Hospital Corporation of America: Learning from Past Mistakes?

INTRODUCTION

In 1968 Dr. Thomas Frist, Sr., Jack C. Massey, and Dr. Thomas Frist, Jr., founded the Hospital Corporation of America (HCA) to manage Park View Hospital in Nashville, Tennessee. The firm grew rapidly over the next two decades by acquiring and building new hospitals and contracting to manage additional facilities for their owners. In 1994 it merged with Columbia Hospital Corporation to become Columbia/HCA Healthcare Corporation, and Columbia founder Richard Scott became chair and CEO of the combined companies. Scott, a lawyer specializing in hospital mergers, had created Columbia in 1987 when he purchased two troubled hospitals in El Paso, Texas, before expanding across Texas and Florida.

By 1997 Columbia/HCA had grown to become one of the largest for-profit healthcare services company in the United States, operating 343 hospitals, 136 outpatient surgery centers, and approximately 550 home-health locations. It also provided extensive outpatient and ancillary services in 37 states, as well as in the United Kingdom and Switzerland. The firm's comprehensive network included more than 285,000 employees and used economies of scale to increase profits. Richard Scott was named one of Time magazine's most influential people in 1996, and Fortune magazine named Columbia/HCA as the most admired healthcare company in 1997.

However, the success of Columbia/HCA came at a price. In 1997 the federal government launched an investigation into the company's business practices. Columbia/HCA eventually pleaded guilty to 14 felonies and paid over $1.7 billion in fines for committing fraud, falsely billing Medicare, and violating federal anti-kickback laws. It was the largest healthcare fraud case ever prosecuted in America.

CORPORATE CULTURE AT COLUMBIA/HCA

Scott's management philosophy at Columbia/HCA was based on creating a competitive environment while cutting costs at the company's facilities. Columbia/HCA capitalized on its size and created economies of scale in the internal control of its costs and sales activities. The focus was on bottom-line performance and new business acquisitions. This strategy proved to be very successful. Columbia/HCA generated $19 billion in annual profits and was the ninth largest employer in America.
A number of critics have charged that healthcare services and staffing at Columbia/HCA often took a back seat to the focus on profits. For example, the company provided shorter training periods than competing hospitals. One former administrator reported that training that typically took six months was sometimes accomplished in as little as two weeks at a Columbia/HCA hospital. In addition, the company was accused of “patient dumping,” which refers to discharging emergency room patients or transferring them to other hospitals when they are not yet in stable condition. In 1997 officials at the Department of Health and Human Services Inspector General’s Office indicated that they were considering imposing fines on Columbia/HCA for an unspecified number of patient-dumping cases. Additionally, the corporate watch dog INFACT publicly challenged the company’s practices, inducting Columbia/HCA into its “Hall of Shame” of corporations that manipulate public policy to the detriment of public health.

In order to expand, the company targeted poorly performing and nonprofit hospitals. Columbia/HCA negotiations with these hospitals were often secret and not disclosed to hospital staff or to the public. The company also routinely threatened to open competing hospitals near the hospitals they wished to acquire. Additionally, Columbia/HCA often worked with hospitals during negotiations to eliminate community services; the hospital would not be required to provide these services once it became for-profit.

Columbia/HCA relied on patient referrals from local doctors in order to increase revenues. In order to encourage referrals, Columbia/HCA provided doctors with incentives such as reduced or free rent, high-paid consulting jobs, free vacations, low-cost pharmaceuticals, and free stock in local hospitals.

Columbia/HCA also passed several of their costs on to Medicare in order to increase profits. The company routinely engaged in a practice known as “upcoding,” exaggerating patient illnesses on Medicare claims. Additionally, Columbia/HCA filed false cost reports in order to generate more federal reimbursements for overhead such as interest and depreciation. In case Medicare contested these charges, Columbia/HCA created a reserve account that held as much as $1 billion. When Medicare did not question the charges, the cash in the reserve account became profit. Reserves accounted for over 25 percent of Columbia/HCA’s profits.

