospital Association, which represents nonprofit and for-profit hospitals, says bad debt should be included.