Employee performance was critical to success at Columbia/HCA. The highest-performing managers were rewarded with large bonuses while the lowest-performing managers lost their jobs. Because the company’s expansion strategy relied on the purchase of poorly performing hospitals, executives with less profitable hospitals were under intense pressure to increase profits. Some managers viewed Columbia/HCA’s corporate culture as so unethical that they resigned. Moreover, Columbia/HCA did not have a compliance department. Jerre Frazier, a lawyer called in to investigate compliance issues at the company, said, “I don’t think Rick Scott had given a thought about focusing on compliance.” Over 30 whistle-blowers associated with Columbia/HCA had filed complaints against the company between 1993 and 1997, and some even lost their jobs when they
attempted to share their concerns with their supervisors.

**LEGAL PROBLEMS BEGIN**

In March 1997 the FBI investigated Columbia/HCA’s El Paso offices; the investigation moved on to the company’s other locations in July. Federal investigators accused Columbia/HCA of engaging in a “systematic effort to defraud government healthcare programs.” The investigation resulted in the indictment of three mid-level Columbia/HCA Healthcare Corporation executives for filing false cost reports that resulted in losses of more than $4.4 million from government programs. The government alleged that Columbia/HCA had gained at least part of its profit by overcharging Medicare and other federal health programs; that is, executives had billed the government for non-reimbursable interest expenses. In a 74-page document, federal investigators quoted confidential witnesses who stated that the company’s CEO, Scott, and its president, David Vandewater, were briefed routinely on issues relating to Medicare reimbursement claims that the government had charged were fraudulent. Samuel Greco, Columbia/HCA’s chief of operations, was also implicated in the scandal.

Other concerns for investigators were the incentives to physicians and the possible overuse of home health services. Investigators found that the physician referral kickback scheme had been a corporate policy from Columbia’s inception, even after company lawyers had warned executives that it could be a violation of federal anti-kickback laws. Using this strategy, Columbia had paid doctors off in the amount of $6.9 million, thus generating over $103 million in Medicare business in El Paso alone.

Additionally, federal investigators discovered that Columbia/HCA had fraudulently overstated home healthcare laboratory-test expenses and knowingly miscategorized other expenditures so as to inflate the amounts for which it sought reimbursement. For example, Columbia/HCA’s Southwest Florida Regional Medical Center in Fort Myers reportedly claimed $68,000 more in property taxes than it paid. Moreover, documents showed that the hospital had set aside money to return to the government in case auditors caught the inflated figure. Technically, expenses claimed on cost reports must be related to patient care and fall within the realm of allowable Medicare reimbursements. However, medical billing can be confusing, chaotic, imprecise, and subject to interpretation. It is not unusual for hospitals to keep two sets of accounting books. One set is provided to Medicare, and the other set, which includes records for set-aside money, is held in case auditors interpret the Medicare cost report differently than the hospital does. Some believe it is appropriate for a hospital to set aside money to return to the government if the hospital in good faith believes that its Medicare cost claims are legitimate. However, if administrators believe strongly or know that certain claims are not allowable, yet still file the claims and note them in the second set of books, they are guilty of fraud.

Confidential witnesses said that Columbia/HCA had made an effort to hide internal documents from
federal regulators, documents that could have disclosed the alleged fraud. In addition, Columbia/HCA’s top executive in charge of internal audits had instructed employees to soften language used in internal financial audits that was critical of Columbia/HCA’s practices. According to FBI agent Joseph Ford, “investigation by the [FBI and the Defense Criminal Investigative Service] has uncovered a systematic corporate scheme perpetrated by corporate officers and managers of Columbia/HCA’s hospitals, home health agencies, and other facilities in the states of Tennessee, Florida, Georgia, Texas, and elsewhere to defraud Medicare, Medicaid, and the [Civilian Health and Medical Program of the Uniformed Services].” Indicted Columbia/HCA officials pled not guilty, and defense lawyers for Columbia/HCA tried to diminish the importance of the allegations contained in the government’s affidavits.

**DEVELOPING A NEW ETHICAL CLIMATE AT COLUMBIA/HCA**

Richard Scott resigned as CEO in July 1997. He received a substantial benefits package, including $5.1 million in cash, two years of office and secretarial expenses, $300 million in stock and options, and a five-year consulting job with Columbia/HCA that was worth $950,000 annually. Scott says he resigned because he believed that Columbia/HCA should contest the charges, while the board believed settling was the best option.

Following Scott’s resignation, Dr. Thomas Frist, Jr., became chair and CEO of the company. Frist, who had been president of HCA before it merged with Columbia, vowed to cooperate fully with the government and to develop a plan to change the troubled firm’s corporate culture. Under the Federal Sentencing Guidelines for Organizations (FSGO), companies that have effective due diligence compliance programs can reduce their fines if they are convicted of fraud. For penalties to be reduced, however, an effective compliance program must be in place before misconduct occurs. Although the FSGO requires that a senior executive be in charge of the due diligence compliance program, Columbia/HCA’s general counsel had been designated to take charge of the program.

After 100 days as chairman and CEO of Columbia/HCA, Frist outlined changes that would reshape the company. His reforms included a new mission statement as well as plans to create a new senior executive position to oversee ethical compliance and quality issues. Columbia/HCA’s new mission statement emphasized a commitment to quality medical care and honesty in business practices. It did not, however, mention financial performance. “We have to take the company in a new direction,” Frist said. “The days when Columbia/HCA was seen as an adversarial or in your face, a behind-closed-doors kind of place, is [sic] a thing of the past.”

Columbia/HCA hired Alan Yuspeh as the senior executive to oversee ethical compliance and quality issues. As Senior Vice President of Ethics, Compliance, and Corporate Responsibility, Yuspeh was given a staff of 12 at the corporate headquarters and assigned to work with group, division, and facility presidents to create a “corporate culture where Columbia workers feel compelled to do what is right.” Yuspeh’s first initiatives were to refine monitoring techniques, boost workers’ ethics
and compliance training, develop a code of conduct for employees, and create an internal mechanism for workers to report any wrongdoing.

COLUMBIA/HCA LAUNCHES AN ETHICS, COMPLIANCE, AND CORPORATE RESPONSIBILITY PROGRAM

Under Yuspeh’s leadership, Columbia/HCA announced that it was taking a critical step in developing a company-wide ethics, compliance, and corporate responsibility program. To initiate the program, the company designated more than 500 employees as facility ethics and compliance officers (ECOs). The new ECOs began their roles with a two-day training session in Nashville. The local leadership provided by these facility ECOs was thought to be the key link in ensuring that the company continued to develop a culture of ethical conduct and corporate responsibility.

As part of the program, Yuspeh made a 15-minute videotape that was sent to managers throughout the Columbia/HCA system. The tape announced the launch of the compliance-training program and the unveiling of a code of ethics that was designed to effectively communicate Columbia/HCA’s new emphasis on compliance, integrity, and social responsibility. Frist stated, “We are making a substantial investment in our ethics and compliance program in order to ensure its success,” and “Instituting a values-based culture throughout this company is something our employees have told us is critical to forming our future. The ethics and compliance initiative is a key part of that effort.”

Training seminars for all employees, conducted by each facility’s ECO, included introductions to the training program, the Columbia/HCA code of conduct, and the company’s overall ethics and compliance program. The training seminars also included presentations by members of senior management and small-group discussions in which participants discussed how to apply the new Columbia/HCA code of conduct in ethics-related scenarios.

The purpose of the program was to help employees understand the company’s strict definition of ethical behavior rather than to change their personal values. Columbia/HCA’s ethical guidelines tackled basic issues such as whether nurses can accept $100 tips (they cannot), as well as complicated topics such as what constitutes Medicare fraud. In addition, the company developed certification tests for the employees who determined billing codes. In 1998 a 40-minute training video was shown to all of the firm’s employees; it featured three ethical scenarios for employees to consider.

RESOLVING THE CHARGES

In 1997–1998 Columbia/HCA Healthcare settled with the Internal Revenue Service (IRS) for $71 million over allegations that it had made excessive compensation and “golden parachute” payments to over 100 executives. As a result of the settlement, the IRS, which had sought $276 million in taxes and interest, agreed to drop its charges that Columbia/HCA had awarded excessive compensation.
by allowing the executives to exercise stock options after a new public offering of Columbia/HCA stock. Frist had reportedly earned about $125 million by exercising stock options after that public offering, and 17 other top executives each made millions on the deals.

In August 2000 Columbia/HCA became the first corporation ever to be removed from INFACT’s Hall of Shame. The executive director of INFACT announced that Columbia/HCA had drastically reduced its political activity and influence. For example, the corporation has no active federal lobbyists and has a registered lobbying presence in only twelve states. According to INFACT’s executive director, “This response to grassroots pressure constitutes a landmark development in business ethics overall and challenges prevailing practices among for-profit healthcare corporations.”

In December 2000 Columbia/HCA announced that it would pay the federal government more than $840 million in criminal fines and civil penalties. In June 2003 the company agreed to pay $631 million to settle the last of the government’s charges that it had filed false Medicare claims, paid kickbacks to doctors, and overcharged at wound-care centers.

No senior executives at Columbia/HCA have ever been charged with a crime. However, the company has paid a total of $1.7 billion in fines, refunds, and lawsuit settlements after admitting that it had, through two subsidiaries, offered financial incentives to doctors in violation of anti-kickback laws, falsified records to generate higher payments for minor treatments or treatments that never occurred, charged for laboratory tests that were never ordered, charged for home health care for patients who did not qualify for it, and falsely labeled advertisements as “community education.” KPMG, the firm’s auditor, denied any wrongdoing on its part but agreed to pay $9 million to settle a whistle-blower lawsuit related to the charges. Columbia/HCA also signed a “Corporate Integrity Agreement” in 2000 that subjected the firm to intense scrutiny until 2009. In the same year, the company was officially renamed HCA—The Healthcare Company.

In January 2001 Frist relinquished the title of CEO to focus on other interests, but remained involved in corporate strategy as chairman of HCA’s board of directors. Jack Bovender, Jr. (formerly CFO), replaced him. Of the fraud investigation, Bovender said, “We think the major issues have been settled,” but he admitted that the company still had some “physician relations issues and cost report issues” to resolve in civil actions involving individual hospitals.

**HCA’S ETHICS PROGRAM AT WORK**

Today HCA’s ethics program includes an ethics and compliance committee of independent board directors, two separate corporate committees that draft ethics policy and monitor its use, and a 20-member department that implements the program. In all, 26 executives oversee ethics and compliance for a variety of issues, ranging from taxes to pollution to the Americans with Disabilities Act.
The ethics compliance program established by Alan Yuspeh includes seven components: (1) articulating ethics through a code of conduct and a series of company policies and procedures; (2) creating awareness of these standards of compliance and promoting ethical conduct among everyone in the company through ethics training, compliance training, and other ongoing communication efforts; (3) providing a 24-hour, toll-free telephone hotline to report possible misconduct; (4) monitoring and auditing employees’ performance in areas of compliance risk to ensure that established policies and procedures are being followed and are effective; (5) establishing organizational supports for the ethics compliance effort; (6) overseeing the company’s implementation of and adherence to the Corporate Integrity Agreement; and (7) undertaking other efforts such as clinical ethics and pastoral services.

Training continues to play a major role in helping employees understand HCA’s new focus on ethics and legal compliance. Every new employee is required to undergo two hours of orientation on the firm’s code of conduct within 30 days of employment. During that time, new employees receive a copy of the code of conduct, participate in training using videotapes and games, and sign an acknowledgment card. All employees complete one hour of refresher training on the firm’s code of conduct every year.

HCA’s new ethics hotline helps the firm identify misconduct and take corrective action where necessary. For example, in 2002 an anonymous caller to the toll-free line accused a hospital supply clerk of stealing medical gear and reselling it online through eBay. After investigators verified the complaint, the clerk was fired. Since its inception, the ethics program has fielded hundreds of such ethics-related complaints.

HCA’s effort to change its corporate culture quickly and become a model corporate citizen in the healthcare industry was a real challenge. This healthcare provider learned the hard way that maintaining an organizational ethical climate is the responsibility of top management. As Bovender says, “Internal controls can always be corrupted. We’ve tried to come up with a system that would require a lot of people to conspire. It would be very hard for Tyco-type things to happen here.” HCA seems to have recovered well from all of its problems, and in 2011 a number of companies were trying to acquire it, an indication that they viewed it as a great business opportunity.

**HCA TODAY**

Today HCA is comprised of over 162 locally managed hospitals and 113 surgery centers across the United States and the United Kingdom. In November 2006 HCA became a private company when it was purchased by a private equity group for $33 billion, which was the largest leveraged buyout in American history at the time. In March 2011 HCA became a public company once more. HCA’s initial public offering (IPO) raised $3.79 billion through the sale of 126.2 million shares. Its IPO is the largest by a private equity-backed company in the United States.
Thanks to the Columbia/HCA fraud case, many health care companies implemented plans to ensure that they comply with governmental regulations and act ethically. Codes of conduct help hospitals and health care groups to improve the quality of patient care while continuing to reduce costs. Legal and compliance departments often conduct audits of hospital operations and make reports to boards of directors. These audits ensure that employees are aware of company policies, that internal controls are working, and that the corporate culture remains focused on ethical behavior.

**GOVERNOR RICHARD SCOTT**

After leaving Columbia/HCA, in 2001 Richard Scott cofounded Solantic, a chain of Florida walk-in clinics. Famous for its "Starbucks-like" transparent pricing, Solantic also faced legal issues, including false Medicare claims, providing false medical licensing information, and accusations of employment discrimination.

Scott entered the political arena in 2009 when he created a nonprofit political organization called Conservatives for Patients’ Rights to oppose healthcare reform. In 2010 Scott announced his campaign to run for the governor of Florida. Scott portrayed himself as a government outsider, saying, "There’s going to be a clear choice between career politicians with their old ideas and stuck in the status quo, and a complete outsider with fresh ideas.... I've built companies, I've created jobs, I know the frustration of small businesses with higher taxes."

Scott won the election and became the governor of Florida in January 2011. He announced that he would apply his cost-cutting management style to the governorship, as well as plans to donate his $133,000 salary to charity or return it to the state treasury despite spending over $3 million in corporate and lobbyist donations on his inaugural celebrations. Additionally, in March 2011 he signed an executive order requiring all state workers to undergo drug testing. These tests could cost taxpayers over $3.5 million, and Solantic clinics could be one of the major providers. Although Scott no longer has any Solantic holdings, his wife is the controlling investor of the company, which creates a major conflict of interest. A judge tossed out the order, claiming that forcing state workers to undergo mandatory drug tests is unconstitutional. Scott plans to take the issue to the Supreme Court. As governor, Scott faces many challenges. Florida is in debt and has a 7 percent unemployment rate. Scott says, “I learned very hard lessons from what happened [at Columbia/HCA], and those lessons have helped me become a better businessman and leader.”

**QUESTIONS**

1. What were the organizational ethical leadership problems that resulted in Columbia/HCA’s misconduct?

2. Discuss the strengths and weaknesses of HCA’s current ethics program. Does this program appear to satisfy the provisions of the Federal Sentencing Guidelines for Organizations and the
Sarbanes–Oxley Act?

3. What other suggestions could Columbia/HCA have implemented to sensitize its employees to ethical issues?

SOURCES


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